

SRI LANKA: COMPANY PERSPECTIVES

AN ITC SERIES ON
NON-TARIFF MEASURES



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First in a series of country reports assessing the impact of Non-Tariff Measures (NTMs) on the business sector, based on a large-scale survey conducted in Sri Lanka with companies directly reporting burdensome NTMs and the reasons why they consider them to be trade barriers – analyzes survey findings and compares them to other sources on NTMs to identify regulatory, procedural and infrastructural obstacles in Sri Lanka and its partner countries; outlines policy options for each sector including clothing, textiles, chemicals, plastics and rubber-based products; tea and other agro-based products, includes NTM classification and bibliographical references (pp. 91-93).

Descriptors: **Sri Lanka, Non-Tariff Measures, Trade Policy, SMEs.**

For further information on this technical paper, contact Ms. Olga Skorobogatova (ntm@intracen.org).

English

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ITC, Palais des Nations, 1211 Geneva 10, Switzerland (www.intracen.org)

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Foreword

I am pleased to present the first in a series of reports from the International Trade Centre (ITC) devoted to non-tariff measures (NTMs). This series directly addresses the needs expressed by our beneficiaries – in every ITC client survey, NTMs are reported as a top priority requiring ITC support and technical assistance.

For maximum impact in this challenging area of work, ITC works closely with other international institutions. Together with UNCTAD, the World Bank and the African Development Bank, ITC creates inventories of government regulations and disseminates them to facilitate trade by improving the transparency of international trade and by providing relevant information to exporters and importers.

In complement, ITC has initiated this NTM series, stemming from ITC's mandate and comparative advantage – its close relations with the private sector in developing countries. ITC organizes large-scale surveys in several countries each year – from Sri Lanka and Thailand, to Burkina Faso, Morocco, Peru and Paraguay. The surveys allow the business community – especially small enterprises – to voice their concerns. Companies with firsthand experience addressing NTMs provide invaluable insights for policymakers, trade support institutions and the international community.

Powered by the survey data, the national reports of this series measure the impact of NTMs on the private sector and identify burdensome NTMs that need to be streamlined or eliminated. The results of our NTM surveys around the world confirm that NTMs pose a major challenge to market access.

The results for Sri Lanka, analyzed in this publication, are a case in point. Enterprises in Sri Lanka report difficulties with a broad range of measures, in particular with technical testing, inspection and certification, which are required to demonstrate conformity with sanitary and phytosanitary measures. They must cope with a lack of trade-related infrastructure and burdensome procedural requirements. Strikingly, the problems lie on both sides of the border – in partner countries and in Sri Lanka itself – limiting the competitiveness of enterprises, especially smaller ones, and their ability to integrate into the global economy and maximize the benefits of international trade.

I invite you to read this report and the forthcoming ones to get firsthand views on the topic provided by the private sector. The NTM series brings a novel perspective on the impact of non-tariff measures on exporters and importers, and suggests realistic options to mitigate their impact by streamlining policies affecting trade and by removing procedural obstacles. The information on NTMs and their impact is required by enterprises as well as policy makers. The identification of a problem is a first step in its solution.



Patricia Francis
Executive Director
International Trade Centre

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Acronyms

The following abbreviations are used:

APTA	Asia Pacific Trade Agreement
BOI	Board of Investment
CDD	cosmetics, devices and drugs
CCC	Ceylon Chamber of Commerce
CEPA	Comprehensive Economic Partnership Agreement
CTC	cut-tear-curl tea manufacturing process
CUSDEC	customs declaration
DTI	Direct Trader Input facility in the Sri Lanka Customs
ECC	European Chamber of Commerce
EDB	Sri Lanka Export Development Board
EDI	electronic data interchange
EPZ	export processing zones
EU	European Union
FTA	free trade area
GDP	gross domestic product
GNTB	Group of Eminent Persons on Non-Tariff Barriers
GSP	Generalized System of Preferences
GSP+	Special Incentive Arrangement for Sustainable Development and Good Governance
GSTP	Global System of Trade Preferences
GWG	Garments Without Guilt
HACCP	hazard analysis and critical control points
HS	Harmonized System
IMF	International Monetary Fund
ISFTA	Indo-Sri Lanka Free Trade Agreement
ITC	International Trade Centre
ICT	information and communications technologies
ISO	International Organization for Standardization
ITI	Industrial Technology Institute
LDC	least developed country
LMRB	Lanka Market Research Bureau
MAST	Multi Agency Support Team
MFA	Multi Fibre Arrangement
MFN	most favoured nation
MRA	mutual recognition agreement
NBT	nation building tax
NCC	National Chamber of Commerce
n.e.s.	not elsewhere specified
NTM	non-tariff measure
NTB	non-tariff barrier
OECD	Organisation for Economic Co-operation and Development
PAL	Ports and Airports Development Levy
PO	procedural obstacle

PSFTA	Pakistan-Sri Lanka Free Trade Agreement
REACH	Registration, Evaluation, Authorization and Restriction of Chemicals
SAFTA	South Asia Free Trade Agreement
SLECIC	Sri Lanka Export Credit Insurance Corporation
SLPA	Sri Lanka Port Authorities
SLS	Sri Lanka Standard
SLSI	Sri Lanka Standards Institution
SLTB	Sri Lanka Tea Board
SME	small and medium-sized enterprise
SPS	sanitary and phytosanitary measures
SRL	Social Responsibility Levy
SVAT	simplified value added tax
TBE	trade-related business environment
TBT	technical barriers to trade
TIEP	temporary importation for export processing
TPR	trade policy review
TRC	Telecommunications Regulatory Commission of Sri Lanka
TRIPS	Trade-related Aspects of Intellectual Property Rights
UAE	United Arab Emirates
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
VAT	value added tax
WTO	World Trade Organization

Executive summary

Introduction to non-tariff measures

The importance of non-tariff measures (NTMs) has strongly increased in the past decades. With consumers demanding more and more information on the products they buy, importing countries put in place more regulations. Even though these regulations do not necessarily have trade policy objectives, they may impact on exporting companies. The majority of the recent trade agreements also include NTM provisions. The relative importance of NTMs is also on the rise, following a steady decline of the overall level of applied tariffs.

To address this development, the International Trade Centre (ITC) is actively working on NTMs. A major activity to improve knowledge about the impact of NTMs includes large-scale surveys of companies in developing countries – a viable instrument for collecting information on the perception of NTMs, which by their nature are hard to quantify. NTMs comprise a vast array of policies from categories such as technical regulations, sanitary and phytosanitary (SPS) measures, certification requirements and other conformity assessment, quantitative restrictions, additional charges and financial measures. The ITC survey not only focuses on these government-imposed NTMs, but also looks at related procedural obstacles (POs) hindering companies in their compliance with NTMs. Common POs include institutional delays and costs, difficult documentation or a lack of testing facilities. Furthermore, inefficiencies of the trade-related business environment (TBE) are considered.

Country context of Sri Lanka

As a small open economy, Sri Lanka is strongly reliant on international trade. On the one hand, large export industries are major employers and foreign exchange earners; on the other hand, Sri Lanka is dependent on imports as a net food importer. Furthermore, imported inputs are required for several domestic industries. Recognizing trade as one of the central pillars of the economy and its development, Sri Lanka has pursued an outward-oriented trade policy, seeking further integration in international markets and improved market access. Accordingly, Sri Lanka is an active participant in the Doha Development Round of the World Trade Organization (WTO), is increasingly engaged in bilateral and regional trade agreements, and receives preferential market access from major developed economies. The government's industrial policy is inclined to promote an upwards movement on the value chain by means of investment and a rather complex structure of taxes and tariffs.

NTM Survey implementation in Sri Lanka

The survey in Sri Lanka was conducted between February and August 2010. In order to promote local capacity building, the survey was implemented by the Lanka Market Research Bureau (LMRB). The local project manager and interviewers have undergone training by ITC on NTMs and the NTM Survey methodology. ITC has compiled a comprehensive business register, based on information by Sri Lanka Customs, the Ceylon Chamber of Commerce (CCC) and the Export Development Board (EDB). As a first step, 512 companies were drawn from this register and interviewed by phone. Detailed face-to-face interviews were then realized with 177 companies that were affected by obstacles to trade and were willing to participate. The resulting sample is representative by sector and company size. The survey covers all major export sectors and some essential import sectors. To support preliminary results, further open-end interviews with national stakeholders were conducted by graduate students from the School of International Public Policy of Columbia University (United States). In cooperation with the Ministry of Trade and the Institute of Policy Studies of Sri Lanka, a dissemination workshop was held in November 2010: the survey results were presented by ITC and discussed with Sri Lankan experts and stakeholders, which has led to specific policy recommendations and actions.

General results

With an overall share of 69.7% of exporting firms and 70.4% of importing firms reporting burdensome trade barriers in the initial phone screen interviews, Sri Lanka is among the most affected countries surveyed so far. Exporters in the fresh food sector have the highest ratio of companies reporting trade barriers (80.6%

of contacted companies), followed by companies exporting processed agricultural commodities (75.7%). The manufacturing export sectors are less, but still highly, affected by NTM related problems: 70.6% of textile and clothing exporters have reported difficulties, followed by exporters of chemicals, plastics and rubber-based products (60%) and other manufactures (66.5%).

The face-to-face interviews of the ITC survey revealed several recurring issues that affect most evaluated sectors. For both exports and imports, the largest proportion of reported NTMs referred to technical requirements and conformity assessment. The term conformity assessment refers to compulsory activities and certificates necessary to demonstrate compliance with technical requirements. Evidence from the survey in Sri Lanka indicates that this conformity assessment is often more burdensome than fulfilling the requirement itself. In the case of imports, a number of charges, taxes and other para-tariff measures were also mentioned as major impediments to trade.

In absolute terms, most NTM cases were reported to be applied by the largest markets in the European Union and the United States, but also by the regional partner India. Taking into account the number of interviewed firms exporting to these important markets, India exhibited the highest relative incidence of affected firms. Compared to Sri Lanka's bilateral export value to the respective markets, smaller partner countries like Australia, Mexico, Pakistan and Turkey also appear relatively cumbersome.

Sri Lankan companies experience a number of domestic problems not related to the partner countries. For exporting companies these domestic burdens are mostly POs and an inefficient TBE, but also some export-related NTMs (15% of all NTM cases on export) such as inspection and certification requirements in Sri Lanka. When importing, problems with POs and the TBE in Sri Lanka were also reported to be of major concern. The types of obstacles encountered by Sri Lankan firms are similar for exports and imports. Delays, followed by inconsistent classification of products, informal payments and unusually high fees and charges were the most common obstacles. These complaints were directed towards the Customs and Port Authorities in about half of all cases, but also towards many different sector-specific agencies and certification facilities.

Tea

The tea sector was found to be most strongly burdened by technical measures and domestic additional charges. Small producers find it difficult to comply with SPS regulations mandated by the authorities in Sri Lanka and importing countries. Larger companies, however, reported problems in demonstrating compliance with these requirements rather than with the requirements themselves. A lack of adequate testing and certification facilities was lamented in this respect.

The survey makes a distinction between producing companies that export their goods, and trading agents, i.e. firms that are specialized in export-import operations and do not produce themselves. Trading agents exporting tea have not reported any burdensome NTMs. Since both producers and trading agents export tea, the obstacles experienced by producing companies seem less related to the particular product itself. In turn, this may indicate that the problems of producers stem from a limited access to information and a lack of export expertise within companies.

Furthermore, additional charges, particularly the Sri Lanka Tea Board (SLTB) cess, were felt to be a financial problem. Both domestic technical requirements and export cesses are aimed at maintaining the high quality and image of the Ceylon Tea brand. Nevertheless, insufficient testing facilities and increased costs through the cess may lead to a loss of Sri Lankan market share to other international competitors.

Other agricultural and agro-based products

Raw and processed agricultural exports, except tea, were reported to be hampered by product-specific SPS and technical regulations. These are mostly applied by the importing partner countries, but also by Sri Lanka in the form of export inspections. Several POs are related to domestic authorities, ministries and other facilities involved in the process of providing certification or technical customs clearance. General issues like unusually high fees, delays and informal payments were encountered at Customs and Port Authority. Here, a low implementation of electronic customs systems and excessive as well as redundant

physical checking of cargo are especially lamented. Private standards, set by major buyers in large markets, also caused difficulty.

Clothing and textiles

The clothing and textile sector encounters obstacles on exports and imports, respectively. The large apparel export industry is confronted with very strong international competition. In this context, trade preferences play an important role, especially non-reciprocal tariff preferences for the major European Union and United States markets. The recent suspension of the Special Incentive Arrangement for Sustainable Development and Good Governance (GSP+) by the European Union and Turkey has therefore caused considerable concern in the industry. However, obstacles related to these preferences were experienced that will remain relevant for any preference scheme in the future. A requirement for benefitting from tariff preferences is compliance with rules of origin. Clothing manufacturers find the respective certificates of origin hard to obtain. This is often due to procedural delays of Sri Lankan authorities. However, since Sri Lanka relies on imported textile inputs to a large extent, problems can be caused by partners' rules of origin requirements specifying minimum shares of domestic inputs.

Concerning imported textiles, temporary importation for export processing (TIEP) schemes should relieve clothing exporters from duties and additional charges (EDB cess and nation building tax [NBT]) when importing inputs. However, several firms complained about excessive paperwork and long delays in order to obtain reimbursements.

Chemicals, plastics and rubber-based products

Chemicals and raw plastics are mostly imported, but provide essential raw and intermediate inputs for Sri Lanka's major export sectors in both agriculture and manufacturing. Owing to the fact that chemicals can have hazardous properties, Sri Lanka imposes respective technical measures that are oriented at international standards. Regardless of the actual technical requirements, companies complain about insufficient testing facilities in Sri Lanka and long delays in inspections. As in the aforementioned case of imported textile inputs, it is especially small importers of chemicals and raw plastics for domestic processing that encounter POs with reimbursements schemes such as the TIEP. Companies in the exporting sub-sector of rubber-based products report difficulties in complying with certification requirements in European Union and United States markets.

Other manufacturing

Sri Lankan exporters of other manufactured goods face burdens with technical measures and implied conformity assessment similar to the clothing and textiles and chemicals, plastics and rubber-based products sectors. Again, companies point out the domestic side of problems with respect to testing and certification infrastructure. Institutions such as the Sri Lanka Standards Institution (SLSI), the Telecommunications Regulatory Commission (TRC), the Cosmetics, Devices and Drugs (CDD) Authority or the Forestry Authority are reported to cause delays and require extensive documentation for export licensing. Many imported manufacturing goods require important investment inputs from the various sectors of domestic production, exports and services. The recurring problem for the affected companies is a considerable number of different charges and taxes. The respective rebate and reimbursement schemes like TIEP, simplified value added tax (SVAT), duty rebate or manufacture in bond are felt to be weakly implemented due to POs.

Conclusions

The most common NTMs applied by importing partners are technical measures. It may be possible to address these issues within the frameworks of bilateral (Indo-Sri Lanka Free Trade Agreement and Comprehensive Economic Partnership Agreement with India, Pakistan-Sri Lanka Free Trade Agreement) or regional trade agreements (South Asia Free Trade Agreement, Asia Pacific Trade Agreement) or even at the multilateral level of the World Trade Organization (WTO). This approach, however, is likely to be arduous due to the sensitive nature of such NTMs, which are often introduced for reasons of national security, the protection of consumers or the environment.

More promising is the large potential for domestic trade promotion: given that exporters tend to be particularly concerned with demonstrating compliance rather than with the requirements per se, the domestic bottleneck in testing and certification infrastructure should be tackled. Facilities like the SLSI, as the national focal point for standards and testing, and other sector-specific institutions need to be strengthened. Priority should be given to mandatory standards of the most important markets prior to concentrating on smaller markets and private standards.

Particularly for imports, but also for some exports, a quite complex system of different charges applies. Considering that many imported goods are crucial inputs for domestic industries, charges on imports can be considered taxes on domestic production. If sold domestically, charges are likely to be passed on to consumers. In contrast, if exported to foreign markets with a high degree of competition, any additional domestic costs are borne by the exporting company and will reduce its competitiveness. Exemption schemes in favour of imported inputs for domestic processing and export are supposed to alleviate this financial burden of duties and these charges. The ITC survey also revealed that companies are both confused with the applicable charges and struggle with extensive procedures to obtain exemptions. Facilitating documentation for exemption schemes, streamlining administrative procedures and information campaigns may have beneficial effects for export promotion. However, even if fiscal revenue needed to be maintained, simplifying the structure of charges towards a single tax or tariff would go a significant step further and increase transparency for the business sector.

As trading companies from all sectors are frequently affected by inefficiencies of the TBE, the significant effect of investments into infrastructure and procedures at Customs and Ports should not be underestimated. The main suggestions by the business sector were: unifying the inspections of relevant agencies into a 'single window inspection'; increasing the use of X-ray machines to speed-up inspections and to avoid damaged cargo; improving and extending the use of electronic customs systems; training of officials; expanding general cargo handling capacities; and reducing costs of demurrage.

Unfavourable terms of payment for Sri Lankan exporters demanded by the importing partner cannot be influenced directly, yet strengthening the Sri Lanka Export Credit Insurance Corporation (SLECIC) or establishing the envisaged export/import bank may facilitate trade finance. Good practices in production and labour standards, alongside voluntary sector-specific initiatives like Garments Without Guilt (GWG), can help to further establish Sri Lanka as a high-quality exporter.

Through assessing the most important obstacles to trade, the ITC survey has laid the foundation for detailed government action. A next step towards a successful implementation strategy could be establishing a committee that partners high-level government officials from relevant ministries and institutions with representatives of the affected business sectors. Such a public-private partnership could define priorities according to specific cost-benefit analyses and trigger concrete action.

Introduction

The growing role of non-tariff measures in trade

Over several decades, trade liberalization has been used as an important development tool based on the evidence that there are many benefits that a country could gain through a more active participation in world trade. Consequently, a large number of multilateral, regional and bilateral trade negotiations as well as non-reciprocal concessions have led to a remarkable reduction in average global tariff protection. With this unprecedentedly favourable market access, international trade has soared to previously unseen levels, raising mutual welfare and the standards of living.

However, it seems that the positive development of falling tariffs has been undermined by a shift towards a misuse of non-tariff measures (NTMs). Some NTMs are essential to ensure consumer health, environmental protection or national security. Still, evidence suggests that countries are resorting to NTMs as alternative instruments for protectionist market access regulation. NTMs have been negotiated within the General Agreement on Tariffs and Trade and World Trade Organization (WTO) since the Tokyo Round (1973–1979) and are increasingly tackled in regional and bilateral trade agreements. Nevertheless, NTMs are rapidly gaining in importance and are often considered by practitioners to have already surpassed tariffs in their overall trade-impeding effect.

Being ‘defined by what they are not’,¹ NTMs comprise a myriad of different policies other than ordinary tariff duties: technical barriers to trade (TBT), sanitary and phytosanitary (SPS) measures, certification or testing requirements, quotas, import or export licenses, additional taxes and surcharges, financial measures, rules of origin, and many others. Unlike tariffs, NTMs are not mere numbers, but rather complex legal texts, specific to the applying country. Thus, they vary widely even within the aforementioned broad categories and are not easily amenable to quantification or comparison.

NTMs are of outstanding concern to exporters and importers in developing and least developed countries, who struggle particularly with the sometimes complex requirements. Furthermore, firms in these countries are often confronted with inadequate domestic trade-related infrastructure and administrative obstacles. Therefore, even NTMs that do not pose a problem per se can become major burdens. A lack of other export-support services and insufficient access to the relevant information about regulations impose further pressure on the international competitiveness of firms. Hence, both the NTMs applied by partner countries as well as domestic burdens can significantly affect market access and shut out firms from the opportunities created by globalization.

Non-tariff measures, their classification and other obstacles to trade

Obstacles to trade are a complex and diverse subject, thus it is worthwhile to look briefly into terminology and classification before going further into detailed analysis. First of all, the term NTM can be broadly defined as follows: ‘policy measures, other than ordinary customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both’.² Notably, NTM is a neutral concept as such and does not imply a direction of impact. It should be distinguished from the frequently used term non-tariff barrier (NTB), which implies a negative impact on trade. The Multi-Agency Support Team (MAST) and the Group of Eminent Persons on Non-Tariff Barriers (GNTB) propose that NTBs be a subset of NTMs that have a ‘protectionist or discriminatory intent’.³ Given that trade policies may be imposed for legitimate reasons, such as the protection of human, animal and plant health, this report will not make any *a priori* judgement about intentions and, thus, generally employ the term NTM. By design of the ITC survey, only NTMs are captured that cause major difficulty for trading companies. NTMs analysed in this report therefore refer to ‘burdensome NTMs’.

Given the vast diversity in which NTMs occur and their specificity to countries as well as products, it is necessary to establish an NTM classification system. The ITC survey is based upon an international

¹ Deardorff and Stern (1998).

² Multi Agency Support Team (2009).

³ *Ibid.*

classification developed by the MAST, incorporating some minor adaptations to the ITC business survey approach.⁴ While the actual classification and data collection go into further detail, the following broad distinctions should be made at this point for a better understanding of the report. NTMs applied by the importing country are divided into technical measures (comprising TBT and SPS) and non-technical measures. Technical measures refer to product-specific requirements such as tolerance limits of certain substances, labelling standards or transport conditions. They contain two major categories: the technical requirement (TBT or SPS) itself and conformity assessment, like certification or testing procedures to demonstrate compliance with the underlying requirement. Non-technical measures mostly comprise the following categories: charges, taxes and other para-tariff measures in addition to ordinary customs duties; quantity control measures like non-automatic licences or quotas; pre-shipment inspections and other formalities like automatic licenses; rules of origin; finance measures like terms of payment or exchange rate regulations; price control measures. Apart from the aforementioned import-related measures, measures applied by the exporting country form a separate category.

To go a step beyond government-imposed NTMs and to provide a richer picture of the problems that companies face, the survey also looks at procedural obstacles (POs) and the trade-related business environment (TBE).⁵ POs refer to practical challenges directly related to the implementation of NTMs. For instance, problems caused by a lack of adequate testing facilities to comply with technical measures or excessive documentation in the administration of licenses are considered POs. Caused by an inefficient TBE, similar difficulties may also occur unrelated to specific NTMs. Examples are delays and costs due to poor infrastructure or inconsistent behaviour of officials at customs or ports.

A need for understanding the company perspective on non-tariff measures and procedural obstacles

In the literature, the evaluation of NTM protection has been pursued by means of different methods. An early and very simplistic approach has been the use of mere incidence and NTM coverage ratios. For example, Laird and Yeats (1990) found a dramatic surge of NTM incidence in developed countries between 1966 and 1986, a 36% increase for food products and an 82% increase for textiles. Such studies rely on extensive databases that map NTMs per product and applying country. The largest database with respect to official government-reported NTMs used to be the Trade Analysis and Information System published by the United Nations Conference on Trade and Development (UNCTAD), but data has been incomplete and updates irregular. In a major multi-agency effort, ITC, UNCTAD and the World Bank are currently collecting data for a new, global NTM database with a particular focus on TBT and SPS. However, irrespective of how complete such an NTM incidence database may be, it will tell little about the actual impact of NTMs on the business sector. Neither do such databases provide information about related POs.

The two major approaches to estimating the impact of NTMs include quantification techniques and direct assessment. Several academic studies have quantitatively estimated the impact of NTMs on either trade quantities or prices. Such studies have either focused on very specific measures and individual countries⁶ or have statistically estimated the average impact from large samples of countries and NTMs.⁷ Excellent surveys are provided by Deardorff and Stern (1998) as well as Ferrantino (2006). Such academic articles provide a very interesting and important insight into quantitative impacts of NTMs. However, these studies are often either too specific or too general to deliver a clear and useful picture of NTM protection to the two essential groups of stakeholders: the business sector and national policymakers. Furthermore, quantitative estimations of the effects of NTMs rarely allow for separation of the impact of the NTM regulation per se from related POs or inefficiencies of the TBE.

This report presents results based on the alternative approach of direct assessment, through a large-scale company survey on NTMs, POs and the TBE. It therefore fills the gap left by the aforementioned methods – it delivers a detailed qualitative impact analysis and also directly addresses key stakeholders. The survey

⁴ For further details about the MAST NTM classification, see appendix II.

⁵ For further details about the systematic classification that is used for the survey of POs and problems caused by an inefficient TBE, refer to appendix III.

⁶ Calvin and Krissoff (1998); Yue, Beghin and Jensen (2006).

⁷ Disdier, Fontagné and Mimouni (2008); Dean et al. (2009); Kee, Nicita and Olarreaga (2008); Kee, Nicita and Olarreaga (2009).

allows companies to directly report the most burdensome NTMs and the specific way in which they impact their export performance or restrict imports of inputs. Exporters and importers have to deal with NTMs and other obstacles on a day-to-day basis, and they know best about the specific challenges and problems they face. A business perspective on the issue of NTMs is therefore indispensable. At the government level, an understanding of their key concerns with regard to NTMs, POs and the TBE can help define national strategies to address and overcome obstacles to trade.

A number of previous business survey results on NTMs were compiled in a study by the Organisation for Economic Co-operation and Development;⁸ however none of them involved Sri Lanka. As an overall trend, technical measures followed by additional charges and general customs procedures were identified as the most burdensome trade restrictions. Quotas and other quantitative restrictions, which used to be one of the main trade policy instruments a few decades ago, are only ranked fifth out of ten evaluated categories. While this survey-of-surveys gives a good general indication of NTM concerns of the business sector, most of the underlying 23 surveys cover only a restricted set of partner countries and products. Also, the share of surveys from developing countries is generally low. The ITC NTM project evaluates all major export sectors and all importing partners, and aspires to gradually cover a large number of developing countries.

⁸ Organisation for Economic Co-operation and Development (2005).

Chapter 1 Trade and trade policy overview of Sri Lanka

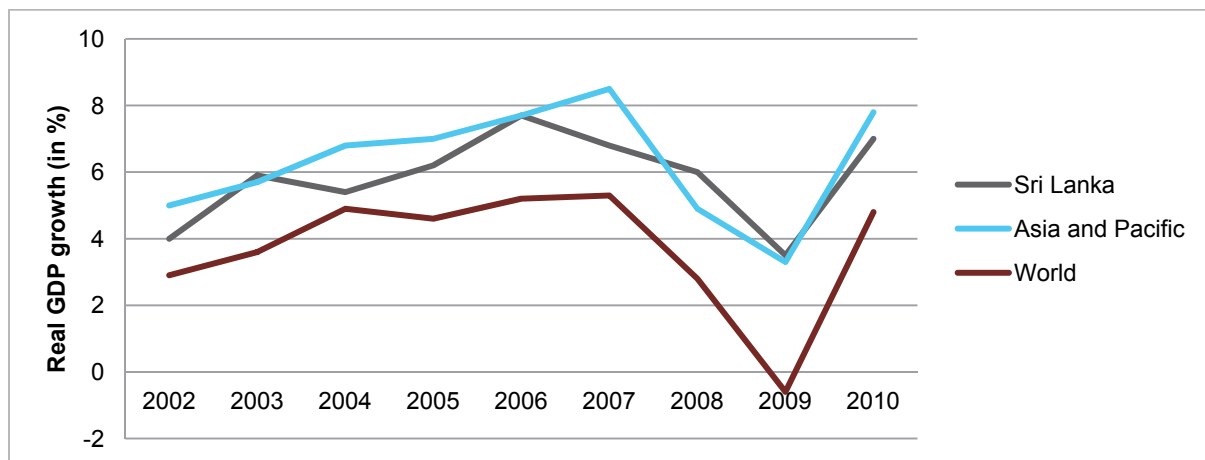
1. General economic introduction and sector composition

The following presents an overview of the relevant aspects of Sri Lanka's economy, trade and policy in order to provide a point of reference for the survey results in later chapters. The first section gives a very brief outline of economic output, sector contributions and employment. With this overall economic situation in mind, the second section describes Sri Lanka's trade structure – export and import sectors, partner countries and diversification. The third section describes Sri Lanka's overall trade policy situation, complementing the analysis of the business perception of non-tariff measures in this report. Tariffs applied and faced internationally, trade agreements, and a first outlook at known non-tariff measures (NTMs) are presented. The last section deals with national trade and development strategies that stand in close relation to the trade-related business environment (TBE), which is also part of the survey and evaluated in the later chapters.

1.1. Gross domestic product and public finance

Sri Lanka's nominal total gross domestic product (GDP) of about US\$ 28 billion in 2009 translates to a per capita GDP of about US\$ 4,600 in terms of purchasing power parity. Despite several domestic as well as external challenges, Sri Lanka has resiliently achieved high economic growth rates over the last decade (see figure 1). Between 2003 and 2008 economic growth has generally exceeded 6% per year, comparable to the rest of Asia and the Pacific. Even during the worldwide economic downturn, a remarkable growth rate of 3.5% was achieved. Also, unemployment was steadily reduced from almost 9% in 2002 to 5.2% in 2008, but increased again by 0.5% in 2009.

Figure 1: Sri Lanka real GDP growth, 2002–2010



Source: International Monetary Fund (IMF), 2010, accessed at: <http://www.imf.org/external/datamapper/index.php>.

However, high government spending, particularly due to the long-lasting domestic conflict, has caused total sovereign debt to steadily increase to more than 80% of GDP in 2008. Thus vulnerable to the financial crisis, a potential payment crisis was avoided by a standby agreement with the International Monetary Fund. With the end of the war in 2009, international confidence was restored and resulted in a strong recovery with growth rates beyond 8% in the second half of 2010. Sri Lanka has also been made eligible for loans from the International Bank for Reconstruction of the World Bank.

1.2. Sector contributions and employment

The share of agriculture in Sri Lanka's GDP fluctuated at around 13% of GDP in the last five years. If a longer time horizon is taken into account, the share of agriculture has been declining (from 26.3% in 1990 to 13.4% in 2008). Despite its low share in GDP, agriculture is a critical sector, as it employs 32.6% of the

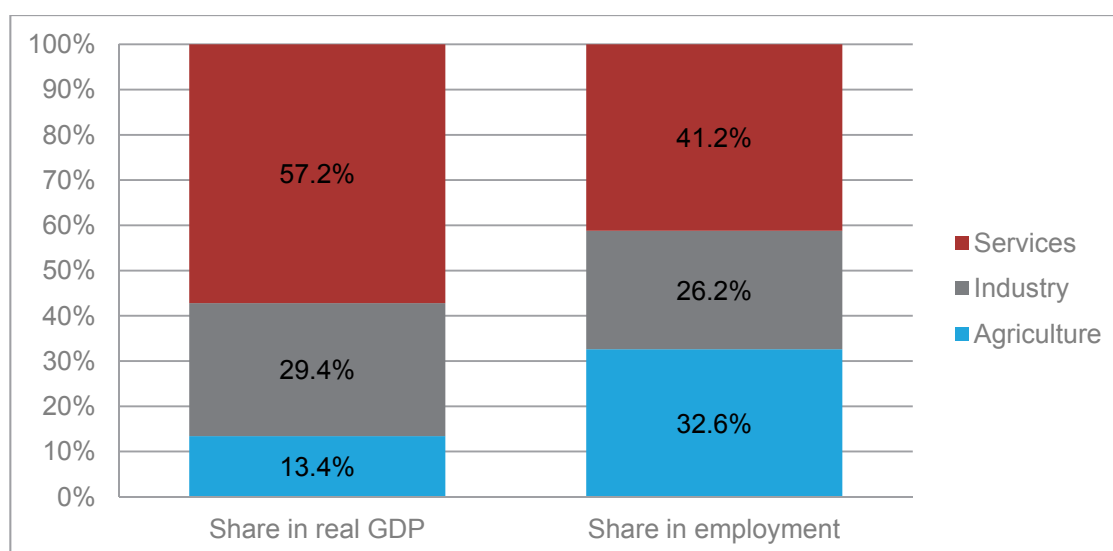
labour force (see figure 2), provides livelihoods for around 70% of the rural population, supplies raw materials for the manufacturing industry and earns foreign exchange through exports.⁹

The combined industry sector consists mostly of manufacturing, but also utilities, mining and construction, and accounts for similar shares of GDP and employment, with 29% and 26%, respectively (see figure 2). The garment industries, processed agricultural goods as well as chemical and rubber-based products are the largest contributors to industrial output. The export and import operations of these respective industries thus form a major part of the survey and of the analysis in this report. Production predominantly originates from private export-oriented factories, although utilities are widely state-owned.

Sri Lanka's economic output is dominated by the services sector, which also includes transport, communications, financial services and tourism. While 57% of GDP is contributed by services, only a smaller share, or 41%, of the work force is employed in the sector (figure 2).

Geographically, economic activity is mostly concentrated in the Western province, particularly in the capital Colombo, and other coastal areas of the Eastern and Southern provinces. Conversely, significantly more than 20% of the population is poor in rural and plantation areas of the landlocked Uva, Central and Sabaragamuwa Provinces, while the nationwide poverty headcount is still exceeding 15%. A share of 45% of total poor households can be related to the agricultural sector, 32% to the service sector and 23% to industry.¹⁰

Figure 2: Major sector contributions to GDP and employment, 2008



Source: WTO, *Trade Policy Review of Sri Lanka*, Report by the Secretariat, WT/TPR/S/237, 29 September 2010.

Note: Industry includes manufacturing, electricity, gas, water, mining, quarrying and construction.

2. Trade patterns

This section provides a summary of Sri Lanka's external trade. While more specific references to trade flows will be made throughout the report, this introductory part shall put those more disaggregated numbers into a broader picture.

⁹ World Trade Organization (2010).

¹⁰ The national poverty line was defined at SL Rs 1,423 (US\$ 15) per month for the base year of 2002 and is adjusted according to the Colombo Consumer Price Index. Source: Ministry of Finance and Planning, Department of Census and Statistics (2009).

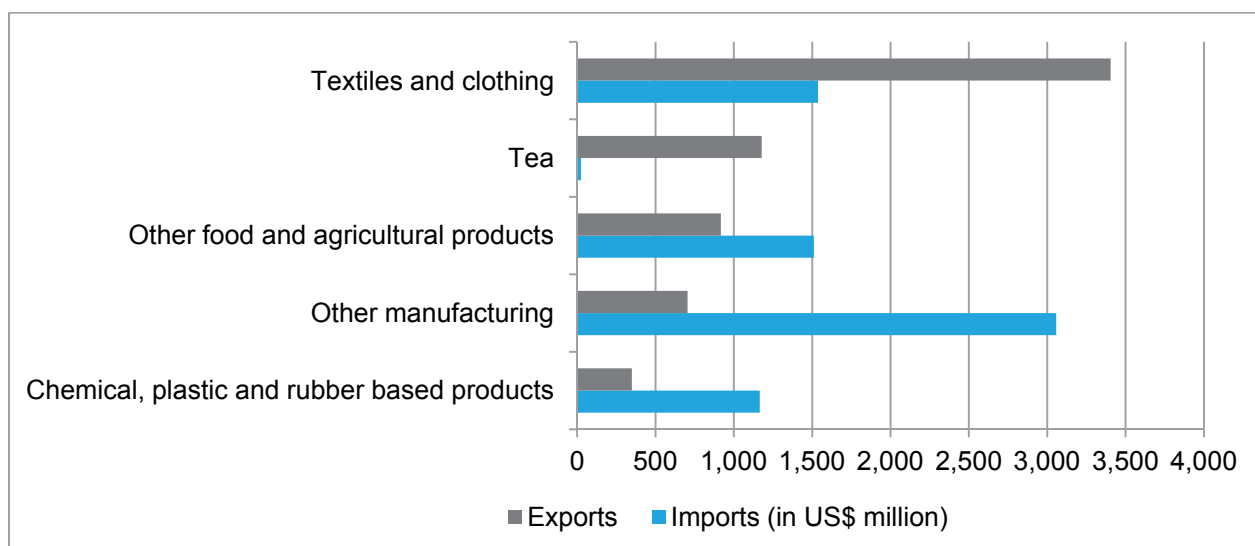
2.1. Composition and development of commodity trade

Sri Lanka's total exports for 2009 amounted to US\$ 7,121 million, with imports worth US\$ 9,432 million. Manufacturing represents 68% of total exports, and 78% of total imports.¹¹ The government has pursued an export-oriented strategy to strengthen the manufacturing sector, while acknowledging that some of the largest industries, such as apparel or processed plastics, are dependent on imported inputs. Significant shares of total imports are thus observed for textiles, chemicals and machinery employed as direct inputs and investment goods for domestic industries (figure 3). The overall trade balance in manufacturing is therefore negative to an extent of US\$ 1,279 million in 2009. If the dominant clothing export industry is excluded, Sri Lanka's net imports even amount to US\$ 4,451 million.

Net exports are positive for agricultural commodities. However, Sri Lanka is a net food importing country: if exports of the large tea sector are excluded, Sri Lanka's agricultural net imports amount to US\$ 617 million. The tea sector accounts for over half of agricultural exports and for about 15% of total exports. Major importing subsectors are raw cereals, dairy products and some edible vegetables.¹²

The lion's share of more than 20% of total imports is made up by fuels and other minerals, driving the trade balance into negative values.

Figure 3: Exports and imports by sector, 2009



Source: ITC calculations based on Trade Map data, 2010.

The development of trade and output for agriculture and manufacturing between 2002 and 2009 is illustrated in figure 4. After several years of steady growth in exports and imports, declines due to real economy effects of the financial crisis, and thus low international and domestic demand, were recorded in 2009. Imports were most strongly affected with rates of decline of 28% in manufacturing and 20% in agricultural goods. Despite exports falling, by 12% and 9% respectively, total output in manufacturing increased by 4%, while agricultural output only fell by 3%.

According to the 2010 report by the Central Bank of Sri Lanka, trade rebounded in the first months of 2010. Earnings from agricultural exports increased significantly, driven by high prices and favourable weather conditions. However, the export of raw rubber has declined in volume terms due to an increase in domestic processing and export of processed rubber and rubber-based products.¹³ Manufacturing exports have increased by 7.9% in the same period. Most importantly, machinery and equipment, and rubber products drove the recovery, whereas earnings from the large clothing sector further declined. On the import side,

¹¹ Sectoral trade values and percentages are based on the ITC survey's sector definitions and excluding trade in minerals and arms. Calculations based on ITC Trade Map, 2011.

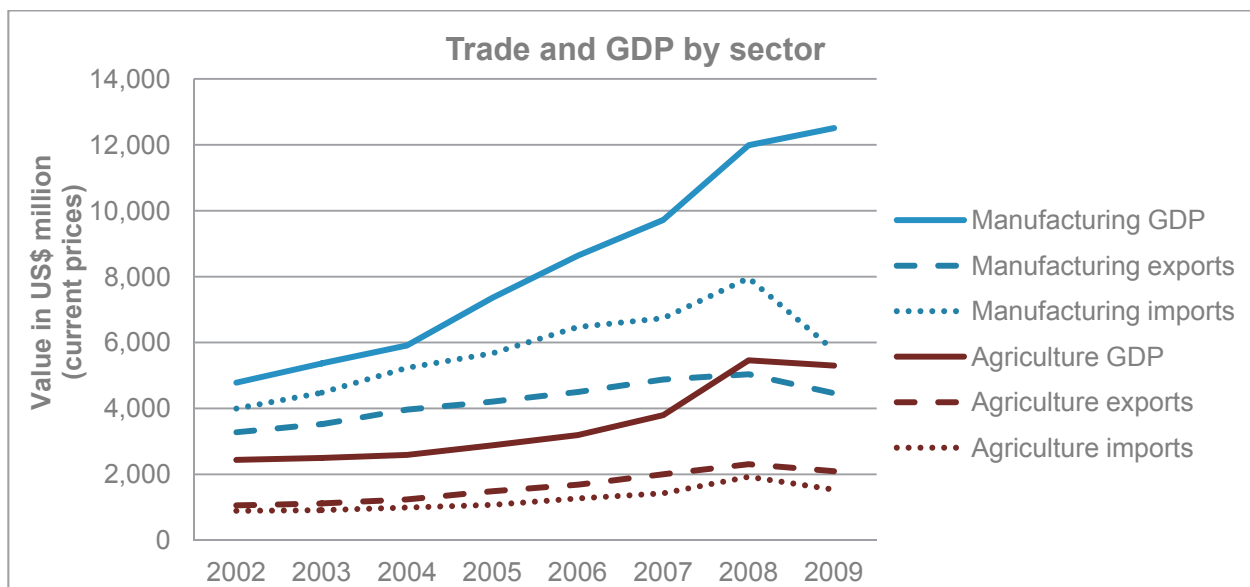
¹² ITC calculations based on Trade Map data, 2010.

¹³ Central Bank of Sri Lanka (2010), annex 2.

transport equipment and chemicals (including fertilisers) increased strongly over the same period. Imports of all input and consumer good categories also recovered.¹⁴

Despite general increases during the last years, figure 4 also highlights a decline in the relative contribution of merchandise exports to GDP, which is particularly strong and long-lasting for manufacturing exports. While the share of manufacturing imports in GDP has also dropped significantly, its decline mostly occurred during the crisis-ridden 2008–2009 period. Agricultural trade and output generally exhibited lower growth rates since 2002, but the relative contributions of exports and imports to output remained constant until further growing domestic output was confronted with stagnant international demand and dropping international commodity prices in 2008.

Figure 4: Agricultural and manufacturing trade and GDP, 2002–2009



Sources: ITC calculations based on Trade Map data, 2010; Central Bank of Sri Lanka online information, 2010.

Note: Trade statistics exclude minerals and arms.

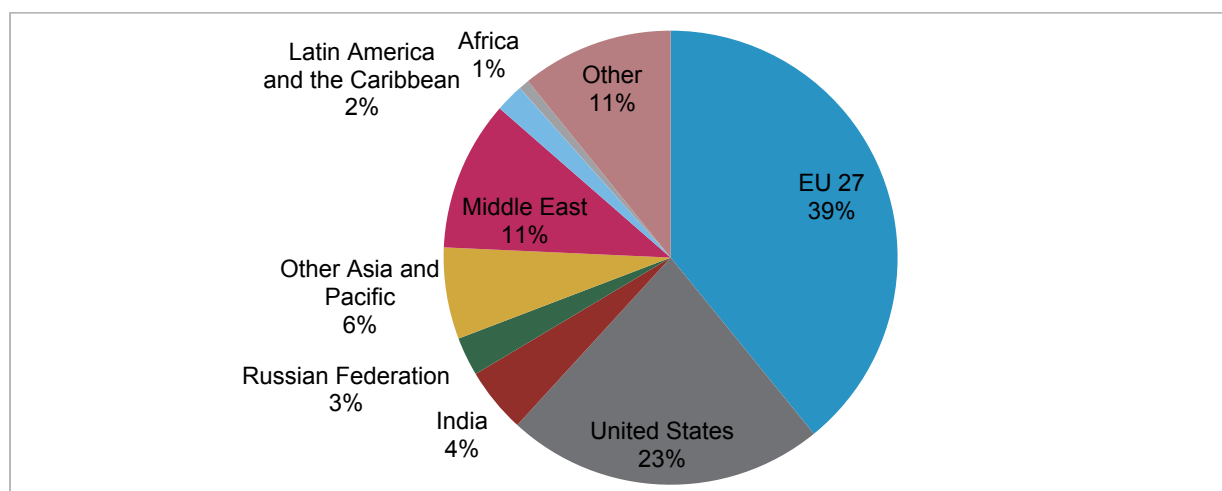
2.2. Export destinations and diversification

The European Union (EU) and the United States are importing partners for more than 60% of Sri Lanka's exports, dominated by manufactured goods like apparel and rubber-based products. With respect to agricultural commodities, the United States is not among the five largest markets. As major importers of tea, the Middle East and the Russian Federation respectively account for 11% and 3% of Sri Lanka's total exports. Despite rapid annual average growth of over 20% between 2001 and 2009, neighbouring partner India only accounts for 4% of exports. Sri Lanka's exports thus strongly depend on the demand and business cycle of a few partners (figure 5).

Sri Lanka's economic policy has made substantial efforts to diversify industrial output, which has resulted in a shift of exports from plantation crops towards more advanced processed goods. Sri Lankan manufacturing exports are now well diversified in terms of traded products. For instance, 95% of exports to the European Union, the largest importing partner of Sri Lanka, are diversified to 172 product lines (Harmonized System [HS] 6-digit classification¹⁵, see table 1).

¹⁴ Central Bank of Sri Lanka (2010), annex 2, and ITC calculations based on Trade Map data, 2010.

¹⁵ The Harmonized Commodity Description and Coding System, generally referred to as 'Harmonized System' or simply 'HS', is a multipurpose international product nomenclature developed by the World Customs Organization. It comprises about 5,000 commodity groups; each identified by a six digit code, arranged in a legal and logical structure and is supported by well-defined rules to achieve uniform classification. The system is used by more than 200 countries and economies as a basis for their Customs tariffs and for the collection of international trade statistics. Over 98% of the merchandise in international trade is classified in terms of the HS. Source: website of the World Customs Organization (accessed at <http://www.wcoomd.org/hsharmonizedsystem.htm>).

Figure 5: Major export destinations of Sri Lanka, 2009

Source: ITC calculations based on Trade Map data, 2010.

The agricultural export of Sri Lanka is diversified with exception of trade with the Russian Federation. Sri Lanka exported to the Russian Federation for US\$ 215 million in 2008, and just three tea products (defined at the HS 6-digit level) cumulatively account for 95% of the total bilateral export (table 1). Sri Lankan agricultural export baskets to other major partners – India, United Arab Emirates (UAE) and Japan – include 10 to 22 products. Exports to the European Union are quite well diversified, with 49 different agro-products comprising 95% of exports (table 1). An increased export diversification in terms of products may still be desirable, as an expanded portfolio of products can help to mitigate adverse shocks, including both market risks (e.g. crisis driven contraction of demand) and unfavourable weather conditions.

Table 1: Trade and market diversification of Sri Lankan exports to major markets, agriculture and manufacturing

Major markets for manufacturing	Bilateral manufacturing imports		Diversification 95% of trade value concentrated on number of products*		Major markets for agriculture	Bilateral agricultural imports		Diversification 95% of trade value concentrated on number of products*	
	Year	(in US\$ million)	HS 2-digit	HS 6-digit		Year	(in US\$ million)	HS 2-digit	HS 6-digit
1. European Union	2009	2,362	28	172	1. European Union	2009	409	15	49
2. United States	2009	1,504	14	103	2. Russian Federation	2008	215	1	3
3. India	2009	214	45	170	3. United Arab Emirates	2007	142	5	10
4. Canada	2009	83	24	120	4. India	2009	113	12	22
5. Turkey	2009	81	13	76	5. Japan	2009	95	10	14

Source: ITC calculations based on Trade Map data, 2011.

* Products in the table above are defined at different levels of aggregation by the HS at the 2-digit and, more detailed, at the 6-digit level. As reference, there are 98 products at the 2-digit and about 5,300 products at the 6-digit HS level.

3. Trade policy

The *Mahinda Chintana*, the Ten Year Horizon Development Framework for 2006–2016, as devised by the Department of National Planning, names international trade as one of the pillars of development and envisages a closer integration into world markets.¹⁶ Sri Lanka is pursuing an outward-oriented trade strategy with particular focus on exports by improving market access in foreign markets in order to reduce the considerable trade deficit. The Sri Lankan trade regime has been characterized as the most open of the South Asian region.¹⁷ Despite simplifying tariff schedules, recent reforms have seen average tariff increases. Fiscal revenue purposes have played a role in a number of additional charges on imports,¹⁸ but additional charges were also levied on about 22% of exports.¹⁹

3.1. Tariffs and Trade Agreements

3.1.1. Sri Lankan import tariffs and trade agreements

As per June 2010, Sri Lanka's previous five-band import tariff structure has been simplified to a three-band tariff system, yet with a strong tariff escalation from duty-free entry for essential and raw goods, over 15% tariffs for intermediate and semi-processed goods, to 30% for finished goods. While duty free tariff lines have thus increased from 10% in 2003 to 44% in 2010, the use of the highest tariff has also increased resulting in an average applied most favoured nation (MFN) tariff increase from 9.8% (2003) to 11.5% (2010). With very few exceptions exceeding the World Trade Organization (WTO) MFN bound rates, most applied tariffs lie far below. Furthermore, 96% of all tariff lines are now ad-valorem.²⁰

With regard to WTO disciplines, Sri Lanka has recently implemented the Customs Valuation Agreement. Yet, exceptions remain legitimate if they are viewed as necessary by the authorities. Until now, Sri Lanka has only once filed a complaint (1996, against Brazil) at the WTO Dispute Settlement body and never been a respondent to a complaint.²¹ In the negotiations of the current WTO Doha Round, Sri Lanka has been particularly engaged in areas of agriculture, non-agricultural market access, Trade-related Aspects of Intellectual Property Rights (TRIPS) and trade facilitation. As a 'disproportionately affected country', Sri Lanka has expressed concern about a possible erosion of preferences resulting from multilateral tariff reductions due to the Doha Development Agenda.²²

Apart from its multilateral obligations in the WTO, the country is member of two regional trade agreements, the South Asia Free Trade Agreement (SAFTA) and the Asia Pacific Trade Agreement (APTA). The simple average preferential margins Sri Lanka grants to partners under the SAFTA, which was implemented in 2006 and includes Bangladesh, Bhutan, India, Maldives, Nepal and Pakistan, amount to an average of 1.3% across all tariff lines over the respective MFN rate (11.5%). APTA, formerly the Bangkok Agreement, also came into force in 2006 and includes Bangladesh, China, India, the Lao People's Democratic Republic and the Republic of Korea, but preferences as compared to the simple average MFN rates are very small (0.2%).²³

Furthermore, Sri Lanka is engaged in bilateral trade agreements with India (ISFTA – the Indo-Sri Lanka Free Trade Agreement) since 2000, and Pakistan (PSFTA – the Pakistan-Sri Lanka Free Trade Agreement) since 2002. A Comprehensive Economic Partnership Agreement (CEPA) with India as a further step for bilateral integration has been negotiated but not yet been implemented.²⁴ Currently, India is

¹⁶ Ministry of Finance and Planning of Sri Lanka (2006).

¹⁷ Economist Intelligence Unit (2008).

¹⁸ WTO (2010).

¹⁹ ITC calculations based on Trade Map. Total exports exclude minerals and arms.

²⁰ WTO (2010).

²¹ WTO, Dispute Settlement: Dispute DS30, Brazil – Countervailing Duties on Imports of Desiccated Coconut and Coconut Milk Powder from Sri Lanka: http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds30_e.htm (accessed on 24 March 2011).

²² WTO (2010).

²³ *Ibid.*

²⁴ Government of India, Department of Commerce website: http://commerce.nic.in/trade/international_ta_current_details.asp#b22 (accessed on 24 March 2011).

granting strong tariff reductions on tea and textiles, whereas Sri Lanka allows duty-free access mostly for raw materials and machinery. As indicated before, trade between India and Sri Lanka has accordingly expanded significantly. However, preferences under the ISFTA involve relatively weak rules of origin with at least 35% of the product required to be of local origin to be eligible, implying only minor disadvantages for exporters that rely on imported raw material for processing. Pakistan also significantly reduced tariffs and gave preferential tariff rate quotas for Sri Lanka's essential exports of tea and clothing products.²⁵

While the original ISFTA did not consider NTMs, subsequent trade agreements increasingly contained provisions on NTMs in order of their chronological implementation, from PSFTA over APTA to SAFTA.²⁶ The CEPA with India also envisages re-negotiated NTM provisions, particularly in the form of mutual recognition agreements (MRAs) of standards and assessment procedures.²⁷

Non-reciprocal preferences are granted to Sri Lanka under the Generalized System of Preferences (GSP) by developed countries and the Global System of Trade Preferences (GSTP) among developing countries. Preferences formerly granted to Sri Lanka by the European Union and Turkey under GSP+ (Special Incentive Arrangement for Sustainable Development and Good Governance) have been temporarily withdrawn, effective August 2010, on account of weak implementation of human rights conventions, including child labour. Figure 6 illustrates Sri Lanka's involvement in trade agreements and non-reciprocal preferences.

Figure 6. Trade agreements of Sri Lanka



Source: ITC illustration based on Market Access Map data, 2010.

Note: This graph reflects, to the best of ITC knowledge, the situation as of October 2010. Bilateral trade agreements refer to India (ISFTA) and Pakistan (PSFTA). Please note that, in addition to the bilateral free trade agreement with Sri Lanka, India is party to both SAFTA and APTA and grants preferences under the GSTP, with Sri Lanka being one of the eligible countries.

3.1.2. Tariffs and preferences faced for agricultural commodities

Agricultural tariffs vary widely across importing countries: trade-weighted MFN tariffs range between 0.9% and 38.4%. For the largest five importers, the trade-weighted MFN tariff is lower than its simple average. This implies that Sri Lanka exports products that tend to be less protected in these markets, in particular tea, than other agricultural commodities. Deviating downwards from the MFN duty, tariffs actually applied are then determined by preferences granted under specific trade agreements. These preferential margins are between zero and 23.0%.

The aforementioned temporary suspension of the GSP+ preferences by the European Union and Turkey has caused much concern. When GSP+ preferences were applicable in 2009, Sri Lanka's agricultural

²⁵ WTO (2010). Under SAFTA, Sri Lanka is not eligible as an LDC; therefore it does not qualify for higher tariff concessions.

²⁶ Evaluation of the original legal texts of trade agreements by ITC, 2011.

²⁷ Government of India, Department of Commerce website: http://commerce.nic.in/trade/international_ta_current_details.asp#b22.

exports were almost entirely eligible for duty-free entry (62.8% of all agricultural tariff lines corresponding to 99.2% of bilateral export value). This corresponded to a preferential margin of 8.6% vis-à-vis their foreign competitors that did not benefit from any preferential trade agreement. These numbers are theoretical, as preferences usually require compliance with the respective rules of origin and possibly other measures. Sri Lanka's actual utilization of GSP+ preferences for the European Union in 2008 was estimated at 84%.²⁸ Under the current circumstances, Sri Lanka only benefits from the regular GSP. This implies reduced preferential margins (from 8.6% to 2.2%) and significantly less duty-free access to the European Union market (18.7% of duty free tariff lines instead of 62.8% available before the GSP+ suspension). A hypothetical preferential margin of 2.2% remains under the GSP, which can only serve as a tentative indication since it is counterfactually weighted by 2009 trade data (table 2).

Agricultural exports to the Russian Federation, which only comprised tea in 2009, enjoy a preferential tariff of 2.6% below the MFN rate of 10.3% (weighted averages). Import tariffs by the United Arab Emirates and Japan are generally lower, with weighted tariff averages only 0.9% and 4.3%, respectively. However, they hardly grant any preferential access to Sri Lanka. In contrast, India applies very high average agricultural MFN tariffs of about 40%, but preferential margins of 23% under the ISFTA, SAFTA and APTA are substantial. The resulting applied tariffs to Sri Lankan exports therefore remain rather high, but still give Sri Lanka's exporters a significant advantage over their non-regional competitors. However, the actual preferential margin over other regional exporters (members of SAFTA and APTA) is likely to be much smaller.

Table 2: Tariffs applied and preferences granted by major importing partners, agriculture and manufacturing

Major markets	Bilateral imports		Average MFN duty of traded tariff lines		Pref. margin (eligible) ^{c/}	Duty-free imports		
	Year	in US\$ million	Simple	Weighted ^{b/}	Weighted ^{b/}	Tariff lines (% of total)	Value (% of total)	
Agriculture								
1. European Union (with GSP+) ^{a/}	2009	409	12.6%	8.7%	8.6%	62.8%	99.2%	
1. European Union (GSP, without GSP+)*	2009	409	12.6%	8.7%	2.2%	18.7%	46.9%	
2. Russian Federation	2008	215	12.0%	10.3%	2.6%	3.1%	48.4%	
3. United Arab Emirates	2007	142	4.2%	0.9%	0.0%	23.8%	85.6%	
4. India	2009	113	46.8%	38.4%	23.0%	88.7%	66.5%	
5. Japan	2009	95	5.5%	4.3%	0.4%	30.8%	20.7%	
Manufacturing								
1. European Union (with GSP+) ^{a/}	2009	2,362	5.0%	8.7%	8.7%	97.5%	99.9%	
1. European Union (GSP, without GSP+)*	2009	2,362	5.0%	8.7%	2.1%	68.7%	25.7%	
2. United States	2009	1,504	7.2%	13.3%	0.3%	74.4%	18.3%	
3. India	2009	214	9.7%	9.0%	7.5%	76.1%	87.2%	
4. Canada	2009	83	8.5%	13.8%	1.0%	68.6%	17.0%	
5. Turkey (with GSP+) ^{a/}	2009	81	8.5%	9.4%	9.4%	93.1%	100%	

Source: ITC calculations based on Trade Map and Market Access Map data, 2011.

a/ In 2009, the base year of the above calculations for the European Union, the GSP+ was applicable. Therefore, calculated tariff preferences under the regular GSP are hypothetical and can only serve as an approximate indication for the current situation of GSP+ suspension.

b/ Weighted averages are calculated using actual bilateral trade values from the reference year.

c/ Preferential margin calculations look at the potentially eligible tariff lines under the relevant trade agreements, if any.

²⁸ ITC calculations, 2011.

3.1.3. Current tariffs and preferences for manufactured goods

The five largest markets for Sri Lanka's manufacturing exports apply simple average MFN duties ranging between 5.0% and 9.7%. As opposed to agricultural tariffs and with the exception of India, the trade-weighted average MFN duties tend to be higher than the simple average. This indicates that the products that Sri Lanka exports are generally sensitive to the importing countries and more protected. In the cases of major Western markets, especially apparel is a sensitive industry. Diverging from these MFN duties, however, tariffs applied to Sri Lanka's exports are subject to preferential trade agreements to a certain extent (table 2).

Under the GSP+ scheme of the European Union and Turkey, Sri Lanka received almost full duty-free access until August 2010. Due to rules of origin and potentially other obstacles, the actual preference utilization in 2008 was calculated at only 72%. Since the suspension of the GSP+, Sri Lanka's current non-reciprocal preferences granted by the European Union and Turkey under the GSP are strongly reduced. Using 2009 trade data for weighting, only a 2.1% hypothetical preferential margin over the MFN rate would remain for access to European Union markets (table 2).

The United States, as the second largest market, and Canada apply relatively high tariffs to the products that Sri Lanka exports. Trade-weighted MFN rates exceed 13% and only low average preferential margins of 0.3% and 1% are granted to Sri Lanka by the United States and Canada, respectively. While India, as a major regional partner, applies MFN duties of about 9%, Sri Lanka's applied preferential tariffs are reduced to about 1.5% (table 2). This offers an advantage over non-regional competitors.

3.2. Non-tariff measures applied by Sri Lanka

Sri Lanka has notified the WTO of 103 technical measures and 18 sanitary and phytosanitary (SPS) measures (as of June 2010). The technical standards were all included in the Import Standardization and Quality Control Regulations of 2006 and state the requirement of complying with the Sri Lanka Standard (SLS). The national focal point in this respect is the Sri Lanka Standards Institution (SLSI), a member of the International Organization for Standardization (ISO), which defines both standards according to international norms and also plays a central role in providing testing and certification facilities.²⁹ Affected products under these technical regulations are also subject to import inspections. SPS measures mostly concern packaging standards, meat and dairy products, plants and soils, tea, coffee and cocoa, genetically modified food. The Ministry of Healthcare and Nutrition and the SLSI are the main Sri Lankan bodies for definition and implementation of SPS regulations.

A number of charges and levies in addition to regular duties raise the overall cost of importing significantly. While a 15% customs surcharge on most goods was eliminated as of June 2010, the following charges remain in place: the Sri Lanka Export Development Board (EDB) levies a cess of mostly around 20% on many goods, including raw and processed agricultural products, rubber and plastic products, textiles and sanitary products. The EDB cess was mentioned to have revenue purposes in order to finance the domestic export development programme. Excise duties are applied to tobacco products, oil products, beverages, motor vehicles and some electronics. The PAL (Ports and Airports Development Levy) adds another 5%, with lower rates for imported inputs for later processing and export. Firms with a quarterly turnover of over US\$ 5,800 are charged a nation building tax (NBT) of 3% on their imports. Eleven essential food products are subject to the special commodity levy that replaces all other taxes and duties on these items. The standard value added tax (VAT) is 12%, with tax exemptions for basic foods, fertilizers and fuels, and 20% on luxury goods.

Imports are restricted or prohibited for a few products, mainly arms, certain meats, used vehicles and some medicaments and chemicals. Non-automatic import licensing requirements according to the Special Import Licensing Scheme are applied to several grains, chemicals, fuels and motor vehicles. Sri Lanka has not implemented any legislation on anti-dumping measures, countervailing duties or safeguards.

Apart from regular documentation and inspection procedures, Sri Lanka also applies a number of NTMs to exports. The Sri Lanka Tea Board (SLTB) levies a specific duty on tea, the Coconut Development Authority

²⁹ Sri Lanka Standards Institution website: <http://www.slsi.lk/about-us.php> (accessed on 24 March 2011).

on raw and processed coconut products, the EDB on cashew nuts, raw hides and skins and metal scrap. cesses and export taxes also apply to natural rubber and some quartz varieties.³⁰ In 2009, these export charges affected an estimated US\$ 1,464 million worth of exports, or 22.3% of Sri Lanka's total exports.³¹ Revenue considerations for refinancing of domestic development activities, increasing availability and lowering prices of raw materials for higher value-added domestic processing are the most important reasons for the levies according to official legislation. Exports are prohibited or require licensing for sensitive product categories, such as endangered animal and plant species, arms, drugs, ivory products, antiques and minerals.³²

4. National trade and development strategies

Domestic trade promotion measures and also some wider development activities stand in close relation to NTMs or directly concern the sectors affected by NTMs. The following paragraphs will therefore provide a useful background for further analysis of NTMs in the following chapters.

4.1. Trade promotion and facilitation

A large part of export promotion is conducted by means of exemption from taxes and charges. The temporary importation for export processing (TIEP) scheme relieves firms from paying fiscal levies when importing goods for later processing and export. The scheme is divided into TIEP I that allows duty-free imports of raw materials, components or packaging material as direct inputs for production, and the TIEP IV that fully or partly exempts from import charges for investment goods for general business operations of exporting firms, according to the percentage of exports in the firm's output. While the TIEP requires prior application to the Customs Directorate, the duty rebate scheme works on a shipment-by-shipment basis and only refunds regular customs duties on the imported inputs for export products. The manufacture-in-bond scheme allows storing and processing in designated warehouses without payment of duties and taxes on imports.³³ As ad-hoc measures to alleviate the impact of the recent global economic downturn, the SVAT (simplified value added tax) scheme suspends or defers the VAT liability of direct and indirect exporters on inputs for production,³⁴ and the export development reward scheme assists exporters of tea, rubber, cinnamon, clothing and leather.

As the only domestic agency, the Sri Lanka Export Credit Insurance Corporation (SLECIC) insures exporters and provides guarantees for lending at commercial financial institutions. To expand the scope of this rather limited financial assistance, the Central Bank of Sri Lanka has proposed an initiative to set up an export-import (exim) bank in order to increase domestic trade facilitation.³⁵

The Board of Investment (BOI) not only acts as a focal point for investors, but also offers tax and duty concessions to member firms in non-traditional export sectors. Firms exporting more than 80% of goods or 70% of services are granted duty-free imports of raw materials and capital goods, as well as full tax exemptions on new investments. Furthermore, several trade procedures are facilitated at BOI Customs, such as import licensing, foreign exchange controls, inspections and documentation requirements. The BOI also operates twelve export-oriented industrial areas that provide infrastructure, facilities, and administration support services for a variety of enterprises, so-called export processing zones (EPZ). Firms located in these EPZ are exempted from taxes and import duties. Established in 1978, today about 65% of Sri Lanka's exports are operated by members of the BOI.³⁶

³⁰ WTO (2010).

³¹ ITC calculations based on Trade Map data. Total exports exclude minerals and arms.

³² WTO (2010).

³³ Sri Lanka Customs website: http://www.customs.gov.lk/exp_promo.htm (accessed on 24 March 2011).

³⁴ Sri Lanka Export Development Board website: <http://www.srilankabusiness.com/announ%5CExporters%5Cindex.htm> (accessed on 24 March 2011).

³⁵ Central Bank of Sri Lanka (2009).

³⁶ Website of the Board of Investment of Sri Lanka: <http://www.boi.lk>.

The Sri Lankan customs system is based on the Automated System for Customs Data developed by UNCTAD (United Nations Conference on Trade and Development). This customs management system is computerized, but did not allow for the submission of documents electronically in its original version. Trade processes were further automated with the introduction of the electronic data interchange (EDI) facility in 2002, which allows processing of trade documents such as customs declaration messages electronically. Implementation and actual use of the EDI, however, has been very limited, with most documentation still submitted manually.³⁷

4.2. National development framework and infrastructure

The *Mahinda Chintana* aims at consistently attaining an annual GDP growth rate of at least 8%. The strategy covers all major industries as well as infrastructure, with a particular focus on regions outside the Western Province in order to reduce spatial inequalities.³⁸

Given that poorer regions tend to be predominantly rural and in order to improve Sri Lanka's food security, the *Mahinda Chintana* concentrates on growth in the agricultural sector and of SMEs (small and medium-sized enterprises). The tea, rubber and coconut plantation sectors, with their major employment and trade significance, will be central, but diversification into higher value-added products is also among the priorities.³⁹ In order to protect local producers, maintaining relatively high duties on strategic agricultural commodities is proposed until 2016.⁴⁰ Active promotion measures that are already in place include subsidized fertilizer to domestic agriculture (since 1962), with the latest scheme being introduced in 2005. Subsidy expenditure has risen dramatically, nearly tenfold, since earlier in the decade to approximately US\$ 235 million in 2009.⁴¹ Currently, guaranteed price schemes for rubber and purchasing schemes for paddy aim to protect producers from low international prices due to the financial crisis. In addition, the *Mahinda Chintana* envisages improved technological development in the agricultural sector, including research credits, seeds extension, and the development of irrigation infrastructure.⁴²

The *Mahinda Chintana* Industrial Policy remains focused on exports and aims at diversifying the industrial base, expanding manufacturing in rural regions, reducing dependence on imported inputs and strengthening backward linkages. In this effort, the government intends to increase the number of EPZs to twenty six by 2016. In addition, the policy looks to support research and development with a technology development fund, and strengthen microenterprises, SME initiatives and infrastructure. The framework contains both comprehensive sectoral initiatives, including the ceramic, rubber, coir, gems, spices, leather, and apparel industries, as well as regional development initiatives. Similar to the aforementioned exemption and rebate schemes, the *Mahinda Chintana* aims to provide unrestricted and duty-free access to imported inputs and required technical services, and targets improved implementation and access to market information.⁴³

Situated in the path of major sea routes, Sri Lanka is a strategic naval link between West Asia and South East Asia. Apart from the port in Colombo that handles the vast majority of shipments, there are ports in Galle, Trincomalee and Kankesanthurai. The state-owned Sri Lanka Port Authorities (SLPA) has actively engaged in establishing domestic ports as a major shipping hub in the region. Projects aim at significantly increasing the capacity of the Colombo port and establishing a new major port in Hambantota, which was inaugurated in November 2010.⁴⁴ Air transport has increased with tourism since the 2002 ceasefire in the domestic conflict and due to deregulation, and the Colombo international airport is expanding, with ambitious aims for future capacities. While the road network is extensive, it mostly consists of single-lane roads with low speed limits, and a lack of maintenance has caused deterioration and resulted in high

³⁷ Wijayasiri and Jayaratne (2009).

³⁸ Ministry of Finance and Planning of Sri Lanka (2006).

³⁹ *Ibid.*

⁴⁰ Central Bank of Sri Lanka (2009).

⁴¹ WTO (2010).

⁴² Ministry of Finance and Planning of Sri Lanka (2006).

⁴³ *Ibid.*

⁴⁴ Central Bank of Sri Lanka (2009) and website of the Sri Lanka Port Authorities: http://www.slpa.lk/port_hambantota.asp?chk=4 (accessed on 24 March 2011).

transportation costs. Railroads have been suffering from very low investments, the long civil war and the 2004 tsunami, and nowadays only represent a negligible fraction of cargo transport.⁴⁵ Within the *Mahinda Chintana*, provisions for transportation infrastructure, entitled *Mahinda Randora*, focus on the development of roads in rural areas to improve market access, and at re-establishing freight transport by rail to reduce traffic congestion and air pollution.⁴⁶

⁴⁵ Economist Intelligence Unit (2008).

⁴⁶ Ministry of Finance and Planning of Sri Lanka (2006).

Chapter 2 Non-tariff measures survey methodology and implementation in Sri Lanka

1. Survey implementation

This chapter describes the implementation of the non-tariff measures (NTM) survey in Sri Lanka and gives a concise description of the global NTM survey methodology. Detailed methodological notes are provided in the appendices of this report. (Appendix I contains the global methodology which is a core part identical in all surveyed countries. Appendix II on the NTM classification and appendix III on procedural obstacles provide the taxonomy for arranging reported measures into an organized hierarchical system. Appendix IV lists interviewed experts and stakeholders.)

1.1. Timeline and principal counterparts

As part of the ITC national capacity building work, the NTM surveys are always executed by a local company. In Sri Lanka, the survey was implemented by Lanka Market Research Bureau Limited (LMRB).⁴⁷ The project managers and interviewers of LMRB were trained by ITC staff in Sri Lanka in December 2009. The survey was implemented between February and August 2010. In March 2010, three students from the Master's programme of the School of International Public Policy of Columbia University (United States) undertook a 2-week research trip to Sri Lanka to conduct open-ended discussions with experts and stakeholders (listed in appendix IV), based on the preliminary survey results.

Other principal counterparts of ITC in Sri Lanka include the Department of Commerce of the Ministry of Trade of Sri Lanka, which provided invaluable guidance and support, and the Institute of Policy Studies in Sri Lanka,⁴⁸ which organized a workshop in Colombo in November 2010 to discuss the main findings of the NTM Survey.

1.2. Survey process and modalities

During the survey preparation a comprehensive list was compiled of the exporting and importing companies with their contact details. Companies were categorized according to their main sectors. The survey consisted of two steps. In the first step, companies were randomly selected within each sector and screened on the phone to identify those that experienced difficulties with NTMs. Companies were asked if they experienced burdensome regulations that seriously impacted their export or import operations (e.g. through high costs or very strict requirements). In the second step, the companies that reported having experienced difficulties were interviewed face-to-face to capture information at a very detailed level.

1.3. Sample frame and selection strategy

According to Sri Lankan Customs, there are 2,575 exporters with an annual turnover in excess of SL Rs 5 million (approximately US\$ 45,000), out of which 34% export agricultural products, and the remainder specialize in manufacturing goods.⁴⁹ The minerals sector is not considered in the survey, as it is dominated by state companies and large multinationals in a very special international market. Services are also beyond the scope of this NTM survey, as this work would require a different approach and methodology.

ITC initially received information on exporters and importers from Sri Lankan Customs. The list covered the entire population of companies; however, it lacked information on company locations and contact details. Therefore, the ITC team complemented the register received from Customs with the information provided

⁴⁷ For further information on Lanka Market Research Bureau Limited refer to <http://www.lmrblint.com/>.

⁴⁸ The website of the Institute of Policy Studies in Sri Lanka is <http://www.ips.lk/>.

⁴⁹ Companies exporting services and companies exporting arms and minerals are excluded from the survey in accordance with the global survey methodology (see appendix I for further details). Furthermore, only companies that have exported for more than SL RS 5 million per year have been included, to avoid interviewing sporadic exporters who may not have sufficient experience with NTMs.

by the EDB, Ceylon Chamber of Commerce (CCC) and the National Chamber of Commerce (NCC) on its member companies.⁵⁰

The companies were interviewed in three regions, namely Colombo, Gampaha and Kalutara, which, according to the compiled business register, respectively include 61%, 21% and 5% of all Sri Lankan companies. When companies from other regions were removed from the sample frame, the resulting database contained 1,208 exporting companies with contact details.

Stratified random sampling by the sector of activity was used to select companies for the phone screen interviews (figure 8 in the next sub-chapter shows the distribution of population and surveyed companies by sector). All export sectors accounting for more than 2% of exports were included in the survey. Within each export sector, the number of companies for phone screens was calculated as a function of the number of companies within each sector (see appendix I for the formula and further details). Furthermore, an effort was made to achieve representativeness by company size within each sector (figure 9). The export destinations of companies were not taken into account for the sampling. The random sampling within each sector ensured a good representation of various export destinations (see table 5 in chapter 3).

The selection of companies for face-to-face interviews was entirely based on the results of the phone screens: all companies that reported on the phone having difficulties with NTMs were interviewed face-to-face in order to obtain detailed information on the NTMs they experienced. Therefore, if a sector was less impacted by NTMs, there were only a few companies from this sector participating in face-to-face interviews (compare middle and right panes on figure 8 in the next sub-chapter).

1.4. Survey coverage of the phone screens and face-to-face interviews

In total 512 companies participated in the phone screen interviews. Among these companies, 412 firms export or both export and import goods, and 100 firms only import. The survey included companies that export their own products, including those located in export promotion zones, as well as trading agents that are specialized in export-import operations (brokers, forwarders).

The majority of companies interviewed (69.7%) reported being strongly affected by trade barriers. These companies were invited to participate in face-to-face interviews to record all the details of trade barriers that they experienced. Detailed face-to-face interviews were undertaken with 177 companies of different sizes located in different districts.⁵¹

1.5. Phone screens

In Sri Lanka, a typical phone screen averaged 7-8 minutes and was recorded using paper-based questionnaires that were subsequently digitalized. However, LMRB phone screeners had to overcome a large number of difficulties to execute phone screens. In the majority of cases, a call-back at a later time was required (28%), followed by a large number of wrong contacts and no-answers (14% each), requests to send information by regular post and lack of interest (table 3). Only about 18% of all phone calls resulted in a successfully finished phone screen interview from the first attempt to call.

⁵⁰ The EDB CD ROM database 2010 contained information on about 2,000 companies, including company name, legal status, address, telephone, fax, website, exported products, and contact person. After exclusion of the companies exporting minerals and services 1,400 companies remained in the sample frame. The database of the members of the CCC 2009/2010 originally included 501 exporters and importers, some of which were already present in the EDB CD ROM. The database of the NCC Directory 2007/2008 provided names and contacts information for 455 companies. Only part of these companies were engaged in international trade (127 companies both export and import, 100 only export and 99 only import), and thus included in the NTM survey's sample frame.

⁵¹ Participating companies are located in the following districts and export promotion zones: Battarmulla, Boralesgamuwa, Colombo, Dehiwela, Ethul Kotte, Gampaha, Grandpass, Hendala, Ja-Ela, Katunayaka, Kirullapona, Kohuwela, Kotte, Madapatha, Maharagama, Malabe, Maradana, Mattegoda, Mount Lavana, Narahenpita, Nawala, Negombo, Nugegoda, Pannipitiya, Papiliyana, Peliyagoda, Pitakotte, Rajagiriya, Rathmalana, Wattala and Welisara.

Table 3: Typical responses for the phone screens attempts

Typical result	Share in total
Call back later	28%
Wrong number	18%
No answer / busy	14%
Request to send questionnaires by regular post	13%
Not interested	9%
Reported that have not experienced burdensome NTMs or related problems	9%
Reported that have experienced burdensome NTMs or related problems and have given appointment for face-to face interview	9%

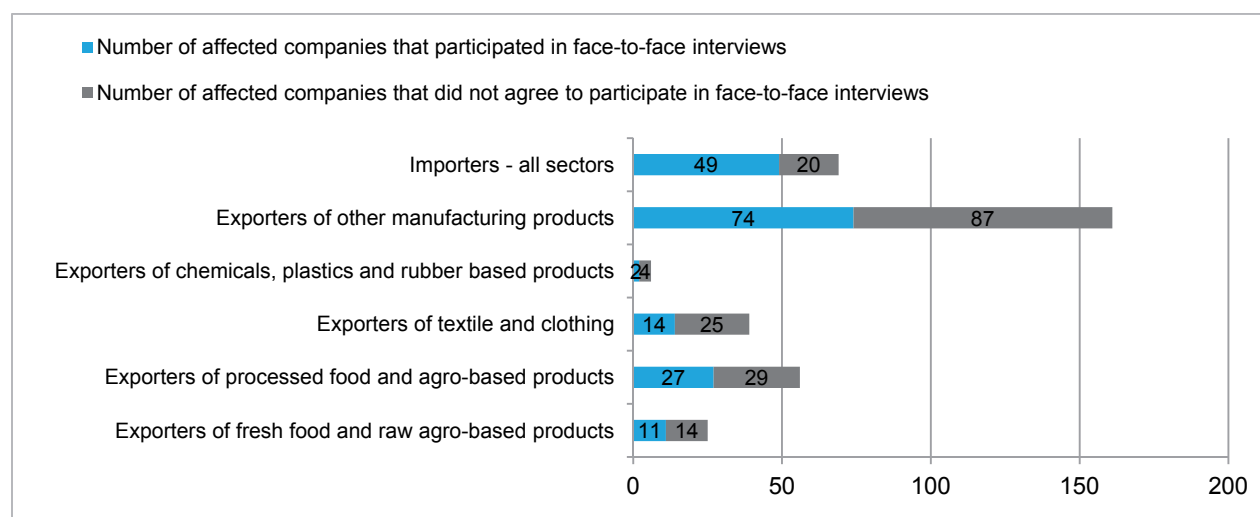
Source: Lanka Market Research Bureau Limited, based on approximately 2,000 phone screen attempts with exporting and importing companies

1.6. Face-to-face interviews

Phone screens identified 287 exporting companies that have experienced burdensome NTMs and other obstacles. However, only 128 exporting companies participated in face-to-face interviews and provided the full account of the trade barriers affecting their export and import. Importing companies had a higher participation rate (49 out of 69 companies, or 71%) than exporting companies (41.6%).

Unwillingness to participate in the face-to-face detailed interview presented a serious challenge for the NTM survey implementation in Sri Lanka. Among exporting companies, the highest rate of participation (48.2%) was in the sector of processed food and agro-based products and the lowest rate (35.9%) was recorded among exporters of textiles and clothing (figure 7).

Figure 7: Willingness to participate in face-to-face interviews among the companies that have indicated difficulties with NTMs during phone screens



Source: ITC survey on NTMs.

The low participation rate of exporting companies can possibly be explained by the companies' preferences not to disclose export-related problems, as these problems and solutions are seen as a knowledge advantage over other competing firms. Furthermore, despite the confidentiality of the interviews, the business sector may, in certain cases, be discouraged from providing honest feedback on government agencies.

The face-to-face interviews were conducted in English with oral translation to local languages (Sinhala and Tamil) whenever necessary. Most of the participants were senior managers or export/import specialists (table 4).

Table 4: Functions of the respondents

Functions of respondents	Number of respondents
Manager	66
CEO, director	59
Executive staff members	11
Accountant	8
Assistant manager	6
Senior staff members	6
Chief of a section	5
Proprietor, partner	7
Not specified	9
Total	177

Source: ITC survey on NTMs.

The interviews were conducted by 10 specially trained employees of LMRB using a predefined questionnaire. The surveys were recorded by the interviewers using paper-based questionnaires (interviewer-led process). The results of the interviews were digitalized using Excel-based data capturing files provided by ITC.

1.7. Implementation challenges

The NTM survey implementation in Sri Lanka had some challenges. The survey was conducted soon after the end of the prolonged conflict. It was the first company-level survey of such scale and nature in Sri Lanka, which required the local partner LMRB to recruit extra staff and request intensive training from ITC. ITC has provided LMRB project managers and interviewers with comprehensive training on the survey methodology and NTM classification, and provided survey related materials.⁵²

ITC invested considerable time and effort in constructing the business register of Sri Lankan exporting and importing companies, using various sources. A comprehensive business register was not available in the country prior to the survey, but was critical for the success and representativeness of the survey results. This register has now been made available to the LMRB and local stakeholders and all further company surveys are now much easier to realize.

Despite difficulties encountered, the survey proved to be a valuable and feasible instrument for collecting information on NTMs and related trade barriers. The results can be very informative for policymakers, trade support institutions and the private sector concerning the existing features and constraints of the Sri Lankan trade regime with regard to NTMs, and that of Sri Lankan partner countries.

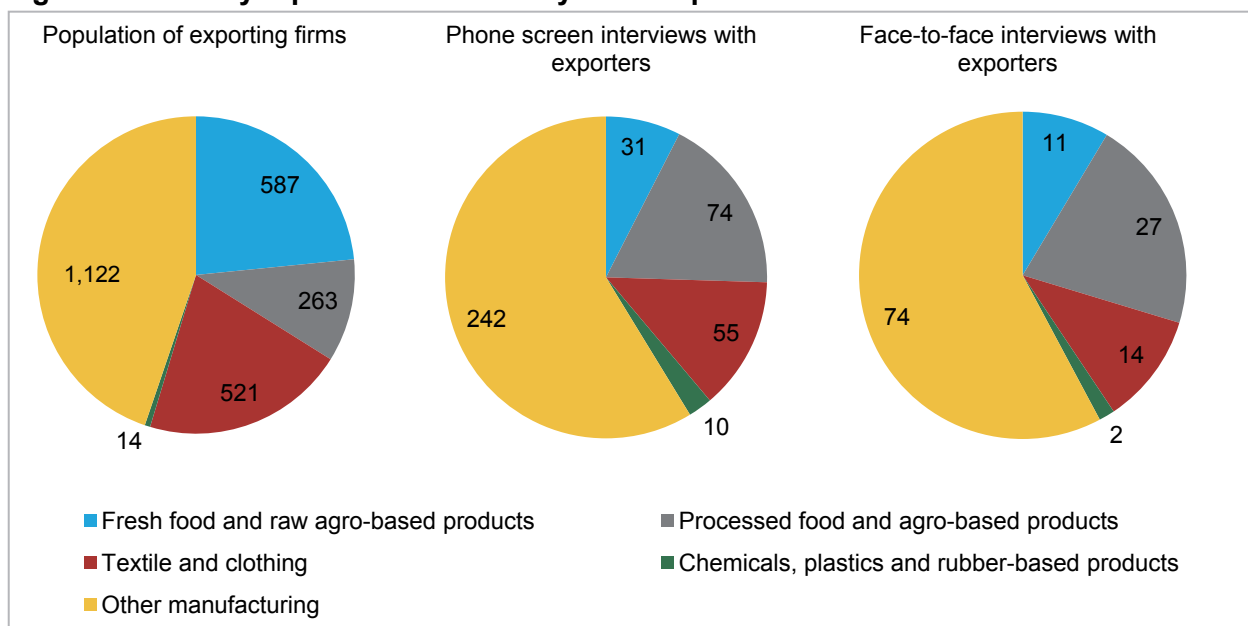
⁵² The NTM survey toolkit includes: ITC NTM survey methodology (2009); phone screen questionnaire, face-to-face questionnaire and corresponding Excel-based data capturing tables; ITC NTM survey classification booklet for interviewers (2009), predefined list of procedural obstacles and other obstacles to trade-related to business environment; survey factsheets for capturing metadata, invitation letter to respondents, support and training materials.

2. Survey representativeness

Despite difficulties related to the business register and low response rate, the survey is representative by export sector (figure 8), with the majority of the interviews undertaken with the companies in the largest sectors, such as fresh food and raw agro-based products (7.5% of all companies interviewed on the phone), processed food and agro-based products (18%) and textile and clothing (13.4%).

A number of interviews were undertaken with companies in the sector of chemicals, plastics and rubber-based products. Even though exports of these products represent less than 1% of total exports, this sector is a critical link in the value chain representing important inputs to the leading export sectors – clothing and tea (figure 8).

Figure 8: Survey representativeness by main export sector



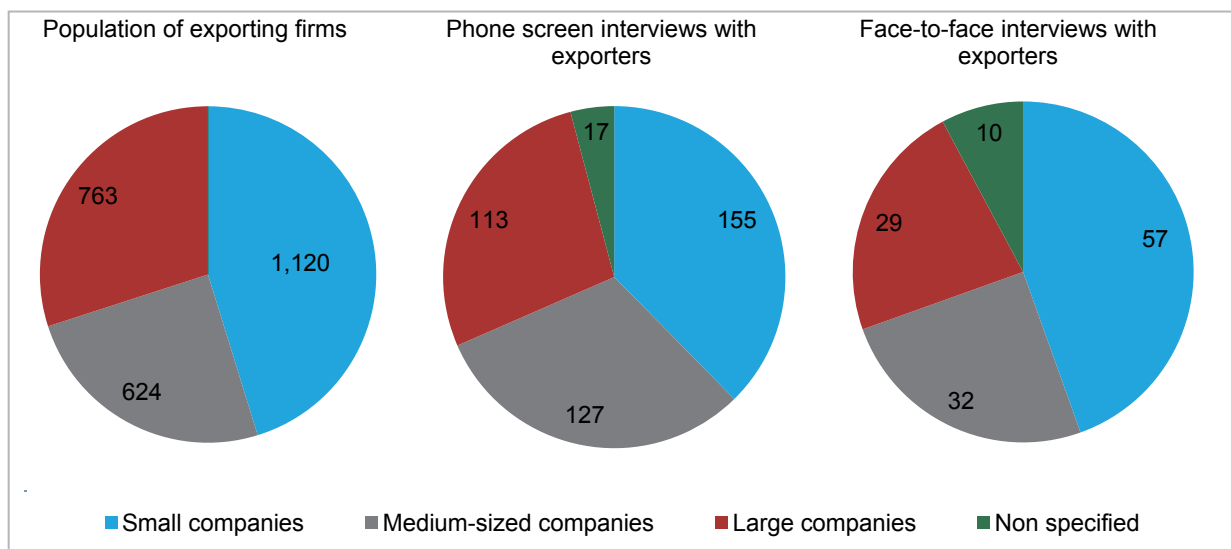
Source: ITC survey on NTMs.

At first sight it appears that the 'Other manufacturing' sector is over-represented in the phone screen interviews (242 interviews, middle pane of figure 8) and face-to-face interviews (74 companies, right pane of figure 8). However, this stems from the fact that companies are counted only once in their main sector of activity – to avoid double counting the same company in several sectors. In reality, producer companies are often active in 2-3 sectors (e.g. importing chemical fertilizers and exporting tea), while trading agents and importing companies can be active in 5-6 sectors. For example, out of 74 companies in 'other manufacturing', 11 companies export clothing and 9 companies export chemicals.

Sri Lanka does not use a nation-wide definition of small and medium-sized enterprises. For the NTM Survey, the following definition was used:

- Small company: up to 49 employees
- Medium-sized company: 50 to 249 employees
- Large company: above 250 employees

Another alternative could have been to use a definition based on financial indicators (turnover or export value). Yet, headcount is preferable as companies are reluctant to disclose their financial information during the survey.

Figure 9: Survey representativeness by company size

Source: ITC survey on NTMs.

The NTM survey sample in Sri Lanka is representative by the size of the companies, as evidenced in figure 3.3. Among exporters in Sri Lanka, 1,120 companies are small (45%), correspondingly 155 small companies were sampled and interviewed on the phone (middle pane of figure 9). This represents 38% of all phone screened companies. Face-to-face interviews were undertaken with 57 small exporters (representing 45%), yet this is not the result of a sampling. Companies are sampled for phone screens, but the number of companies for face-to-face interviews is not decided during the survey design, but depends on the share of affected companies and their willingness to participate in the face-to-face interviews.

The company size ratio also holds well within each sector (the number of small companies is presented in the analysis of each sector). The representativeness is an important achievement, as it allows for the extrapolation of survey results to the entire population of companies.

Chapter 3 Survey results on companies' experiences with non-tariff measures

This chapter is dedicated to the analysis of the NTM (non-tariff measure) survey findings. It starts with aggregate country level results focusing on the affected sectors, major problems and their location. Then, the problems reported by exporting and importing companies are analysed sector-by-sector, focusing on product-specific ITC survey findings. Agricultural commodities will be treated in the subsequent two sections, followed by three sections on manufacturing goods.

1. Aggregate results

1.1. Affected sectors

The share of affected companies is very high in Sri Lanka, both in absolute terms and in relative terms – considering the NTM survey results in other countries. Across exporting companies, on average, 69.7% experience serious difficulties with NTMs (table 5). During phone screens in Sri Lanka, also 69 out of 98 importing companies have reported serious hindrances stemming from NTMs. Thus, 70.4% of importing companies are affected. The results in Sri Lanka are comparable to those in Burkina Faso where 68% of all companies are reportedly affected by trade barriers. For comparison, the least problematic export operations are in Hong Kong SARC with only 23.1% of exporting enterprises reporting NTMs and other obstacles.

The results of the NTM surveys have confirmed that NTMs are sector-specific. Exporters in the fresh food sector most commonly reported trade barriers (80.6% of contacted companies), followed by companies exporting processed agricultural commodities (75.7%). This is somewhat expected, as agricultural products include food and feed, and their control is essential for ensuring the health and well-being of consumers and protection of the environment. All major importing markets have established special control systems related to products destined for direct consumption by people and animals, such as the Rapid Alert System for Food and Feed of the European Union. The manufacturing export sector seems less, but still highly affected by NTMs and other obstacles: textiles and clothing products (70.6%), chemicals, plastics and rubber-based products (60%) and other manufactures (66.5%).

Table 5: Share of exporters affected by NTMs or other obstacles to trade, by sector

Main export sector (as reported during phone screens)	Total export value in 2009 (US\$ '000) ^{a/}	Sector's share in total export	Number of companies interviewed on the phone	Number of companies affected by NTMs or other obstacles	Share of affected companies
Fresh food and raw agro-based products	1,851,980	28.3%	31	25	80.6%
Processed food and agro-based products	245,353	3.7%	74	56	75.7%
Textiles and clothing	681,521	10.4%	55	39	70.9%
Chemicals, plastics and rubber based products	346,623	5.3%	10	6	60.0%
Other manufacturing	3,409,469	52.2%	242	161	66.5%
Total	6,534,946	100%	412	287	69.7%

Source: ITC survey on NTMs and ITC calculations based on Trade Map data.

^{a/} Minerals, arms and ammunitions are excluded.

Note: This table is based on phone screen interviews. Companies that both export and import are counted once – together with exporting companies.

Table 5 summarizes these results based on the single main export sector of each company (to avoid double counting), but in general companies would be active in more than one sector. For example, even though only 10 companies declared ‘chemicals, plastics and rubber-based products’ as their main export sector, the survey has actually covered 24 firms that export these products. Most of these companies (64%) are trading agents that are active in multiple sectors, who selected ‘other manufacturing’ as their main export sector.

In Sri Lanka, the most affected specific product is tea, as included in the group ‘coffee, tea, maté⁵³ and spice’ (also most-affected in Uganda), followed by ‘apparel and clothing accessories’ (similar to Peru and Tunisia).⁵⁴ For comparison, exporters in the Philippines, Thailand and Uganda also reported that edible fruits and nuts were among products most difficult to export (just above 9% of all reports in each of these countries were related to edible fruits and nuts). Other products of most concern to interviewed exporters include electrical machinery (7%) in India, wood and related articles (11.5%) in the Philippines, apparel and clothing accessories, not knitted or crocheted (13%) in Tunisia, and coffee, tea, maté and spices (18.5%) in Uganda. These results, however, may reflect the export structure of the surveyed country. The largest export sectors are likely to attract large absolute number of reports.

Each sector is addressed in detail in subsequent sections. The tea sector is analysed first, followed by the remaining group of raw and processed agricultural commodities. The combined textiles and clothing industry is the third sector to be treated. Chemicals, plastics and rubber-based products are then discussed before looking at a sample of all other manufacturing goods.

1.2. Major problems with non-tariff measures and applying countries

The NTM surveys differentiate between burdensome NTMs, procedural obstacles (POs) and problems with the trade-related business environment (TBE). NTMs are mandatory regulations introduced by competent authorities of the exporting (producing) and importing countries, for example, a requirement that the label of food products has to contain an indication on the presence of gluten and nuts (see appendix II for the full NTM classification). POs are problems related to the manner in which a regulation is applied or implemented, which can include inefficiencies, discrimination or delays (see appendix III for a full list and classification). An inefficient TBE can cause similar problems also without being directly related to specific NTMs. From an aggregate perspective, the following paragraphs list the predominant burdensome NTMs and where they occur, before turning to POs and difficulties with the TBE. A detailed discussion reserved for later sections in this chapter analyses results sector by sector.

1.2.1. Most common non-tariff measures on exports and imports

As it was also found in all other surveyed countries so far, technical measures, i.e. technical requirements and related conformity assessment to demonstrate compliance, are the most frequently reported NTMs for both export and imports (left panes in figure 10). The proportion of conformity assessment, however, notably exceeds the survey results from other countries: conformity assessment accounts for 30% of all NTMs experienced both when exporting and when importing. Thus, in the case of exports they are equally common as the technical requirements per se (upper left pane in figure 10). This may indicate that many of Sri Lanka’s export products are compliant with the technical requirements imposed by importing countries; yet, exporting companies have difficulties demonstrating compliance with these requirements. When importing, companies even reported more cases of conformity assessment than technical requirements (30% and 11% of all import cases, respectively). Already at this early stage of the analysis, these patterns hint at a lack of domestic testing and certification facilities and other related POs. A detailed evaluation of this issue is presented in the following sections about the specific affected sectors.

As mentioned in chapter 2, a number of charges are levied by Sri Lanka both on exports and imports. Their impact and perception are reflected in the export-related measures and taxes, charges and para-tariff measures categories, respectively. Export-related measures, i.e. NTMs applied to exports by Sri Lanka itself, make up a significant 15% of cases reported by exporting firms. For comparison, import operations were affected by such measures, which are then applied by the exporting partner countries, in only 5% of

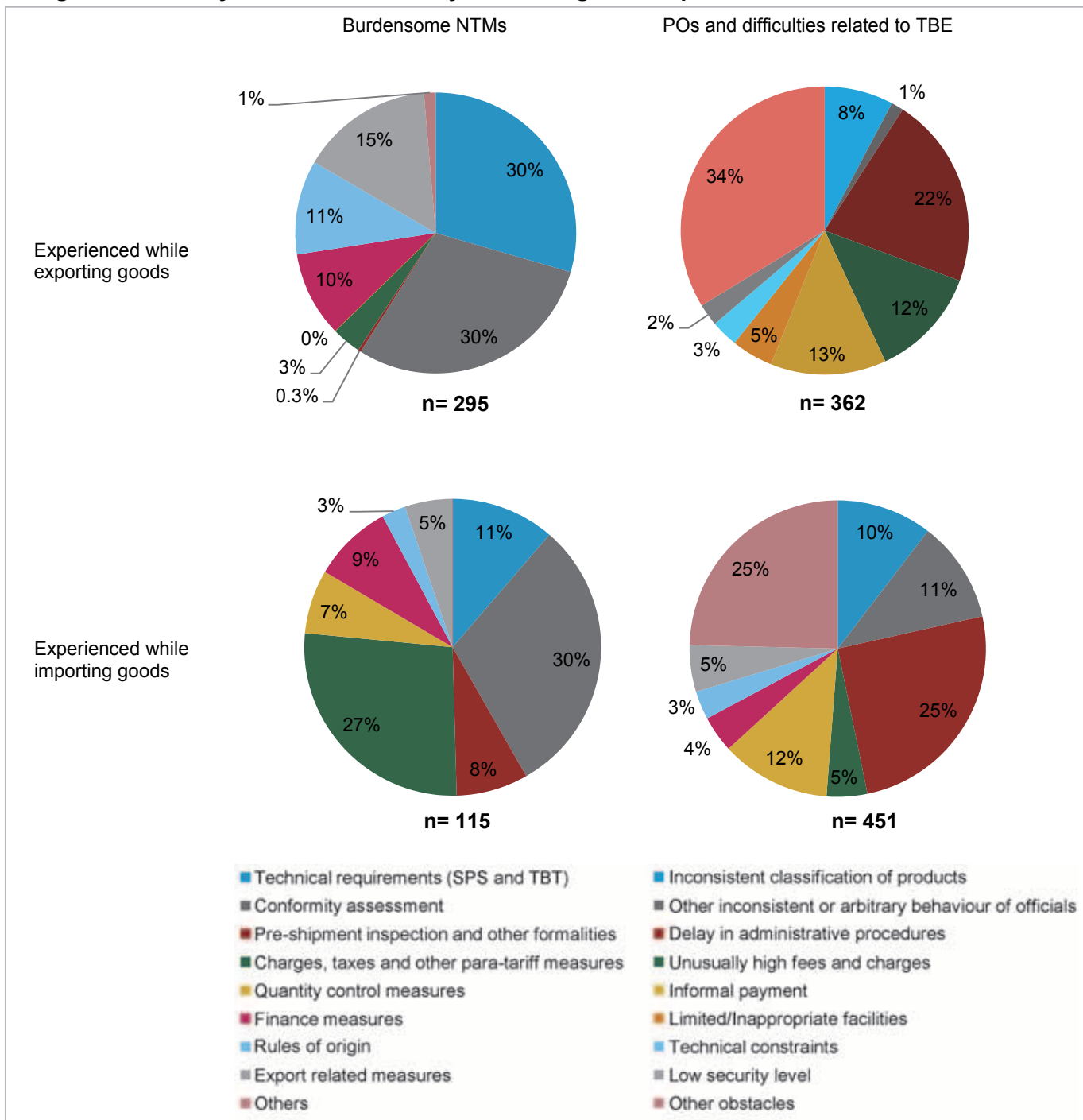
⁵³ Maté is a South American infused drink of herbs, similar to tea.

⁵⁴ These specific product groups are defined at the 2-digit level of the Harmonized System.

the import cases. On the import-side, charges applied by Sri Lanka in addition to regular duties stand out with a 27% share of reported NTM cases.

Problems with rules of origin and finance measures constitute further recurring problems for Sri Lankan exporters, with 11% and 10% of NTM cases respectively (upper left pane in figure 10). The former group of problems stands in close connection to non-reciprocal trade preferences and regional trade agreements (see also chapter 2), while the latter mostly refer to unfavourable terms of payments. Affecting Sri Lankan companies' import operations (lower left pane in figure 10), other reported NTMs are finance measures (9% of import NTM cases), non-technical pre-shipment inspections (8%) and quantitative restrictions (7%).

Figure 10: Survey results overview, by main categories of problems



Source: ITC survey on NTMs.

1.2.2. Partner countries reported to be applying non-tariff measures

In absolute terms, NTMs on exports to the European Union and the United States, but also to India, were mentioned most often in the reports of the Sri Lankan companies. This is similar to the results in other surveyed countries, where either the European Union (in Burkina Faso, Hong Kong SAR, India, Peru, Thailand, Tunisia and Uganda) or the United States (in Chile and the Philippines) account for the highest number of complaints. Again, this result may be biased against large importing markets that are frequently covered in the survey sample (table 6).

Table 6: NTMs applied by partner countries

Partner country	Export value ^{a/}		Surveyed companies			Reported NTM cases	
	Sri Lankan export value in 2009 (US\$ '000)	Share in total Sri Lankan export value	Number of surveyed companies that export to this destination ^{c/}	Number of surveyed companies that reported NTMs applied by this export destination	Share of affected companies among those exporting to this destination	Number of product-specific NTM cases reported to be applied by this destination	Share in total reported product-specific NTM cases
European Union ^{b/}	2,480,802	38.0%	173	33	19.1%	94	37.6%
United States	1,561,316	23.9%	68	16	23.5%	31	12.4%
India	311,932	4.8%	30	8	26.7%	16	6.4%
United Arab Emirates	207,089	3.2%	18	3	16.7%	12	4.8%
Russian Federation	192,779	2.9%	12	1	8.3%	1	0.4%
Iran (Islamic Republic of)	145,918	2.2%	5	1	20.0%	2	0.8%
Japan	133,898	2.0%	42	6	14.3%	16	6.4%
Syrian Arab Republic	131,953	2.0%	2	2	100.0%	2	0.8%
Turkey	112,520	1.7%	7	3	42.9%	9	3.6%
Singapore	82,101	1.3%	17	3	17.6%	2	0.8%
Australia	80,667	1.2%	30	7	23.3%	10	4.0%
Canada	72,487	1.1%	18	2	11.1%	2	0.8%
Hong Kong SAR	62,408	1.0%	7	2	28.6%	2	0.8%
Mexico	58,941	0.9%	4	2	50.0%	12	4.8%
Pakistan	54,152	0.8%	9	2	22.2%	11	4.4%
Other	845,983	12.9%	160	28	17.5%	28	11.2%
Total	6,534,946	100%	602	119	19.8%	250	100%

Source: ITC survey on NTMs and ITC calculations based on Trade Map data.

a/ Excluding minerals and arms.

b/ The export value of the European Union only refers to all member countries. The individual countries reported to be applying burdensome NTMs are: Belgium, Germany, France, Italy, Netherlands and the United Kingdom. They jointly account for US\$ 2,222,988,000 of Sri Lanka's export value.

c/ Companies exporting to several destinations are counted once for every destination. Therefore the total in this table is higher than the total number of companies interviewed.

Putting in relation the number of affected companies with those actually exporting to the respective destinations shows that, among these largest markets, exports to India were felt to be the most cumbersome (see columns 4 to 6 in table 6). From this perspective, exports to some smaller markets like

Hong Kong SAR, Syrian Arab Republic and Turkey also appear difficult. Looking at the share of destination markets in the total reported NTM cases (last column in table 6), several other small markets also stand out: Australia and countries accounting for less than one per cent of Sri Lanka's exports, particularly Mexico and Pakistan. However, when looking at small partner countries, results may not be fully representative at this level of disaggregation.

1.3. Challenges due to procedural obstacles and inefficiencies of the trade-related business environment

1.3.1. Domestic authorities and in partner countries

In general, POs and TBE-related problems can take place in the home country and in partner countries. In Sri Lanka, most of these obstacles are domestic (668 out of 813 cases). This applies to exports (63% domestic obstacles) and even more to imports (97.6%). In contrast to NTMs on exports that were reported to be applied by domestic authorities in only 15% of the cases, it therefore stands out that POs and inefficiencies of the TBE add a significant domestic dimension of export-related problems. In the case of imports, both NTMs and other obstacles occur domestically to an almost full extent (tables 7 and 8, figure 10).

Table 7: Procedural obstacles and inefficient trade-related business environment in Sri Lankan agencies

POs/TBE affecting exports			POs/TBE affecting imports		
Location of obstacles	Number of obstacles reported	Share in total obstacles	Location of obstacles	Number of obstacles reported	Share in total obstacles
Customs	93	40.79%	Customs	246	55.91%
Forest Authority	12	5.26%	Port Authorities	27	6.14%
Port Authorities	11	4.82%	Dept. of Import and Export Control	7	1.59%
BOI	6	2.63%	Ministry of Defence and Ceylon Petroleum Corporation	6	1.36%
Plant Quarantine Service	6	2.63%	Chamber of Commerce	5	1.14%
EDB	2	0.88%	SLSI	5	1.14%
Airport Authority	2	0.88%	Dept. of Commerce	4	0.91%
Coconut Development Authority	2	0.88%	TRC	4	0.91%
Dept. of Agriculture	2	0.88%	CDD	3	0.68%
Dept. of Commerce	2	0.88%	Dept. of Inland Revenue	3	0.68%
Fisheries Dept.	2	0.88%	Health Ministry	2	0.45%
Chamber of Commerce	1	0.44%	Sri Lankan Airlines	2	0.45%
Finance Ministry	1	0.44%	BOI	1	0.23%
Dept. of Inland Revenue	1	0.44%	National Gem and Jewellery Authority	1	0.23%
Sri Lankan Airlines	1	0.44%	Environment Ministry	1	0.23%
Dept. of Import and Export Control	1	0.44%	Agency not specified	123	27.95%
Agency not specified	83	36.40%			
Total	228	100.0%	Total	440	100.0%

Source: ITC survey on NTMs.

Domestically, the most reported Sri Lankan agency allegedly causing difficulties is Customs: 40.8% of all domestic cases affecting exports and 55.9% of those affecting imports (table 8). However, the issues with

the Customs are *a priori* likely to be reported more often than other agencies. For example, Forest Authority or Coconut Development Authority are mentioned only by a subset of companies dealing with forestry or coconut products, while every exporter and importer has to deal with Customs for every transaction. Accordingly, sector-specific institutions reported to cause obstacles for export and import operations reflect Sri Lanka's trade structure: ministries and authorities in the area of agriculture are mentioned more frequently by exporters, while technical, manufacturing-related entities are more common among importing firms. The following sections with sector analyses will go into further detail, particularly with respect to the aforementioned sector-specific agencies.

Table 8: Procedural obstacles and inefficient trade-related business environment in partner countries

POs/TBE affecting exports			POs/TBE affecting imports		
Location of obstacles	Number of obstacles reported	Share in total obstacles	Location of obstacles	Number of obstacles reported	Share in total obstacles
European Union*	57	42.54%	China	3	27.27%
United States	15	11.19%	India	3	27.27%
India	14	10.45%	Bangladesh	1	9.09%
Mexico	12	8.96%	Hong Kong SAR	1	9.09%
Pakistan	12	8.96%	Malaysia	1	9.09%
United Arab Emirates	12	8.96%	Singapore	1	9.09%
Australia	4	2.99%	Chinese Taipei	1	9.09%
Japan	3	2.24%			
China	1	0.75%			
Malaysia	1	0.75%			
Maldives	1	0.75%			
Singapore	1	0.75%			
Republic of Korea	1	0.75%			
Total	134	100%	Total	11	100%

Source: ITC survey on NTMs.

* The following individual countries were reported in the survey: Belgium, France, Germany, Italy, the Netherlands, Sweden and the United Kingdom.

For exports, the distribution of POs or TBE-related problems across partner countries mostly resembles the respective occurrence of NTMs. This is scarcely surprising, since many of these obstacles are directly or indirectly related to NTMs in the same countries. European Union countries account for a large share, about 42.5%, of the cases. Mexico, the United Arab Emirates and the United States, along with regional partners India and Pakistan, each represent between 9% and 11%. Again, more detail will be provided in the following sections. The very few problems with POs and the TBE encountered abroad when importing are exclusively attributed to Asian countries.

1.3.2. Recurring types of procedural obstacles and problems with the trade-related business environment

Both exporters and importers unanimously identify delays as the most frequent PO and TBE-problem: 22% of all cases related to exports and 25% of cases related to imports (right panes of figure 10). Delays were encountered across almost all institutions and partner countries, both developed and developing. For example, frequent mentions refer to hold-ups due to lack of electronic customs systems and slow inspection procedures without the use of modern X-ray equipment.

A second large set of obstacles can be composed as a group of inconsistencies and anomalies: inconsistent classification of products; other inconsistent or arbitrary behaviour of officials; unusually high fees and charges; and informal payments. They jointly account for more than a third of obstacles on exports and imports (see figure 10). Irrespective of the direction of trade, such problems are almost always

mentioned as occurring in Sri Lanka, with some exceptions of high fees also in various partner countries. It is notable in this respect that high fees in partner countries tend not to be reported as bribes. However, domestic informal payments represent an alarming share of over 12% of all PO/TBE cases.

Infrastructural challenges, such as limited facilities, technical constraints and low security levels, are also predominantly domestic, and jointly account for 8% and 11% of obstacles for exports and imports, respectively. Limited testing and certification facilities are a particular concern, as pointed out before with respect to conformity assessment NTMs.

The following sections about Sri Lanka's main export and import sectors will expand the analysis of POs and the TBE. Particularities of the respective sectors and connections between NTMs and other obstacles will receive further attention.

2. Tea

2.1. The vital role of the tea sector

Tea is a vital component of Sri Lanka's economy, representing 16.7% of total Sri Lankan exports in 2009.⁵⁵ The tea sector employs and provides the livelihood for a large share of the population and is one of the main sources of foreign exchange.⁵⁶ Sri Lanka produced an unprecedented quantity of tea in the first six months of 2010 (166,900 tons) exceeded only by China, India and Kenya.⁵⁷



At the global level, Sri Lanka has recently lost its position as the world's largest tea exporter in quantity terms (to Kenya in 2007 and to China in 2009), but maintains its position as the leading exporter in value terms, accounting for 24.9% of world exports in 2009. The value of exports of Sri Lankan tea has been growing steadily over the last four years, outstripping average world export growth, and reaching US\$ 1,177 million in 2009. In quantity terms however, the supply of Sri Lankan tea has on the average declined slightly over the last four years, meaning Sri Lankan tea has been attracting higher prices in the international markets than its major competitors.⁵⁸ The higher unit value of Sri Lankan tea exports goes in line with the national policy aimed at moving up the value chain by focusing on more value-added products, branding and marketing Sri Lankan teas as the best in class (e.g. Ceylon tea brand above).⁵⁹

The tea sector was, however, affected by the economic crisis 2008–2009, with a 6% per annum decrease in the export value of tea, exceeding the average world decrease of 5% per annum. Sri Lanka's main competitors, China and Kenya, managed to slightly increase their tea exports even at the time of the crisis, while Indian tea exports decreased only by 1% per annum over 2008–2009 compared with an average world decline of 5%. Yet, compared with other Sri Lankan export sectors, its tea exports did well. The value of Sri Lanka's total exports fell by 13% per annum, which is less than the reduction in exports of apparel, rubber and precious stones.

2.2. Affected companies

As the introduction shows, Sri Lankan tea exporters are among the most competitive in the world. Still, the majority of tea exporters interviewed reported that they struggle with burdensome NTMs, POs and the TBE.⁶⁰ In-depth face-to-face interviews were conducted with 16 affected tea exporters, five of which are companies specialized in the export process and services, such as agents, brokers, forwarding companies and trade logistics services providers (hereafter referred to as 'trading agents').

⁵⁵ ITC calculations based on Trade Map data, 2010.

⁵⁶ United Nations Economic and Social Commission for Asia and the Pacific (1999).

⁵⁷ Sri Lanka Tea Board (2010).

⁵⁸ Calculations are based on unit values (the average value per unit of quantity of the commercial transactions) sourced from ITC Trade Map. Unit value is not a selling price of the goods, but remains a good proxy for comparison across different markets.

⁵⁹ Ministry of Finance and Planning of Sri Lanka (2006); from WTO (2010).

⁶⁰ 77% of agricultural exporters report being affected by trade barriers. As the main agricultural product is tea (representing 67.5% of total Sri Lankan agricultural exports) it is likely that the share of affected tea exporters is close to 77%.

Table 9: Export of tea: burdensome NTMs applied by partner countries

Reported export products		Export to the world		Number of reported NTM cases					
HS product code (as reported)	Product code description (abridged)	Product's export value in 2009 (US\$ '000)	Share of product in the sector's export value*	Technical requirements	Conformity assessment	Terms of payment	Price control measures	Sub-total	Countries reported to apply burdensome NTMs (number of cases)
090240	Black fermented tea and partly fermented tea (packing of > 3 kg)	662,948	56.3%	5	-	-	3	8	Islamic Rep. of Iran (2), Syrian Ar. Rep. (2), Turkey (2), the Russian Federation, Ukraine
09024001	Black fermented tea and partly fermented tea (packing of > 3 kg), wholly of Sri Lanka origin black tea	n.a.**	n.a.**	-	5	5	-	10	Australia (2), Chile (2), Hong Kong SAR (2), Japan (2), Kuwait (2)
Total		662,948	56.3%	5	5	5	3	18	

Table 10: Export of tea: burdensome NTMs applied by Sri Lankan authorities

Reported export products		Export to the world		Number of reported NTM cases					
HS product code (as reported)	Product code description (abridged)	Product's export value in 2009 (US\$ '000)	Share of product in the sector's export value*	Export inspection and certification	Export taxes and charges	Export price control measures	Measures on re-export	Export licences	Sub-total
090210	Green tea (packing of <= 3 kg)	26,809	2.3%	1	1	-	-	-	2
090220	Green tea (packing of > 3 kg)	2,568	0.2%	-	-	-	-	1	1
090230	Black fermented tea and partly fermented tea (packing <= 3 kg)	485,070	41.2%	-	1	-	1	-	2
090240	Black fermented tea and partly fermented tea (packing of > 3 kg)	662,948	56.3%	2	1	1	-	-	4
09024001	Black fermented tea and partly fermented tea (packing of > 3 kg), wholly of Sri Lanka origin black tea	n.a.**	n.a.**	-	-	1	-	-	1
0902XX	Tea, whether or not flavoured.	n.a.**	n.a.**	1	-	-	-	-	1
Total		1,177,395	100%	4	3	2	1	1	11

Source: ITC survey on NTMs and ITC calculations based on Trade Map data.

* Total export value of tea is US\$ 1,177,395,000.

**Trade data (value and share) is reported only for products on HS 6-digit level for consistency reasons.

Note on problems reported by trading agents: Tables 9 and 10 are based on the NTM cases reported by companies producing and importing tea. Trading agents have not reported any NTM cases, only POs/TBE (see table 11).

The survey uncovered systematic differences in the experience of trading agents and companies producing and exporting tea. Trading agents have no difficulties with NTMs, while companies producing and exporting tea have reported 29 cases of burdensome regulations (on average 2.6 NTM cases per affected company that participated in face-to-face interviews). Out of the 29 reported cases, 18 cases (62%) are applied by the partner countries importing tea and 11 cases (37%) are applied by Sri Lanka (tables 9 and 10).

Both tea producers and trading agents are negatively affected by POs and an inefficient TBE. Tea companies reported 28 PO/TBE cases in total, while trading agents recorded 13 cases. On average, tea companies and trading agents are equally affected (2.6 PO/TBE cases per affected company in both categories), with the overwhelming majority of all cases (71%) originating in Sri Lanka itself and not in partner countries (table 11).

The differences between exporting companies and trading agents are striking, but at the same time intuitive. Trading companies specializing in the export of tea have a good understanding of technical and other export regulations as this is their core business. Maintaining the same export expertise in the company producing tea, especially smallholders, is costly because import requirements vary from country to country.

2.3. Non-tariff measures applied by partner countries

The burdensome NTMs on the import of tea are reported to be applied by Australia, Chile, Egypt, Hong Kong SAR, Japan, Kuwait, the Russian Federation, Syrian Arab Republic, Turkey and Ukraine (table 9). All these countries are among the top 20 importers of Sri Lankan tea. The reported NTM cases are distributed evenly across partners, suggesting that no major partner is imposing more restrictive requirements than other importing countries. However, companies exporting tea to the countries of the Middle East reported delays and high fees encountered in their embassies. Similar difficulties with the embassies of the Middle East countries were observed in other countries surveyed, for example in the Philippines.

'When exporting tea to Middle East countries, some buyers have a requirement to legalize export documentation through their local embassies in Sri Lanka. This is costly and causes delays in the export process.'

[A tea producer exporting to Egypt, Kuwait and Syrian Arab Republic \(ITC survey on NTMs\)](#)

2.3.1. Difficult technical regulations

Most of the burdensome NTMs applied by the importing countries (56% of all cases) are technical requirements (related to product) and conformity assessment (procedures to demonstrate that the product fulfils or conforms to the requirements of technical regulations). The limit on the moisture content in tea is one of the reported technical measures, while the certificate required by the importing countries is an example of a reported conformity assessment requirement.

Open-ended discussions with experts and stakeholders in Sri Lanka brought similar conclusions. The NTMs most frequently cited by experts include technical measures, most predominantly pesticide and MCPA herbicide⁶¹ residue level. However, technical requirements per se are less of a problem. Ceylon tea is widely recognized as one of the highest quality black teas, and it is generally in compliance with the technical measures required by major importing countries. The problem is with the certificates documenting conformity with technical measures, as these certificates require time, incur additional costs, and vary depending on the importing country. The NTM survey results confirm that only small companies have reported problems with technical requirements, while for larger companies, the problem is with the conformity assessment.

'The European Union and Japan have different MCPA herbicide residue allowance in tea. The problems arising from technical measures were usually not from the inability to comply with the requirement, but the administrative burden of keeping records of different requirements from each country.'

[Interview in the Industrial Technology Institute \(ITI\) in Sri Lanka](#)

⁶¹ 2-methyl-4-chlorophenoxyacetic acid herbicide.

2.3.2. Terms of payment and price control measures

'[There are] problems with deferred payments: 30 to 90 days [are] asked by importers. If we offer 30 days another exporter will offer 60 days credit to the importer.'

[Sri Lankan tea exporter \(ITC survey on NTMs\)](#)

Among other difficulties reported by Sri Lankan tea exporters are credit constraints and price control measures, amounting to 17% and 10% of all cases respectively (tables 9 and 10).

A medium-sized Sri Lankan company exporting tea to Asian, European, and Latin American countries has difficulties with letters of credit. The company is unable to offer importers to defer payments by more than 30 days. Similar difficulties were reported by Sri Lankan companies across different export sectors. The problem is, however, not connected to the policies of the importing countries. It has to do

with the exporters in other tea producing countries that compete with Sri Lankan exporters by offering more favourable terms of payment to their importing counterparts.

The Islamic Republic of Iran, Syrian Arab Republic and Turkey are reported to apply low price ceilings on the imports of tea. This leads to a reduced incentive of Sri Lankan tea producers to export to these countries. This can have a possible impact on the geographic diversification of the Sri Lankan tea exports.

2.4. Non-tariff measures applied by Sri Lanka

Despite strong efforts from the authorities to promote tea exports, some NTMs applied by Sri Lanka negatively affect tea exporters. These NTMs represent 38% of all reported burdensome NTMs and affect all products (Harmonized System 6-digit level) of the tea sector. These NTMs are mostly comprised of quality assurance (technical measures and related conformity assessment, 36% of all measures applied by Sri Lanka) and export taxes (27%). Export licensing, export price control measures and measures on re-export are the other NTMs that surveyed companies find difficult (table 11).

2.4.1. Export quality assurance requirements and capacities

Sri Lanka is promoting a value-added export strategy. It involves a strong emphasis on the quality of its tea, and a shift from bulk tea exports to the packaged branded tea for end consumers (this shift is already evident in the export statistics). In addition, in 2010 Sri Lanka further disaggregated its tariff schedule for tea products. Certain 6-digit codes of the HS now have as many as 13 different national tariff lines for products – depending on whether it is certified by SLTB as 'wholly of Sri Lankan origin', and on the weight, packing and flavouring of tea.⁶²

The value-added strategy requires strong control of the quality of the exported tea. However, according to the open-ended discussions with experts, there is a lack of testing facilities in Sri Lanka. Furthermore, even when the testing is done, many overlapping certificates are apparently requested by different authorities, causing delays and increasing costs. According to one tea exporter interviewed, the company needs to submit three SPS certificates requested by the Tea board, Department of Agriculture and the Ministry of Health and Nutrition, which require around a week of time and SL Rs 4,000 (approximately US\$ 35).

2.4.2. Export taxes

The SLTB, under the Ministry of Plantation Industries, is the main official agency responsible for the development and promotion of the tea industry. It regulates and monitors most aspects of the industry, including cultivation, production, pricing, marketing, and trade. The Tea Board imposes a cess on tea exports of currently SL Rs 4 per kg.⁶³ Interviewed exporters find this tax excessive and say it reduces their international competitiveness.

'Cess rates to the Sri Lanka Tea Board are high.'

'Charges and taxes on tea are very high and vary from time to time. [...] As a result we are unable to compete in the world market.'

[Sri Lankan tea exporters \(ITC survey on NTMs\)](#)

⁶² Hemaratne (2010).

⁶³ WTO (2010).

2.4.3. Measures on goods imported for processing and further export

Sri Lankan policies towards exports are complex. On the one hand, the authorities tax tea exports; and on the other hand, they implement export incentives. At present, there are three main incentive schemes in operation handled by the Sri Lanka Customs Bonds Division: Duty Rebate Scheme, TIEP Scheme and Manufacture in Bonds Scheme.⁶⁴ One of the companies interviewed benefiting from the TIEP Scheme (allowing duty-free imports of inputs) was concerned with the delays and complexity of the scheme. Thus, even export promotion activities can be regarded by exporters as barriers if they are not effectively implemented.

'We handle our import/export through the TIEP scheme. On paper this is very good, but implementing it is very cumbersome and time consuming.'

A large company in Sri Lanka producing, exporting and importing goods (ITC survey on NTMs)

2.5. Procedural obstacles and inefficient trade-related business environment

Exporters can be affected by NTMs (regulations) but also by the manner in which NTMs are implemented, and in general by an inefficient business environment. For Sri Lankan exporters, the main concern is red tape – delays, bribes and discriminatory behaviour of officials, with the majority of cases (73% of PO/TBE cases) occurring in Sri Lanka (first four categories in table 11).

'Customs are sometimes burdensome when the relevant officers in charge are not available.'

Sri Lankan tea exporter (ITC survey on NTMs)

Tea producers and trading agents report on average 2.6 PO/TBE cases per affected company. The average number of problems is the same, but their types differ. Tea producers report difficulties with numerous administrative windows, documentation and access to information, which are not affecting trading agents. Only trading agents were concerned with the lack of the facilities in the ports (table 11). For both types of companies, the overwhelming majority of

problems were encountered with Sri Lanka's Customs Authority. Ports Authorities and the Tea Board were also reported among agencies where obstacles were experienced (table 11).

According to the Trade Policy Review (TPR) of Sri Lanka undertaken by the World Trade Organization (WTO) Secretariat, 'Importers and exporters must submit a completed CUSDEC (customs declaration) form to Customs, with all other relevant documents. These documents include: a delivery order, bill of lading; invoice; exchange documents; packing list; certificate of origin; certificate of registration, [...] a load port survey certificate for food items; and, if applicable, an import licence, an SPS or quarantine certificate. [...] Exported cargo may be put in the green or red channel. The Chief Export Officer decides the type of examination required for cargo placed in the red channel.'⁶⁵ Surveyed tea exporters reported several obstacles related to this process, for example difficulties with CUSDEC and an allegedly arbitrary selection between green and red channels in the customs.

'Nine clearance lines are idle most of the time in the Customs.'

'Sometimes cargo gets damaged whilst handling that leads to pilferages.'

Tea exporters (ITC survey on NTMs)

2.5.1. Lack of export-related facilities

Trading agents have also reported a lack of export-related infrastructure and facilities. For example, the Port Authorities lack appropriate shelter for clerks. Customs facilities are available but some of them are not fully operational, leading to queuing and delays and some loading facilities are not appropriate. Furthermore, exporters find that rent charges for containers at the port are too high (reported to be US\$ 16 per container per day).

'[There is] no place for a wharf clerk to stay in the Port Authority (no proper shelter). Wharf clerk has to stay in a queue which is very time consuming.'

Trading agent exporting tea (ITC survey on NTMs)

⁶⁴ Sri Lanka Customs website: http://www.customs.gov.lk/exp_promo.htm (accessed on 24 March 2011). The TIEP Scheme allows direct exporters and indirect exporters (manufacturers who produce inputs to produce exportable goods) to import inputs without payment of fiscal levies.

⁶⁵ WTO (2010).

Table 11: Export of tea: procedural obstacles and inefficient trade-related business environment

POs and inefficient TBE	Number of reported PO/TBE cases that occurred		
	...in Sri Lanka (and agencies involved, if specified)	...in partner countries	Sub-total
Delay in administrative procedures	5+3 [†] Customs, Port Authorities, Forest Dept., Tea Board, Dept. of Commerce, Health Ministry	3+4 [†] Australia [†] , Egypt, Kuwait, New Zealand [†] , Norway [†] , the Syrian Arab Republic, United States [†]	15
Informal payment, e.g. bribes	5+2 [†] Customs		7
Inconsistent or arbitrary behaviour of officials	4 Tea Board, Customs		4
Unusually high fees and charges		3+1 [†] Australia [†] , Egypt, Kuwait, the Syrian Arab Republic	4
Information is not adequately published and disseminated	1 Trade Ministry, Tea Board	1 India	2
Low security level for persons and goods	1+1 [†] Customs, Port Authorities		2
Numerous administrative windows/organizations involved	2 Customs, Tea Board, Dept. of Agriculture, Ministry of Health		2
Limited/inappropriate facilities	1 [†] Port Authorities		1
Large number of different documents	1 Customs		1
Documentation is difficult to fill out	1 Customs		1
Regulations change frequently	1 Tea Board		1
Deadline set for completion of requirements are too short	1 [†]		1
Total	29	12	41

Source: ITC survey on NTMs.

[†] POs/TBE reported by trading agents are marked by [†], all other obstacles were reported by producing companies.

2.5.2. Access to information

Furthermore, some exporters are affected by the lack of information, for example a Sri Lankan company exporting tea to India cannot benefit from the preferences under the Indo-Sri Lanka Free Trade Agreement (ISFTA) simply because the company failed to access the information on the requirements and procedures. Although the described POs and inefficient TBE are reported by tea exporters, they are quite general and not specific to the tea sector, as the following section about other sectors will show.

‘Sri Lanka has signed a bilateral FTA with India. Tea is included in this FTA. However no one at this end or in India knows how the approvals should be obtained in order to streamline the process of exporting flavoured tea to India.’

[A Sri Lankan company producing and exporting tea \(ITC survey on NTMs\)](#)

2.5.3. Procedural obstacles in the partner countries

Among POs/TBE, only 29% of all reported cases occur in the importing countries. Most of the cases refer to unusually high fees and charges (experienced in Australia, Egypt, Kuwait and the Syrian Arab Republic) and delays, reported to occur in the above mentioned countries and in New Zealand, Norway and the United States (table 11).

2.6. Concerns of Sri Lankan importers

The survey also covered 11 companies importing tea to Sri Lanka to complement information provided by the Sri Lankan tea exporters. Furthermore several open-ended discussions with the SLTB, Colombo Tea Traders Association and other experts (see appendix IV for a full list) were held to identify the roots of predominant problems. The NTM survey interviews and open-ended discussions revealed that the main constraints of tea importers are quality control measures, import permits and quotas.

The findings are in line with the process described in the WTO TPR of Sri Lanka, ‘Imports of tea are subject to quality controls and inspection by the SLTB. All types of tea imports require a prior permit from the SLTB, either for blending with domestic tea, adding value and exporting, or for adding value and exporting without a local component. Importers may blend imported tea with locally produced tea only if the latter has been purchased through approved channels with export rights.’⁶⁶

In terms of POs and TBE, one importing company reports difficulties with the customs with officials there being ‘lethargic and not concerned’.

As the majority of tea imports is destined for processing and further export, the excessive procedures and related costs can reduce the competitiveness of the exporting companies and their ability to meet the international demand for the blended tea.

‘Since the majority of tea imports are processed in Sri Lanka and then exported, the government’s restrictions prevent many Sri Lankan tea producers from importing low-quality tea, blending it with higher quality Ceylon Tea, and exporting it under the Ceylon Tea brand. If a processor desires to do so, they must obtain a license from the government to import CTC tea.’

Interview in the Sri Lanka Tea Board (SLTB)

‘It is quite frequent that importers’ documentation is incomplete or inaccurate. This may lead the import approval process to take as long as 2-3 weeks, with additional time being required to obtain the appropriate documentation. Also the importers quite often fail to provide a Maximum Residue Level certification, or fail to obtain the certificate at an authorized lab.’

Interview in the SLTB

2.7. Summary and policy options

The tea sector is Sri Lanka’s largest agricultural sector and it provides the livelihood to a major share of the population. Sri Lanka remains the world’s leading tea exporter in value terms, but no longer in quantity terms, highlighting high quality as well as high unit values.

In brief, the problems experienced in the tea sector depend on the attributes of the company. Small tea producing companies have difficulties with sanitary and phytosanitary (SPS) regulations and other technical requirements mandated by the authorities in Sri Lanka and importing countries. Large tea producing companies do not have difficulties with technical requirements but they find it burdensome to demonstrate that their product is compliant. Finally, trading agents specialized in tea have a good grip on all the requirements, but are still affected by an inefficient TBE.

Many reported NTMs are export-related, that is, they are applied by Sri Lanka itself. On the one hand, they may be justified by the need to control the quality of the exported tea and the image of the Ceylon Tea brand. On the other hand, they undermine the competitiveness of the Sri Lankan exporters through increased costs, and risk Sri Lanka losing international market share to other aggressive international competitors.

Smaller companies that struggle with the strict requirements may require better access to information about technical measures which are applied both domestically and abroad. That trading agents do not report such difficulties may suggest that the capacities of the enterprises (and not the characteristics of the exported product) are at the core of the issue. Enhancing the knowledge of companies regarding the regulations and processes required by Sri Lanka and the major tea importing countries could therefore improve their export performance. After fulfilling respective requirements, compliance usually needs to be

⁶⁶WTO (2010).

certified. The apparent lack or overloaded capacity of testing and certification facilities – also recurring in other sectors – is another essential issue to address in domestic policies.

The SLTB Export cess, as a per unit export tax, may theoretically encourage domestic processing and value added towards higher quality. However, it raises the export price of tea and is perceived as burdensome by several of the companies interviewed. Given that low price ceilings were reported for the Islamic Republic of Iran, the Syrian Arab Republic and Turkey, and are possibly applied by other importers, the issue of high export prices is aggravated. In such cases, either the exporter's profit margin is strongly reduced or the respective market is not supplied. By the same reasoning, the high domestic quality standards may hinder market diversification.

Furthermore, technical regulations and licensing on the imports of lower cost tea for domestic processing also restrict the possibility of product diversification. Allowing freer imports for subsequent domestic blending and export through strengthened low-cost export channels may improve the industry's export performance. In order not to harm the valuable Ceylon Tea brand, such products should remain clearly distinguishable for consumers. With a widened spectrum of tea varieties of different prices and qualities, improved access to markets with demand for lower prices is likely to be achieved.

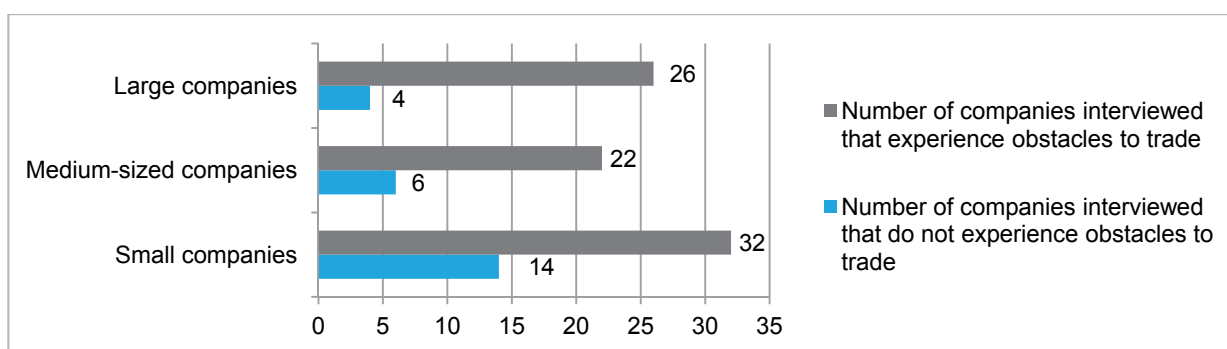
Finally, companies' export competitiveness could be enhanced by improving the export-related business environment and procedures at domestic institutions. Above all, delays, informal payments and other inconsistent or arbitrary behaviour of officials, mostly at Customs, Port Authorities and Tea Board, need to be tackled. Apart from expanding physical infrastructure, also capacity building and training of officials may have a significant impact.

3. Other agricultural and agro-based products

3.1. Affected companies

On average, 77% of all agricultural exporters are affected by burdensome non-tariff measures or procedural obstacles. The results are based on the phone screen interviews with 104 exporting companies and trading agents (figure 11).

Figure 11: Exporters of agriculture affected by trade barriers, by company size



Source: ITC survey on NTMs.

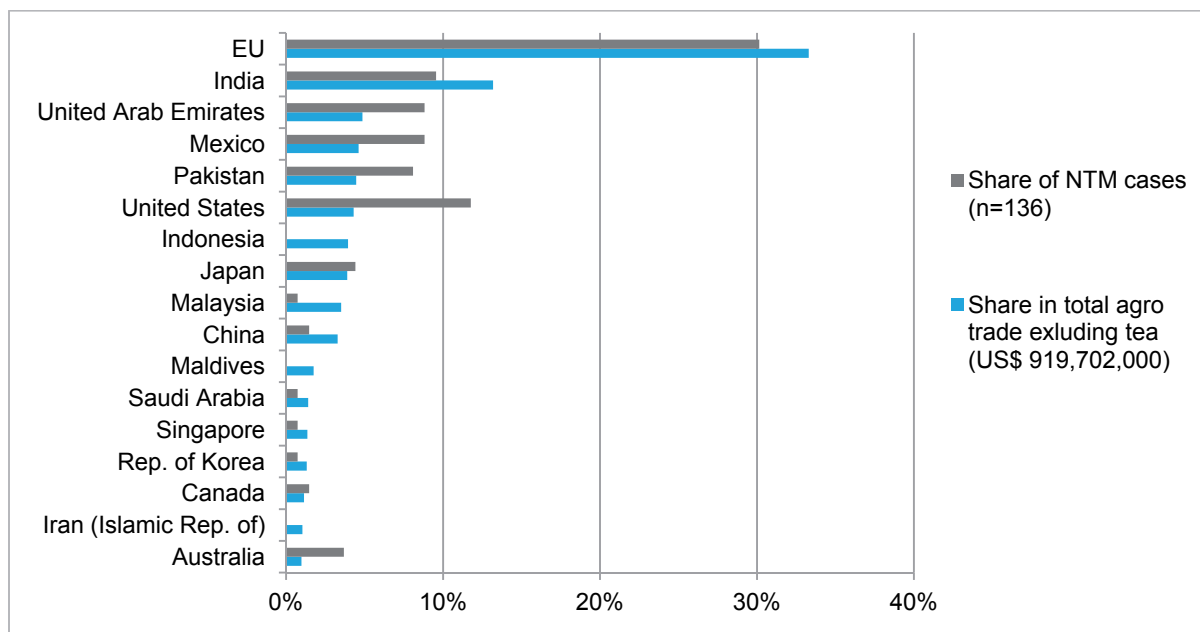
Interestingly, small companies appear to be less affected than the large ones (70% and 87% respectively). This can be explained, however, by the presence of trading agents providing trade-related services to domestic producers. These are generally small companies, and the export and import process is their core business. As trading agents are likely to be better aware of export processes and regulations, their presence in the sample drives the average share of affected small companies downwards.⁶⁷ To further analyse these differences the survey results are presented separately for exporting companies and trading agents.

⁶⁷ Precise statistics on the share of trading agents among the affected companies is not available, as the questions on whether a company trades its own produce or offers trade services (called 'trading agent' in this report) is asked during face-to-face interviews conducted only with the companies that experience trade barriers.

3.2. Non-tariff measures applied by partner countries

Among the measures applied by importing countries to the agricultural and agro-based products (other than tea) exported from Sri Lanka,⁶⁸ the majority are technical regulations (sanitary and phytosanitary measure [SPS] and technical barriers to trade [TBT]) and related conformity assessment (table 12). All cases reported by trading agents are in these categories. Technical regulations and conformity assessment are also among the most difficult regulations for companies exporting their own agricultural produce (67% of cases), followed by difficulties with rules of origin (29%) and charges and taxes (3%).

Figure 12: Burdensome NTMs applied by the main markets for Sri Lankan agricultural and food products



Source: ITC survey on NTMs and ITC calculations based on Trade Map data.

The majority of cases for agricultural and agro-based products are related to exports to Australia, the European Union, India, Japan, Mexico, Pakistan, the United Arab Emirates and the United States, with a few remaining cases distributed among several countries in Asia, Latin America and the Gulf region (table 12). However, the results related to large partner countries should be looked at with a degree of caution as they may be biased upwards. Large partner countries are more likely to be covered in the survey because the number of companies exporting to large markets is larger than the number of companies exporting to non-traditional markets (the survey is stratified by sector and company size, but not by partner country).

When the share of trade is taken into account, Mexico, Pakistan, the United Arab Emirates and the United States look like the most difficult partners, each supplying more than 8% of all reported cases (12% of all reported cases in the United States), but importing less than 5% of total agricultural exports from Sri Lanka excluding tea (figure 12). Similarly, Australia supplied 3.7% of all cases related to agriculture (excluding tea), but only imported 1% of agricultural exports from Sri Lanka (excluding tea) in 2009. This may suggest that these countries apply regulations related to agricultural imports that are stricter than those of other importers of Sri Lankan agricultural products.

⁶⁸ NTMs and POs related to tea are discussed in the previous section. As a result, in this section data on agricultural and agro-based products do not include reports related to tea.

Table 12: Agricultural and food product exports (excluding tea): burdensome NTMs applied by partner countries

Affected product groups ⁶⁹	Export to the world		Number of reported NTM cases					Countries reported to apply burdensome NTMs (number of cases)
	Product's export value in 2009 (US\$ '000)	Share of product group in the sector's export value*	Technical requirements	Conformity assessment	Rules of origin	Charges and taxes	Sub-total	
Spices, coffee, maté	117,783	12.8%	5+28 [†]	13+28 [†]	8	-	82	EU (8+16 [†]), India (3+8 [†]), United States (2+8 [†]), Mexico (1+8 [†]), Pakistan (8 [†]), UAE(8 [†]), Australia (2), Argentina, Canada, China, Colombia, Honduras, Japan, Myanmar, Peru, Thailand, Turkey
Coconut	152,045	16.5%	6 [†]	7+11 [†]	-	1	25	EU (1+5 [†]), Pakistan (3 [†]), United States (3 [†]), Mexico (1+2 [†]), UAE (2 [†]), Argentina, Bangladesh [†] , Canada, China, Colombia, Honduras, Peru, Saudi Arabia [†]
Fresh fruits, nuts, vegetables	61,117	6.6%	-	1	-	1	2	India, Japan
Fish	179,732	19.5%	-	4+1 [†]	-	-	5	EU (1+1 [†]), United States (2), Republic of Korea
Cereal flours, uncooked pasta and food preparations	126,066	13.7%	7	1	10	-	18	EU (9), Japan (4), Australia (3), Singapore, United States
Other agricultural products	282,959	30.8%	2	2	-	-	4	UAE (2), India, Malaysia
Total	919,702	100%	48	68	18	2	136	

Source: ITC survey on NTMs and ITC calculations based on Trade Map data.

* Total export value of agricultural products and food industry (excluding tea) is US\$ 919,702,000.

[†]Measures reported by trading agents are marked by [†], all other NTMs were reported by producing companies.

Note: In order to facilitate understanding of the table above, product groupings condense highly disaggregated product-level information. By construction, the share of affected products in the sector's total export value therefore adds up to 100%; this does not imply that all trade is actually affected by NTMs.

⁶⁹ As many NTM cases are specific to products, the agricultural sector has been split into several product groups. 'Spices, coffee, maté' consist of the HS chapter 09 (except 0902). 'Coconut' includes the following HS codes: 0801, 1513, 230650, 530500. 'Fresh fruits, nuts and vegetables' cover HS 07, 08 (except 0801) and 14. 'Fish' includes HS03, 1504, 1604, 1603, 2301, 210420. 'Cereal flours, uncooked pasta and food preparations' refer to HS10, 11, 19, 20, 21 (except 210420); while all remaining fresh and processed food and agro products are grouped under 'Other agricultural products'. In the category 'Other agricultural products' the NTMs were reported by exporters of plants and parts of plants, medical plants and palm oil. In the table above, it is not possible to interpret the share of a product group in the sector's export value as the share of affected products because NTM cases were reported to affect only certain products within each product group.

3.2.1. Certification requirements and related procedures

Certification requirements and related procedures, such as conformity assessment, are by far the biggest challenge for exporting companies (42 out of 62 cases reported by exporting companies and all 72 cases reported by trading agents). These difficulties affect all groups of agricultural and agro-based exports reported by the Sri Lankan companies, especially spices (9 cases reported by producers and 28 cases by trading agents representing 27% of all cases of this sector).

Problems can be roughly divided into two major categories. First, some of the requirements are specified in very strict terms, making it very difficult for exporters to ensure that the export products are compliant. Second, many requirements are not strict per se, and the exported products are compliant with these requirements. Still they have a negative impact on the exporting companies due to costs and delays associated with demonstrating compliance, for example obtaining certificates.

The survey results contain references to many cases when the difficulties are related with demonstrating compliance and not with technical requirements. For example, to obtain a certain phytosanitary certificate for plants, exporting companies have to provide transportation for lab technicians. Exporters find this expensive and time consuming. One exporter reported that he has to pay SL Rs 5,000 (approximately US\$ 43) per visit of a lab technician; and it takes 2 days per field visit, and 8 days for the lab test. Coconut exporters commented on the delays in obtaining the Physical Quality Certificate and Sulphur Dioxide Certificate from the Coconut Development Authority.

'When exporting cut flowers to India they require us to complete an "Additional declaration" section in the phytosanitary certificate saying the flowers are free of Xanthomonas bacterial disease. In order to issue this certificate the Agriculture Department in Sri Lanka wants their lab technicians stationed in the airport to inspect all plant nurseries that supply cut flowers to our company. Therefore our company has to take them to all nurseries in Nuware Eliya and bring them back to Colombo. This is both costly and time consuming.'

[A Sri Lankan company exporting plants \(ITC survey on NTMs\)](#)

Several importing countries stipulate fumigation requirements for the import of cinnamon. The fumigation procedure is carried out in Sri Lanka using Methyl Bromide and lasting 24 hours. According to one company interviewed there is a further delay of 1–2 days and a need to pay high charges to quarantine officers. Another case is a certificate required by India for strawberries and other fruits. Consignments are rejected in India if the certificates from Sri Lanka's National Quarantine Office are not sent to the airport in time.

3.2.2. Strict technical requirements

'HACCP certification is particularly difficult for Sri Lankan seafood processing plants to implement because of the high standards and cost associated with compliance.'

'Technical measures on processed food have increased since the 2008 melamine scandal in China.'

[Interview in the Sri Lanka Export Development Board \(EDB\)](#)

are accredited by the Dutch Accreditation Council, the certificates can be accepted in many importing countries. Yet it is worth noticing that the minimum certification fees do not depend on the value of exports or profit, making it even more challenging for small companies to get certified (box 1).

Strict technical requirements are reported to be applied by various countries to imports of Sri Lankan coconut, cinnamon, cloves and nutmeg (table 12). These problems have been described by one trading agent and even though they do not represent a trend, they indicate a problem that may well be experienced by other companies. Even though the certification schemes are based on international standards (HACCP, International Organization for Standardization [ISO]), the company finds the required physical and microbiological criteria too strict.

HACCP certification can be obtained in Sri Lanka; it is provided by the SLSI. As the certification schemes

'We export all grocery items to European countries. European countries insist on ISO 9002 certification on Maldivian fish and any item containing Maldivian fish. This is impossible for Sri Lankan exporters to achieve. Because of this sometimes our buyers entirely bypass our company.'

[A Sri Lankan exporting company \(ITC survey on NTMs\)](#)

Fish exporters have to obtain many different certificates and the set of

documents varies from one importing country to another. There are three different types of problems associated with this process. First, the requirements are so strict that companies cannot comply with them. Second, when companies can comply with the requirements, it remains difficult to prepare a complete and correct set of documents, as requirements vary by country, they change often and information on the requirements is difficult to obtain (especially for India). Finally, it can be very time-consuming to deal with the authorities responsible for the certificates issued in Sri Lanka. One NTM survey respondent reported that it takes 2 to 3 months to obtain a traceability certificate from the Fishery Department of Sri Lanka.

Box 1: Hazard Analysis and Critical Control Points (HACCP) certificate from Sri Lanka Standards Institution (SLSI)

The HACCP certificate from the SLSI implies that chemical, physical and biological hazards encountered during the production or processing of a food item, as applicable to the scope of certification, are controlled to make the food safe for human consumption. A certificate holder develops and maintains its food safety assurance programme based on the internationally accepted principles of ISO 22000 and SLS 1266. Both schemes are accredited by the Dutch Accreditation Council. Thus the certificates issued under this scheme are recognized all over the world.

Services	Fee (SL Rs)*
Brochure	1,000
Application processing	12,500
Stage I Audit fee (The number of days and the number of auditors attending to the audit will be based on the size of the organization)	6,000 per day / assessor
Annual registration	50,000
Stage II Audit fee	6,000 per day / assessor
SLS 1266:2005 (HACCP)	60,000
ISO 22000:2005 (Food Safety Management System)	60,000
Re-assessment	6,000 per day / assessor
Bi-annual surveillance	Free of charge

Type of Certificate	Annual fee (SL Rs)
Certificates with accreditation mark	80,000
Certificates without accreditation mark	60,000

*Transport and accommodation for Auditors shall be provided by the client. 15% VAT will be added to all payments. If the number of products manufactured at a facility exceeds ten, an additional SL Rs 10,000 will be charged.

Procedures

Pre-certification

Submit the duly filled application → Document adequacy audit → SLSI Report / improvement → Final audit → SLSI Report / improvement → HACCP certification awarded → Surveillance

Post-certification procedure

Annual registration

For reference: US\$ 1.00 = SL Rs 113 (simple average rate for 2010)

Source: Sri Lanka Standards Institution, online information accessed at <http://www.slsi.lk/systems-certification-haccp.php>.

3.2.3. The role of buyers (private sector in the importing country)

‘Each buyer has to obtain an import authorization certificate. This is a restriction on us, because we cannot export to new buyers who will pay a good price for small consignments. We are forced to deal with a few buyers who will tend to dictate terms and control the import business.’

A Sri Lankan company exporting organic products to Australia, Japan, the EU and the United States (ITC survey on NTMs)

Companies exporting agricultural products find that buyers have asymmetrically more power than sellers. This is different from the survey results in the tea sub-sector, where this aspect has not been mentioned at all. It is possible that tea exporters are not affected by the buyers because 95% of all tea produced in Sri Lanka is sold through the Colombo auction.⁷⁰

For example, European Union buyers need to obtain a special import authorization for organic products. This is costly and time consuming, and thus may motivate buyers to import from a European Union country or ‘equivalent’ countries (9 other countries with organic regimes are recognized as being on a par with European Union organic regimes).⁷¹ As Sri Lanka is not classified by the European Union as an ‘equivalent’ country in

terms of organic regimes, Sri Lankan exporters of organic processed food depend on very few authorized buyers and cannot diversify across them. The alternative solution for Sri Lankan exporters of organic goods is to get certified by a control body recognized by the European Commission. Yet, as discussed above, the cost of certifications is rather high, especially for small-scale producers.

Another case of the power of buyers was explained by an exporter of cinnamon to Mexico. Initially the transactions were done on letter of credit terms. Since the late 1990s, this was changed by the buyer to deferred payment against acceptance terms for 90 days credit. As a result, the Sri Lankan exporting company is losing bank interest rates, and faces a higher risk of non-payment.

In some cases buyers go beyond demanding favourable conditions, and resort to renouncing their contract obligations or requesting illegal behaviour such as misclassification of products to avoid high customs duties. A Sri Lankan company has reported, for example, that some buyers import natural rubber as block rubber to pay lower customs duty. As one company interviewed refused to make a false declaration, the buyer imported through another company, a shipping agent that was willing to infringe the classification rules.

These cases can be resolved at the bilateral level with the involvement of government officials. The companies interviewed feel that the government should do more to protect the interests of Sri Lankan exporters.

‘Some buyers in Pakistan confirm that they will open a letter of credit immediately. Based on this confirmation we reserve goods. However they simply go back on their word and do not issue the letter of credit. Thus we have to seek other buyers to sell the goods we have already reserved for them. We have no way of taking any legal action as there is no advance binding ruling procedure until the L/C is opened.’

A Sri Lankan exporting company (ITC survey on NTMs)

3.2.4. Rules of Origin

Difficulties with the rules and certificates of origin represent 16% of all problems reported by companies exporting their own agricultural produce (table 12). One report specifies difficulties with rules of origin for export to India, the rest with GSP schemes granted by developed countries (Australia, Japan, the European Union and the United States). Remarkably, trading agents do not report any difficulties with the certificates of origin.

3.3. Non-tariff measures applied by Sri Lanka and related procedural obstacles

According to agricultural exporters, export inspection processes are very time consuming, which especially affects perishable products (see table 13). It involves several steps, some of which seem redundant.

⁷⁰ See <http://www.pureceylontea.com/auctions.htm> (accessed on 24 March 2011).

⁷¹ For further information on European Union organic regimes, see for example a United Kingdom official government website for businesses <http://www.businesslink.gov.uk/bdotg/action/layer?lang=en&r.l1=1079717544&r.l2=1079840669&r.s=tl&topicId=1079819159>.

Furthermore, when the physical checks are undertaken in the open air by untrained officers, the goods are likely to get damaged.

For example, a company exporting coconuts explained the process in detail. First, a high number of documents is required. The documents need to be sent online and then hard copies should be brought in person as the EDI is not fully implemented. X-ray machines are available but hardly used for cargo examination. Instead, physical examination is undertaken, which is time consuming and expensive (according to one report, the checking of one container takes a minimum of 15 to 30 minutes). Payments are currently done manually, rather than with electronic systems.

'Cut flowers, foliage, plants are all perishable cargo. They are carefully packed using cotton wool and other packing material. This carefully packed perishable cargo is subject to inspection at three points:

(a) The 18th post-air force inspection is carried out on the road side and all cargo is opened. Rain water, dust and insects get in (due to powerful lights); handling is also rough.

(b) Boxes opened at quarantine are not a big problem because officers are knowledgeable and the room is sealed and air-conditioned. There is minimum damage, but it is inconvenient.

(c) Once again cargo is opened at customs. This is an open area, hence insects can get in.'

[A Sri Lankan company exporting agro products \(ITC survey on NTMs\)](#)

Table 13: Agricultural and food product exports (excluding tea): burdensome NTMs applied by Sri Lankan authorities

Affected products	Export to the world		Number of reported NTM cases			
	Product's export value in 2009 (US\$ '000)	Share of product in the sector's export value*	Export inspection	Certification required by the exporting country	Export taxes and charges	Sub-total
Coconut	152,045	16.5%	1+1 [†]	1 [†]	1 [†]	4
Fresh fruits, nuts, vegetables	61,117	6.6%	-	1	-	1
Other agricultural products	282,959	30.8%	1	-	-	1
Total	496,121	53.9%	3	2	1	6

Source: ITC survey on NTMs and ITC calculations based on Trade Map data.

* Total export value of agricultural products and food industry (excluding tea) is US\$ 919,702,000.

[†] Measures reported by trading agents are marked by [†], all other NTMs were reported by producing companies.

Note: In order to facilitate understanding of the table above, product groupings condense highly disaggregated product-level information. By construction, the share of affected products in the sector's total export value therefore adds up to high percentages. This does not imply that all trade is actually affected by NTMs.

3.4. Procedural obstacles and inefficient trade-related business environment

'[It is] very difficult to obtain duty rebates on packing items. The company has to waste a lot of time at the Finance Ministry and other institutions for approval. Therefore, we do not pursue these rebates.'

[A Sri Lankan company exporting vegetables \(ITC survey on NTMs\)](#)

Large differences exist between the experiences of trading agents and producing companies exporting their own products. For trading agents, unusually high fees and charges are the largest obstacle (36% of all PO/TBE cases), and the majority of problems occur in partner countries (table 14). Only a few cases that occur in Sri Lanka involve only Customs and the Port Authority.

Companies that produce and export their own goods deal with many agencies along the production and distribution chain. Companies exporting agricultural products report that they have encountered cumbersome procedures at Customs and Port Authorities, but also in several ministries, EDB, the Inland Revenue Department, the National Plant Quarantine Service, the Coconut Development Authority, the Department of Forest Conservation, Airport Authorities, and Ceylon Pest Control (table 14).

Table 14: Agricultural and food product exports (excluding tea): procedural obstacles and inefficient trade-related business environment

POs and inefficient TBE	Number of reported PO/TBE cases that occurred		
	...in Sri Lanka (and agencies involved, if specified)	...in partner countries	Sub-total
Unusually high fees and charges	5+1 ^t Customs, Dept. of Commerce, Ceylon Pest Control, National Plant Quarantine Service	23 ^t EU (6 ^t), Mexico (4 ^t), Pakistan (4 ^t), UAE (4 ^t), United States (3 ^t), India (2 ^t)	29
Delay in administrative procedures	10+3 ^t Airport authorities, Coconut Dev. Authority, Customs, Dept. of Agriculture, Export Dev. Board, Inland Revenue Dept., Ministry of Agriculture, Ministry of Finance, National Plant Quarantine Service, Port Authorities	9 EU (5), United States (2), Australia, Japan	22
Informal payment, e.g. bribes	13+2 ^t Customs, Inland Revenue Dept.	1 ^t India ^t	16
Limited/inappropriate facilities	11+2 ^t Airport authorities, Customs, Dept. of Agriculture/Quarantine Dept., Ports Authorities		13
Inconsistent classification of products	10+1 ^t Customs, Coconut Dev. Authority		11
No advance binding ruling procedure	2 Dept. of Agriculture, Ministry of Trade, Export Dev. Board	2 ^t Mexico ^t , Pakistan ^t	4
Large number of different documents	1 Customs	3 EU, China, Japan	4
Large number of checks	3 Airport Authorities, Customs, National Plant Quarantine Service, Dept. of Forest Conservation		3
Lack of recognition e.g. of national certificates		2 UAE, Republic of Korea	2
No due notice for changes in procedure	1	1 India	2
Regulations change frequently		2 EU	2
Technological constraints, e.g. ICT (information and communications technologies)	2 Customs		2
Information is not adequately published and disseminated	1+1 ^t Customs, Ministry of Fishery		2
Inaccessible/limited transportation system	1+1 ^t		2
Need to hire a local customs agent to get shipment unblocked		1 ^t Germany ^t	1
Low security level for persons and goods		1 ^t Mexico ^t	1
Other obstacles		6+28 ^t EU (2+9 ^t), UAE (1+4 ^t), Mexico (4 ^t), Pakistan (4 ^t), United States (4 ^t), India (3 ^t), Australia, Japan, Malaysia	34
Total	71	79	150

Source: ITC survey on NTMs.

^tPOs/TBE reported by trading agents are marked by ^t, all other obstacles were reported by producing companies.

Airports and the airport authority were mentioned by every sixth company, lamenting delays, checks and inappropriate facilities. The number of complaints about Sri Lankan airports is larger in the agricultural sector than in other sectors. This is intuitive as only high value-added perishable products, such as horticulture, are exported by air. Exporters have to deal with a large number of organizations, and they expressed a need for the simplification, harmonization and streamlining of various procedures.

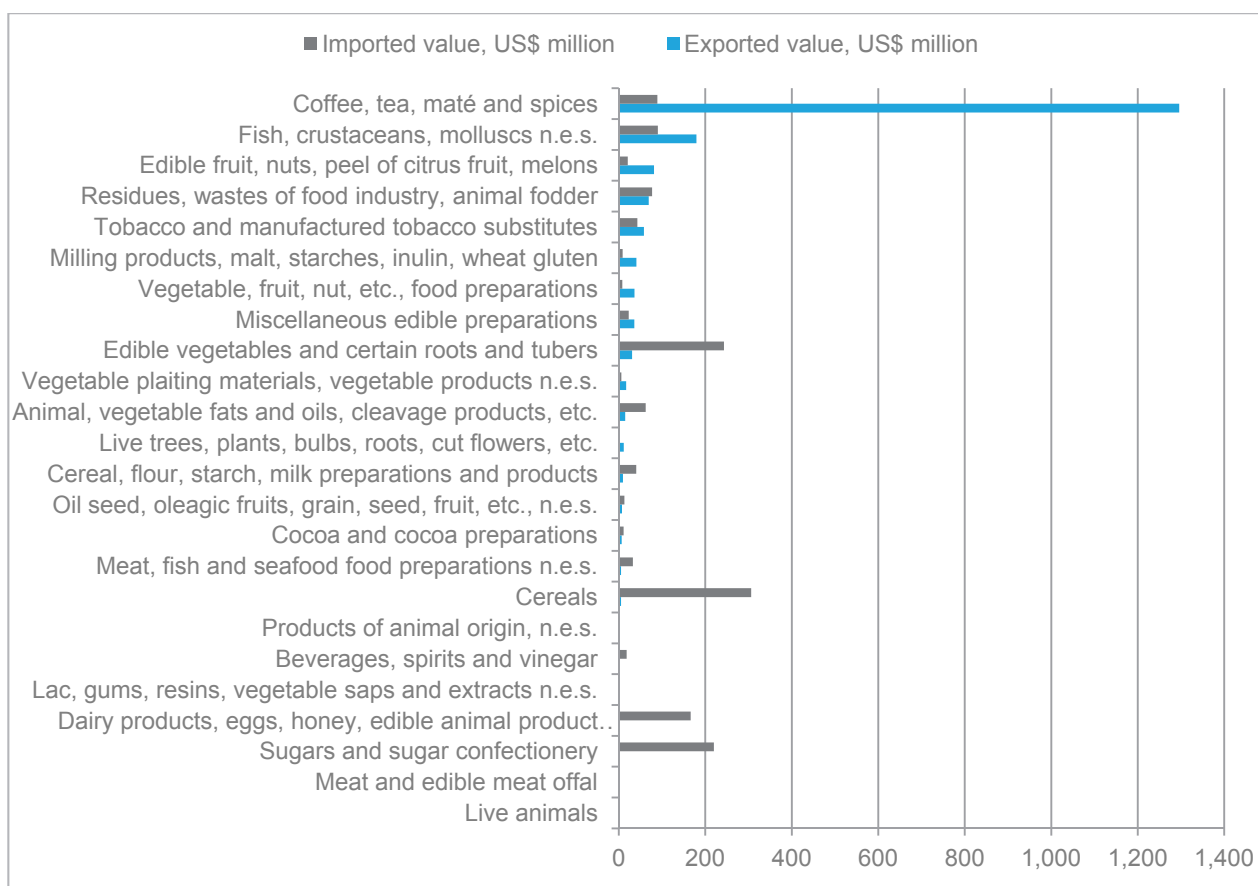
Sri Lankan companies reported that they experience POs and an inefficient trade-related business environment both in partner countries (53% of all PO/TBE cases) and in Sri Lanka (47%). Processes and the business environment in India and Pakistan, each having trade agreements with Sri Lanka, represent problems for Sri Lankan exporters. Japan, the European Union, and the United States are most cited as partner countries where obstacles take place. Yet there may be a bias toward over-estimating problems in the large partner countries due to the sampling method. Other countries mentioned in relation to POs/TBE by companies in the agricultural sector include China, Malaysia, Mexico, Republic of Korea, and the United Arab Emirates.

‘General handling facilities at Katunayake airport are not up to international standards. Priority, special care, cold room facilities are insufficient at our airport for perishable cargo like cut flowers and foliage. The infrastructure at our airport cargo village needs improvements.’

A Sri Lankan company producing and exporting agricultural products (ITC survey on NTMs)

In general, most of the reported POs and inefficient TBE cases are not specific to the agricultural sector. A large number of obstacles are reported but not in detail and without a specific agency (23% of all PO/TBE cases), suggesting a general frustration with overall inefficiency. Those cases that are specific to the agricultural sector include inconsistent classification of products and a large number of checks affecting perishable products.

Figure 13: Export and import value of main agricultural and agro-based products in 2009, by product group at the HS 2-digit level



Source: ITC survey on NTMs and ITC calculations based on Trade Map data.

3.5. Non-tariff measures and other obstacles affecting imports

During the phone screen phase of the NTM Survey in Sri Lanka, 27 companies importing agricultural products reported that they experience trade barriers. Detailed face-to-face interviews have been conducted with these companies, shedding light on the value chain process within the agricultural sector (import of inputs, or import for value addition and further export) and on the imports for final consumption. Imports for domestic consumption are critical for the country, as it remains a net importer of many essential food products, especially vegetables, cereals, dairy products and sugar (figure 13). Trade barriers impacting goods imported for value addition impact not only importers but also exporters of the final product, making them less competitive.

Most of the problems experienced by Sri Lankan companies importing agricultural and agro-food products are at the level of POs and TBE (44 cases, table 16), with only 7 NTM cases referring to government regulations (table 15). All NTMs and other obstacles, except one PO case, are associated with business practices or regulations in Sri Lanka, with the costs being borne by consumers, as Sri Lanka is a net food importer.

All burdensome NTMs experienced by Sri Lankan importers of agricultural products are legislation applied by Sri Lanka to regulate imports (table 15). An example of this is certification reported to be required for the imports of jam from India. When these regulations are imposed on the agricultural imports for final consumption, they may increase consumer prices.

‘Our company imports dried fruits to mix with special tea and re-export. We have no problem in exporting our tea mixed with imported fruit pieces, because the fruits are processed to internationally accepted quality standards. There is no manufacturer in Sri Lanka producing such fruit pieces and thus we have to depend on imports. Because many fruits are grown in Sri Lanka, customs insists on the total ban of importing home grown varieties to Sri Lanka. They do not give any consideration to the following: 1. We only import to process and re-export and don’t sell locally. 2. There is no locally manufactured identical or similar product that is available for our use.’

A Sri Lankan company importing and exporting agricultural products (ITC survey on NTMs)

Table 15: Agricultural and food product imports (excluding tea): burdensome NTMs applied by Sri Lankan authorities

Product		Import from the world		Number of reported NTM cases				
HS product code (as reported)	Product code description (abridged)	Product's import value in 2009 (US\$ '000)	Share of product in the sector's import value	Conformity assessment	Charges and taxes	Quantity control measures	Finance Measures	Sub-total
070110	Seed potatoes	928	0.06%	-	-	-	1	1
121190	Plants, parts of plants, used primarily in perfumery, medicaments or for insecticidal, fungicidal or similar purposes	3,121	0.21%	-	-	1	-	1
190110	Preparations for infant use	7,381	0.49%	-	1	-	-	1
1902XX	Pasta	n.a.**	n.a.**	-	1	-	-	1
2007XX	Jams	n.a.**	n.a.**	1	-	-	-	1
230400	Oilcake and other solid residues (resulting from the extraction of soya-bean oil)	48,944	3.24%	1	-	-	-	1
330290	Mixtures of odoriferous substances, incl. alcoholic solutions (of a kind used as raw materials in industry)	7,088	0.47%	-	1	-	-	1
	Total*	67,462	4.5%	2	3	1	1	7

Source: ITC survey on NTMs and ITC calculations based on Trade Map data.

* Total import value of agricultural and food industry products (excluding tea) is US\$ 1,512,635,000.

** Trade data (value and share) is reported only for products on HS 6-digit level for consistency reasons.

Furthermore, burdensome quality control measures were reported to be applied to the plants used in perfumery and medicaments; charges and taxes are imposed on the mixtures of odoriferous substances used as raw materials in the industry; and a difficult finance measure is applied to the imports of seed potatoes (table 15).

‘Change of classification is done without any notice to the companies. Due to this we have to pay heavy duties.’

‘No proper source of information is available at Customs.’

‘Sri Lankan Airlines does not give us information on charges, etc. in time.’

‘VAT (value added tax) refunds, prices are fluctuating.’

[Sri Lankan companies importing agricultural products \(ITC survey on NTMs\)](#)

Airlines are those most mentioned as failing to provide information. Other complaints of importers are much in line with those of exporters. The business sector reports a strong need for fair and efficient customs and other national agencies involved in the import-export process.

When imports are used as inputs for processed agro-based products or as feed and seeds for agricultural production, the burdensome NTMs on imports also affect the competitiveness of the final product. Several companies feel that the imports are purposely restricted to protect domestic industries.

Similar to the exporters, importers indicated delays, inconsistent classification of products and informal payments as their top three problems. Obstacles experienced by companies importing agricultural goods occurred in Sri Lanka for all but one case (tables 15 and 16).

Companies importing agricultural goods are very concerned with a lack of transparency and difficult access to information (table 16). Customs, the Port Authorities and Sri Lankan

Table 16: Agricultural and food product imports (excluding tea): procedural obstacles and inefficient trade-related business environment

POs and inefficient TBE	Number of reported PO/TBE cases that occurred		
	...in Sri Lanka (and agencies involved, if specified)	...in partner countries	Sub-total
Delay in administrative procedures	9 Customs, SLSI		9
Inconsistent classification of products	7 Customs, Port Authorities		7
Informal payment, e.g. bribes	6 Customs		6
No due notice for changes in procedure	5 Airlines		5
Unusually high fees and charges	4	1 Malaysia	5
Limited/inappropriate facilities	3 Port Authorities, Ceylon Association of Ships' Agents		3
Large number of different documents	2 Customs		2
Low security level for persons and goods	2 Port Authorities		2
Documentation is difficult to fill out	1 Customs		1
Large number of checks	1 Public Health Inspectors, SLSI		1
Information is not adequately published and disseminated	1 Customs		1
Other obstacles	2		2
Total	43	1	44

Source: ITC survey on NTMs.

3.6. Summary and policy options

Many burdensome NTMs experienced in the agricultural sector are particular to the sector; with 85% of all cases related to product-specific technical regulations and related conformity assessment. Many problems are related to the requirements by the various importing countries, but in the majority of cases obstacles and inefficiencies actually occur in Sri Lanka. This also means that a good share of problems can be solved domestically.

Usually technical conformity assessment is demanded by the partner country, but testing and certification can be provided in Sri Lanka. Insufficient capacities of domestic institutions are therefore a primary PO to be addressed. Important certificates such as the HACCP, which is provided by SLSI, the domestic standards focal point, are expensive for small companies. Projects by the United Nations Industrial Development Organization (UNIDO) have already focused on technical facilities and achieved important results, such as international accreditation, training and improved equipment.⁷² Additional investments into further improving infrastructure may still be necessary as these facilities remain a bottleneck. Other conformity assessments, for example a traceability certificate from the Fisheries Department, take a very long time to obtain. Many other specialized authorities were also mentioned as causing additional costs and delays in certification, licensing, quarantine or export inspection, including: Coconut Development Authority, Department of Agriculture, National Plant Quarantine Service, Ministry of Fisheries, Ceylon Pest Control and Department of Forest Conservation.

Given that exporters feel that certain inspections and controls at the border are redundant, the companies interviewed also suggested another practical solution: streamlining the processes by introducing a single window of procedures or at least locating all relevant agencies in one building. At Customs and Ports, an insufficient implementation of electronic customs systems, such as EDI and DTI, was lamented. One company remarked that the automation will not only expedite the whole process, but also will help to avoid corruption and malpractice. Also, manual inspections at Customs and Ports, rather than using existent X-ray machines, reportedly caused delays, costs of demurrage⁷³ and products being damaged. Apart from expanding the technical infrastructure itself, training of officials in this respect also may be a reasonable first step forward.

Other problems may still require bilateral solutions involving officials from partner countries. For example, better cooperation with India is required to ensure that the provisions of the Indo-Sri Lanka Free Trade Agreement (ISFTA) are well enforced, and that Sri Lankan (and Indian) companies have access to information on the preferences and related requirements. There is also a need for bilateral cooperation agreements with provisions ensuring the legal enforcement of cross-border contracts.

Private standards are yet another layer of difficulties for companies, especially those exporting agricultural products to developed countries. Private standards (for example, the label 'organic') are requirements specified by the buyers, e.g. a large supermarket chain. They may or may not imply a price premium. In principle private standards are not compulsory (they are not requested by the governments of importing countries). In practice however, distribution chains can be in control of a few buyers with large bargaining power, and private standards become de facto compulsory requirements. Still, if Sri Lanka is to invest in certification and related facilities the first priority should be to cover the compulsory government-mandated regulations required by the major importing countries.

4. Clothing and textiles

4.1. The importance of the sector and its value chain

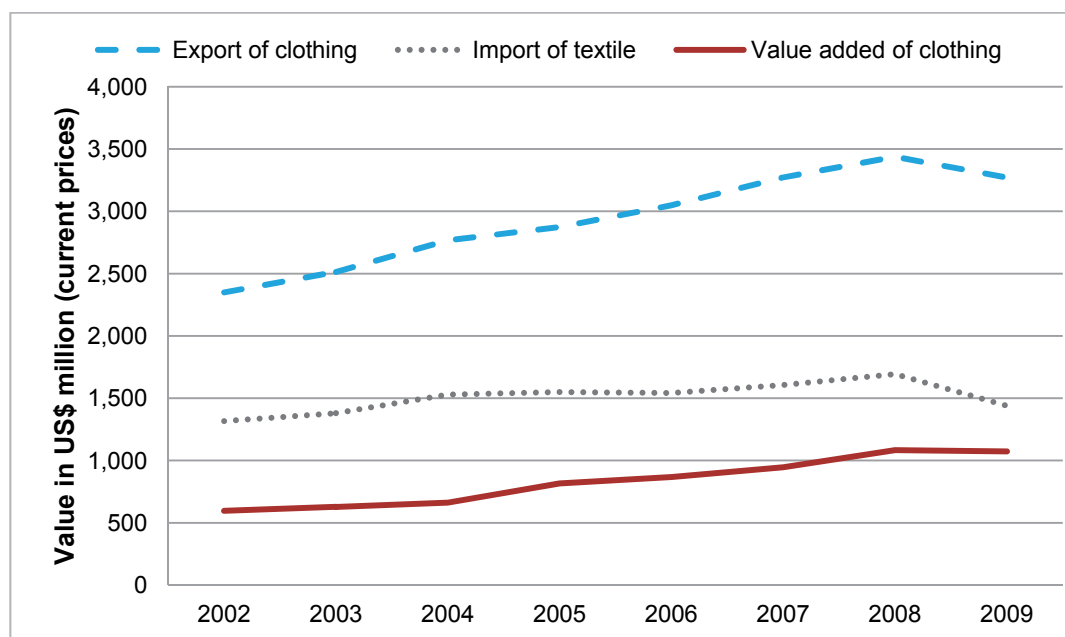
The combined clothing and textiles sector is Sri Lanka's largest industry, accounting for 18.7% of manufacturing output. The sector employs 270,000 people and thus provides livelihoods for about 1.2

⁷² United Nations Industrial Development Organization (2010).

⁷³ Demurrage is a charge payable to the owner of a chartered ship on failure to load or discharge the ship within the time agreed, Oxford Dictionaries, accessed at <http://oxforddictionaries.com/>.

million, and it is Sri Lanka's major foreign exchange earner.⁷⁴ Despite being close together in the production value chain, Sri Lanka's clothing and textile sectors are very different: while apparel is produced domestically and exported, textiles, as the most important input, are largely imported. Clothing exports accounted for a staggering 50% of total exports in 2009, whereas only a negligible 1.4% of total imports are attributed to the industry. Textiles, on the other hand, represent 19.8% of total imports, but only 2.1% of exports.⁷⁵ Other mostly imported inputs are plastic fibres and colouring substances, which are treated as part of chemicals, plastics and rubber-based products in the next section. According to this input-output structure, the value added of the domestic clothing industry is US\$ 1,073 million, or 15.5% of total industrial value added (see also figure 14).⁷⁶

Figure 14: Development of textile imports, clothing value added and exports, 2002-2009



Source: ITC calculations based on data from the Central Bank of Sri Lanka and Trade Map.

After economic liberalization in 1977, the clothing industry evolved at remarkable speed, also benefitting from a favourable constellation of the quota-based trade regime under the Multi Fibre Arrangement (MFA). The quotas guaranteed a good share in the world's largest markets, Europe and the United States, and Sri Lanka's investment-friendly policies triggered the quick establishment of foreign and domestic entrepreneurs.⁷⁷ The gradual phasing-out of the MFA towards the Agreement on Textiles and Clothing and full elimination of the quota-system by the end of 2004 presented a major challenge in exposing the sector to strong international competition. Due to Sri Lanka's still relatively low-cost but skilled labour force, and an early and wisely foreseen strategy of focusing on niche sub-sectors, higher quality and production standards, the clothing sector has managed to maintain a significant share in world markets.⁷⁸

Growth, however, has slowed in recent years and the sector's contribution to total GDP declined from 4.1% in 2004 to 3.2% in 2009.⁷⁹ Major structural factors in this are the high cost of production and inputs, disadvantages over large competitors due to the worldwide system of preferential trade agreements, and export market concentration on the European Union and the United States.

⁷⁴ WTO (2010).

⁷⁵ ITC calculations based on Trade Map data, 2010. Total exports excluding minerals and arms.

⁷⁶ Website of the Central Bank of Sri Lanka, information on value added in industry at current market prices: http://www.cbsl.gov.lk/htm/english/08_stat/s_2.html; exchange rates provided by <http://www.oanda.com/>.

⁷⁷ Kelegama (2005).

⁷⁸ Economist Intelligence Unit (2008).

⁷⁹ WTO (2010).

With respect to the first point, there has been substantial investment into the local production of fabrics,⁸⁰ in addition, tariffs and charges on inputs have mostly been reduced to zero, either directly or by means of refunding schemes; and regional integration with supplying countries (SAFTA, APTA, ISFTA and PSFTA) is advancing. Figure 14 highlights that textile imports did grow, only at a slower pace than clothing exports, leaving most of the increase in exported output to improvements in domestic value added.

Secondly, Sri Lanka has been facing stiff competition from fast-growing competitors such as China and Bangladesh, but also experienced less favourable terms of preferences as compared to established competitors. Despite preferential market access to the United States under the GSP, much more favourable preferences granted to Mexico under North American Free Trade Agreement make it difficult for Sri Lanka to compete. While Sri Lanka has enjoyed low tariffs in the 27 countries of the European Union due to the GSP+ scheme, the recent temporary removal in 2010 has caused major concern, especially given that competitors like Bangladesh were generally granted lower tariffs due to their status as Least Developed Country (LDC). However, even before the suspension only 67.1% of hypothetically eligible clothing exports to the European Union actually benefitted from GSP+ tariffs.⁸¹ This fact is probably caused by European Union rules of origin on local product content, which directly relates back to the aforementioned problem of imported textile inputs.

Thirdly, with 92.8% of total clothing exports going to the European Union and the United States, the extent of export market concentration is very high. The negative effects of this demand dependence are clearly reflected in the 5% decline in total clothing exports between 2008 and 2009. With 51.9% of exports directed to the European Union, the significance of the aforementioned removal of the GSP+ becomes even more evident.

4.2. Companies affected by trade barriers

In preliminary phone screen interviews with a total of 60 companies from the clothing and textile sector, 70% indicated that they were experiencing burdensome obstacles on their export or import operations. Reflecting the population of firms in the sector and taking into account the input-output chain between textiles and clothing, the ITC survey conducted face-to-face interviews with 28 firms that have both import and export transactions in the sector. Additional interviews comprised seven firms that only either import or export. Out of the firms being questioned in the in-depth interviews, 57% of firms have their own production activity while the remaining firms are trading agents.

Given Sri Lanka's strong export orientation in clothing products, it does not come as a surprise that NTMs reported on clothing concerned exports in 95% of the cases. Only 11% of these NTMs were encountered as domestic export-related measures. The industry's reliance on imported textile inputs seems to be reflected in government efforts to facilitate such imports, which positively mirror in a very low share of NTMs on textile imports (10% of all NTMs in textiles). Conversely, 90% of NTMs in the textiles sector were reported for exports, notably despite the relatively low amount of textile exports over textile imports.

Two thirds of the firms that reported burdensome NTM regulations on clothing exports were classified as large companies with more than 1,000 employees. These large firms, which tend to export a diversified basket of products to many markets, consequently report a high number – 52 – of NTM cases. With only two trading agents reporting three NTM cases, NTMs on exports were mainly reported by producing firms. Predominant concerns were voiced about partner country regulations related to rules of origin for the GSP or GSP+ schemes, high labour standards requirements and unfavourable terms of payment. At home, firms felt export inspections and port charges to be negatively affecting their business operations. The number of firms experiencing POs was notably more than twice as high as the number of reporters of government-imposed NTMs. As seen also in other sectors, PO/TBE cases concern domestic problems to a very high extent – for clothing exports, 95% in the obstacles are domestic. While only a single company claimed to face an actual NTM on clothing imports in Sri Lanka, the number of POs and reports about an inefficient TBE related to imports is quite significant and faced domestically in 94% of cases.

⁸⁰ Economist Intelligence Unit (2008).

⁸¹ International Trade Centre (ITC) calculations; reference year is 2008.

With respect to textile exports, Sri Lankan companies report that NTMs are applied by partner countries. Mostly medium-sized and large producing companies reported NTMs. The only exception to both aforementioned trends is one small trading agent complaining about a domestic conformity assessment on textile exports. Technical requirements, related conformity assessment, finance measures and other obstacles in the European Union and the United States are major issues affecting textile exports. On the crucially important import side, only one large company reported additional charges as a domestically applied NTM, whereas the number of reports about domestic POs and inefficient TBE gives reason for concern.

4.3. Non-tariff measures applied by partner countries to clothing exports

4.3.1. Problems related to General System of Preferences scheme and labour standards

After the phasing-out of the quota-based MFA, preferential tariffs have become crucially important for the export of clothing. Trade to Sri Lanka's major importing partners, the European Union and the United States, which jointly account for almost 93% of Sri Lanka's clothing exports, is strongly reliant on the respective General System of Preferences (GSP and/or GSP+) schemes. Due to alleged human rights violations,⁸² the European Union's and Turkey's GSP+ for Sri Lanka was suspended as of 15 February 2010, with the suspension coming into effect on 15 August 2010; negotiations to revitalize the programme are ongoing. Apart from the actual suspension of the GSP+, over 60% (all technical regulations and rules of origin in table 17) of the reported partners' import NTM restrictions are directly or indirectly attached to the preference schemes.

'There is a delay to get the GSP and Certificate of Origin.'

'[There are] long procedures to pass GSP.'

[Sri Lankan clothing exporters \(ITC survey on NTMs\)](#)

'Sri Lanka's textile and garment industry has some of the highest labour standards in the region; whether it was the requirement on minimum wage, restriction on maximum working hours, or prohibition on the use of child labour, the country strives to be the industry leader on improving the negative images associated with textile factories.'

'Sixty per cent of our exports are to the European Union, with the imbalance largely a result of the GSP+. Given the instability of GSP+ benefits, the firm desires to diversify its export market, particularly with a desire to penetrate the US market.'

[Open-end interview with a representative of a large Sri Lankan apparel manufacturer](#)

There are problems of incomplete preference utilization related to certificates of origin. Most strikingly, half of the firms reporting NTMs by partner countries mentioned difficulties and delays in obtaining certificates of origin for the participation in GSP or GSP+. Indeed, ITC has calculated a remarkably low utilization rate – 67.1% – for European Union GSP+ preferences in 2009, i.e. even before its suspension. The most likely explanation, also reflected in the firms' difficulties of obtaining the appropriated certificates of origin, is an insufficient share of local product content. As mentioned earlier, the use of imported textiles is very high and some of Sri Lanka's exported clothing products may not fulfil the rather strict requirement on local factor content under the GSP+ scheme. In contrast, the calculated preference utilization for exports to the United States under the GSP, which has less strict rules of origin, is 91.1%.

The Chamber of Apparel Exporters also hinted at a lack of awareness about the benefits of preference schemes. However, the Ceylon Chamber of Commerce noted that comprehension of respective regulations for Sri Lanka's familiar markets, such as the United States and the European Union, was not a problem. This was understood to be partially a result of longstanding trading partnerships as well as the United States and European market awareness campaigns. Furthermore, respondents in the ITC survey generally seemed to be highly aware and concerned about the preferential agreements.

⁸² European Commission (2009).

Table 17: Export of clothing: burdensome NTMs applied by partner countries

Reported export product		Export to the world		Number of reported NTM cases					
HS product code (as reported)	Product code description (abridged)	Product's export value in 2009 (US\$ '000)	Share of product in the sector's export value*	Technical requirements	Finance Measures	Rules of Origin	Charges and taxes	Sub-total	Countries reported to apply burdensome NTMs (number of cases)
610433	Women's or girls' jackets and blazers of synthetic fibres, knitted or crocheted (excl. wind-jackets and similar articles)	17,023	0.52%	-	-	2	-	2	EU, United States
610442	Women's or girls' dresses of cotton, knitted or crocheted (excl. petticoats)	16,215	0.50%	-	-	1	-	1	United States
610510	Men's or boys' shirts of cotton, knitted or crocheted (excl. nightshirts, T-shirts, singlets and other vests)	57,856	1.77%	-	-	2	-	2	EU, United States
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	255,094	7.80%	4	3	2	-	9	EU (4), United States (2), Japan (1), Switzerland, Turkey
610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excl. cotton)	83,658	2.56%	-	-	2	-	2	EU, United States
611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted (excl. wadded waistcoats)	81,860	2.50%	4	3	1	-	8	EU (4), Japan, Switzerland, Turkey, United States
611120	Babies' garments and clothing accessories of cotton, knitted or crocheted (excl. hats)	59,007	1.80%	-	-	1	-	1	EU
620452	Women's or girls' skirts and divided skirts of cotton (excl. knitted or crocheted and petticoats)	26,652	0.81%	4	3	-	-	7	EU (3), Japan, Switzerland, Turkey, United States
620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton (excl. knitted or crocheted, panties and swimwear)	178,366	5.45%	8	6	-	-	14	EU (6), Japan (2), Switzerland (2), Turkey (2), United States (2)
620469	Women's or girls' trousers, bib and brace overalls, breeches and shorts of textile materials (excl. of wool, fine animal hair, cotton or synthetic fibres, knitted or crocheted, panties and swimwear)	168,381	5.15%	4	3	-	-	7	EU (3), Japan, Switzerland, Turkey, United States
61XXXX	Articles of apparel and clothing accessories, knitted or crocheted	n.a.**	n.a.**	-	-	-	2 [†]	2 [†]	EU [†] , United States [†]
Total		944,112	28.9%	24	18	11	2	55	

Source: ITC survey on NTMs and ITC calculations based on Trade Map data.

* Total export value of the clothing sector is US\$ 3,270,308,000.

** Trade data (value and share) is reported only for products on HS 6-digit level for consistency reasons.

[†] Measures reported by trading agents are marked by [†], all other NTMs were reported by producing companies.

In grey: All technical regulations and finance measures have been reported by a single large company.

4.3.2. Labour standards, terms of payment and additional charges

One very large exporter lamented many cases (see column 'technical regulations' in table 18) of labour standards and other production requirements, which the reporter felt to be applied by the partner countries in the United States and the European Union. Other stakeholders that participated in additional open-end interviews were also concerned about an 'unlevel playing field' vis-à-vis other regional competitors, especially Bangladesh. However, given the important social implications of labour standards, but also more elaborate economic considerations, these survey responses need to be considered with caution. A discussion of the issue and possible policy implications are provided in the last part of this section ('Summary and policy options').

Table 18: Clothing exports: burdensome NTMs applied by Sri Lankan authorities

Reported export product		Export to the world		Number of reported NTM cases		
HS product code (as reported)	Product code description (abridged)	Product's export value in 2009 (US\$ '000)	Share of product in the sector's export value*	Export inspection	Export taxes and charges	Sub-total
610442	Women's or girls' dresses of cotton, knitted or crocheted (excl. petticoats)	16,215	0.50%	1	-	1
610821	Women's or girls' briefs and panties of cotton, knitted or crocheted	114,066	3.49%	-	1	1
611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted (excl. wadded waistcoats)	81,860	2.50%	1	-	1
611120	Babies' garments and clothing accessories of cotton, knitted or crocheted (excl. hats)	59,007	1.80%	1	-	1
6204XX	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts	n.a.**	n.a.**	1	-	1
61XXXX	Articles of apparel and clothing accessories, knitted or crocheted	n.a.**	n.a.**	1 [†]	-	1 [†]
Total		271,148	8.3%	5	1	6

Source: ITC survey on NTMs and ITC calculations based on Trade Map data.

* Total export value of the clothing sector is US\$ 3,270,308,000.

** Trade data (value and share) is reported only for products on HS 6-digit level for consistency reasons.

[†] Measures reported by trading agents are marked by [†], all other NTMs were reported by producing companies.

Difficulties with the terms of payment, in particular with conditions on the letters of credit demanded by Japanese, Swiss and Turkish buyers for different products, were reported by one large firm for a considerable number – 18 – cases. The problem is not directly related to the policies of the importing countries, but perceived as anticompetitive behaviour on the side of buyers that seem to offer more favourable terms of payment to other competitors. A small trading agent complained that internal taxes in the European Union and the United States were burdensome on export operations of various apparel products.

4.4. Non-tariff measures applied by Sri Lanka to clothing exports

As summarized in table 18, obstacles are also experienced domestically. The absolute number of export-related NTMs is rather low (6 cases), and affected product categories account for only about 8% of Sri Lanka's clothing exports. This result seems to confirm Sri Lanka's favourable policies for this important export industry. Reported NTM cases mostly refer to export inspections with respect to compliance with technical regulations; in one firm's case this was also related to the GSP. This issue was extensively discussed in the previous paragraphs. Additional handling charges at the Port Authorities were also mentioned.

Table 19: Clothing exports: procedural obstacles and inefficient trade-related business environment

POs and inefficient TBE	Number of PO/TBE cases that occurred		
	...in Sri Lanka (and agencies involved, if specified)	...in partner countries	Sub-total
Delay in administrative procedures	10+5 [†] Customs, BOI, Port Authorities, Dept. of Import and Export Control	1 [†] India [†]	16
Informal payment, e.g. bribes	6+2 [†] Customs, BOI	1 [†] India [†]	9
Inconsistent or arbitrary behaviour of officials	8 Customs		8
Technological constraints, e.g. information and communications technologies (ICT)	6 Customs		6
Inconsistent classification of products	5 Customs		5
Documentation is difficult to fill out	3 Customs		3
Large number of checks	2 Wharf, BOI, Banks		2
Large number of different documents		1 [†] India [†]	1
Regulations change frequently	1 Customs		1
Unusually high fees and charges	1 Port Authorities		1
Inaccessible/limited transportation system	1		1
Information is not adequately published and disseminated	1 [†] Sri Lankan Airlines		1
Low security level for persons and goods	1 [†] Customs		1
Other obstacles	1		1
Total	53	3	56

Source: ITC survey on NTMs.

[†]POs/TBE reported by trading agents are marked by [†], all other obstacles were reported by producing companies.

Note on procedural obstacles/trade-related business environment cases in partner countries: Producing companies exporting clothing do not report any POs or problems with inefficient TBE occurring in partner countries.

4.5. Procedural obstacles and inefficient trade-related business environment affecting clothing exports

Apart from government-imposed regulations either abroad or domestically, a considerable number of POs and an inefficient TBE cause additional burdens for clothing exporters. Table 19 summarizes these survey results for producing firms and trading agents, respectively. Across all firms, 95% of these obstacles were experienced domestically. As in other sectors, the most lamented obstacles are general delays and excessive documentation, particularly at Customs. Some more specific issues, such as electronic customs systems and BOI, are also recurring.

‘Manual processing of documents takes a long time. Although electronic documentation was introduced eight years ago, it still is not functioning efficiently.’

Sri Lankan clothing exporter (ITC survey on NTMs)

‘We need about twelve employees to go to the BOI, banks, wharf, etc. several times in order to clear the documents to meet the export on time.’

Sri Lankan clothing exporter (ITC survey on NTMs)

The EDI customs system, which should allow electronic processing of a number of trade documents, started in 2002 but is still not operational. Exporters find the manual documentation time consuming and ask for more efficiency in automated customs procedures. Furthermore, US\$ 2.50 is charged for each electronic customs declaration. Accordingly, the utilization share of the EDI was only 17% in 2007.⁸³ Several complaints referred to generally high handling and terminal charges at the Sri Lanka Port Authorities (SLPA).

The Board of Investment (BOI) offers tax advantages and facilitation of procedures, in particular with respect to foreign exchange controls, inspections and documentation.⁸⁴ However, firms actually complained about delays and complications in obtaining the relevant documentation from the BOI. Also, the Port Audit Monitoring Unit at Customs was accused of disregarding customs clearances issued by the BOI.

As seen in other sector analyses, obstacles were largely encountered at home. In the case of clothing exports, the only procedural burdens experienced abroad were delays, excessive documentation and informal payments in India.

4.6. Non-tariff measures and related procedural obstacles affecting clothing imports

Out of eight clothing import firms interviewed face-to-face, only one company experienced burdensome NTMs (see note below table 20). The medium-sized trading agent mentioned domestic inspections on imports from very different countries, namely China, India and Italy. However, looking at only a single case of NTMs and considering the very low total amount of clothing imports to Sri Lanka, policies seem to be a negligible burden.

POs and an inefficient TBE were nevertheless common and every company interviewed reported two cases on average. Once again, recurring issues were administrative delays, misclassification of imported products and other inconsistent behaviour of officials that were attributed mostly to Customs and Port Authorities. Table 20 summarizes the findings. Despite the low relative importance of clothing imports in terms of trade value, these obstacles are recurring in almost all trade operations, and also in other sectors, evaluated in this report, and thus add up to a major challenge for Sri Lankan firms.

4.7. Non-tariff measures and related procedural obstacles affecting textile exports

Textiles are the most important input for Sri Lanka’s clothing industry, thus demand is very high and domestically produced textiles need to be supplemented by imported textiles to a large extent. Nevertheless, US\$ 139 million in textiles is also exported. In the ITC business survey only one third of

⁸³ Wijayasiri and Jayaratne (2009).

⁸⁴ Website of the Board of Investment of Sri Lanka: <http://www.boi.lk/>.

companies interviewed reported government-imposed restrictions on their exports. Notably, the affected products do not even represent 1% of Sri Lanka's textile exports, which may render the problems insignificant. Despite the fact that one medium-sized firm has reported most of the NTMs shown in table 21, a detailed review of the questionnaire responses provides a few interesting insights.

Exporting toy textile accessories, a niche product, to several European Union countries, the firm needs to comply with the complex and demanding European Union EN-71 safety regulations. Accordingly, conformity assessment is required by the importing countries, namely Germany, the Netherlands, Sweden and the United Kingdom. In this respect, the firm reports that domestic testing facilities such as the SLSI are not recognized by the importer and samples needed to be sent abroad. Exporters producing processed rubber and plastic toy products face the same issues – for further information please also refer to the section on 'Chemicals, plastics and rubber-based products' later in this chapter. Another company similarly reported facing certification requirements about technical regulations both in the United States and the United Kingdom. The POs summarized in table 22 relate directly to high costs and lack of recognition of the aforementioned testing and certification issues.

An exporter also lamented that exchange rate controls were leading to disadvantageous terms for revenue obtained in foreign currencies. According to recent news, however, this matter is in the process of being resolved by the Central Bank of Sri Lanka.⁸⁵

Only a single firm experienced burdensome regulations domestically. The exporter of bed sheets and tablecloths needed to provide certification to the Forest Authority that the textiles used did not contain protected types of fibres.

Table 20: Clothing imports: procedural obstacles and an inefficient trade-related business environment

POs and inefficient TBE	Number of PO/TBE cases that occurred		
	...in Sri Lanka (and agencies involved, if specified)	...in partner countries	Sub-total
Delay in administrative procedures	4 Customs, BOI, Port Authorities	1 India	5
Inconsistent classification of products	3 Customs		3
Other inconsistent or arbitrary behaviour of officials	2 Customs		2
Unusually high fees and charges	2 Customs, Port Authorities		2
Large number of checks	1 Customs		1
Regulations change frequently	1 Customs		1
Delay during transportation	1 Customs and Port Authorities		1
Informal payment, e.g. bribes	1 Customs		1
Limited/inappropriate facilities	1		1
Technological constraints, e.g. ICT	1 Port Authorities		1
Total	17	1	18

Source: ITC survey on NTMs.

Note on non-tariff measures on clothing imports: One company (a trading agent) reports a burdensome conformity assessment (difficult examination and valuation) applied by Sri Lankan Customs to the imports of garments.

⁸⁵ 'Sri Lanka exchange controls to be relaxed in Feb 01: CB Governor', article of 18 January 2010 on Lanka Business Online: <http://www.lankabusinessonline.com/fullstory.php?nid=1415444178> (accessed on 24 March 2011).

Table 21: Textile exports: burdensome NTMs applied by partner countries

Reported export product		Export to the world		Number of reported NTM cases				
HS product code (as reported)	Product code description (abridged)	Product's export value in 2009 (US\$ '000)	Share of product in the sector's export value*	Technical requirements	Conformity assessment	Finance measures	Sub-total	Countries reported to apply burdensome NTMs (number of cases)
600632	Dyed fabrics, knitted or crocheted, of synthetic fibres, of a width of > 30 cm	1,111	0.80%	-	2	-	2	EU, United States
630492	Articles for interior furnishing, of cotton	6	0.00%	1	1	1	3	EU (3)
630520	Sacks and bags, for the packing of goods, of cotton	246	0.18%	4	4	4	12	EU (12)
Total		1,363	0.98%	5	7	5	17	

Source: ITC survey on NTMs and ITC calculations based on Trade Map data.

* Total export value of the clothing sector is US\$ 139,094,000.

Note on burdensome NTMs applied by Sri Lanka: One producing company exporting bed sheets and tablecloths reports that it is burdensome to obtain the export certificate required by the Forest Authority of Sri Lanka.

Table 22: Textile exports: procedural obstacles and an inefficient trade-related business environment

POs and inefficient TBE	Number of PO/TBE cases that occurred		
	...in Sri Lanka (and agencies involved, if specified)	...in partner countries	Sub-total
Unusually high fees and charges		5 EU (5)	5
Lack of recognition e.g. of national certificates		5 EU (5)	5
Informal payment, e.g. bribes	2 Customs		2
Other obstacles		7 EU (5), United States (2)	7
Total	2	17	19

Source: ITC survey on NTMs.

4.8. Non-tariff measures and other obstacles affecting textile imports

As discussed in the introductory part of this section, Sri Lanka's clothing industry relies heavily on imported textile inputs. Both quick and low-cost import transactions are therefore absolutely crucial for the operation of the clothing industry. It is therefore highly encouraging that only a negligible number of NTMs (2 cases) were reported. Nevertheless, textile importers do encounter domestic POs and an inefficient TBE to a considerable extent – on average 2.5 POs/TBE cases per interviewed firm.

Duties and several other charges have been lowered to zero and reimbursement schemes, such as the TIEP Scheme and the recent SVAT scheme, have been introduced to tackle the aspect of input costs. The Social Responsibility Levy (SRL) and PAL, although at a concessionary rate for imports for processing and export, are still applied. The few remaining charges, the Sri Lanka Export Development Board cess and the Nation Building Tax, are exempted under the TIEP I if imported textiles are used for processing and later

Box 2: Documentation required for TIEP I registration

- Duly completed prescribed form [TIEP I] in triplicate
- Project report
- Certificate of VAT Registration
- Business Registration [Form 65]
- Memorandum of Article [Form 48]
- Data required for evaluating the conversion ratio and wastage factor [they should be recommended by the Ministry of Industries or other relevant line authority]
- Other necessary approvals [Tea Board, Coconut Development Board, etc...] wherever applicable

All TIEP approvals are required to be renewed annually.

Source: Sri Lanka Customs information leaflet, accessed at http://www.srilankabusiness.com/eresearch/pdf_files/TIEP-1%20Scheme.pdf.

exports.⁸⁶ As also mentioned by importers in other manufacturing sectors (see remaining sections of this section), companies encounter difficulties with delays and particularly extensive paperwork required for the TIEP I registration. Box 2 provides an overview of the official documentation requirements by the Customs Directorate. Similar obstacles are experienced with respect to the SVAT. Both NTMs reported in table 23 and a significant number of POs in table 24 refer to the aforementioned additional charges and the respective delays and documentation difficulties encountered with the related reimbursement schemes. While the intentions to promote exports with these schemes are clear and sound, their implementation offers opportunities for further streamlining.

With respect to the speed of operations in the clothing industry, it has been estimated that the turn-around time of Sri Lanka's apparel industry tends to be between 90 and 150 days, compared to an ideal international duration of about 60 days.⁸⁷ Much of this gap is certainly owed to the fact that inputs need to be imported at all, which is a problem that is recognized by the Sri Lankan authorities and is approached by long-standing promotion and investment strategies. Nevertheless, apart from the problem mentioned in the previous paragraph, companies surveyed also pointed out some further issues with domestic POs and an inefficient TBE with respect to imports, which hurt the industry unnecessarily.

'Most of the time the customs systems are down and there is a long wait to clear consignment. We have to pay heavy demurrage (storage fees at the ports) due to delays in clearing import consignment. When the import of fabrics and accessories are delayed many production lines are idle and export dates cannot be met.'

[Sri Lankan clothing exporter \(ITC survey on NTMs\)](#)

These reported obstacles (see table 24) refer to a wide range of common problems encountered at Customs and Port Authorities, which are mostly identical to those experienced in other sectors: delays in cargo clearing and related costs are caused by allegedly insufficient opening hours, the lack of implementation of the electronic customs systems, changing documentation requirements and a frequent unavailability of officials. Customs and Port officials are also accused of incorrect classification of products and even bribery.

4.9. Summary and policy options

The clothing and textiles industry is Sri Lanka's largest export sector. It provides livelihoods for over a million people. The industry is facing several major structural challenges: strong competition after the phase-out of the quota-based MFA by the end of 2004; strong concentration on European Union and United States markets; reliance on preferential market access. The latter point was particularly highlighted by the recent temporary suspension of GSP+ preferences.

The burdensome NTMs and other obstacles identified by the ITC survey stand in close connection to these issues. The predominant issues raised by apparel exporting firms concerned rules of origin documentation and labour standards, both related to non-reciprocal GSP and GSP+ preferential agreements. On the one hand, obtaining rules of origin certificates caused delays and additional costs, which is an administrative

⁸⁶ WTO (2010) and Sri Lanka Customs website: http://www.customs.gov.lk/exp_promo.htm (accessed on 24 March 2011).

⁸⁷ Kelegama (2005).

burden that needs to be addressed. On the other hand, rules of origin requirements per se were difficult to comply with. Sri Lankan clothing producers were troubled by strict local input requirements, especially under the GSP+, as they strongly rely on imported textiles. Further evidence on this issue is a low utilization rate of 67.1% of GSP+ preferences for exports to the European Union in 2009. The promotion of vertical integration with domestic textile inputs may therefore improve access to preferences under the rules of origin within preferential trade agreements. However, an excessive focus on domestic inputs for such reasons is precarious. Preferences are very likely to erode in the medium or long term, as competitors are extended the same preferences, or as they are easily withdrawn given that they are not bound under WTO (World Trade Organization) legislation. Sri Lanka's strong concentration on European Union and the United States markets, as well as reliance on preferences, should therefore be reduced.⁸⁸ Furthermore, despite efforts to strengthen domestic textile production, imports may remain cheaper and more efficient due to reasons of comparative advantage.

Clothing products producers and exporters also felt to be disadvantaged over regional competitors due to costs associated with relatively high labour standards. However, Sri Lanka's successful strategy focus on higher quality and initiatives like Garments Without Guilt (GWG), a nationwide initiative that grants the GWG certificate to companies that comply with a certain cluster of standards, has improved the image of the industry's products. Despite the end of favourable export conditions under the MFA, industry growth was therefore upheld and the domestic value added was increased.^{89,90} In addition to obvious social advantages, a continuation of this strategy towards good production practices therefore also seems more economically advisable than moving back to mass markets with competition from Bangladesh and China. Government support for standards accreditation, also possibly private standards, could be a way to increase product values and profit margins, facilitate market access to developed countries and open further market opportunities.

Reflecting the value chain, the second vital pillar of the clothing industry is the fast and cost-efficient importing of textile inputs. As mentioned above, imports may continue to be an essential and efficient way to provide inputs to the clothing industry. Thus, it should be noted that any charges, duties and procedural costs on imports directly reduce domestic value added and effectively act as taxes on clothing exports. While the government's trade policies indeed exhibit a strong focus on duty and tax reductions for textile inputs, a few charges and problems with the implementation of reimbursement schemes remain. The SRL and the PAL are still applied. Notably, the EDB cess on inputs and the NBT are supposed to be exempted under the TIEP scheme for firms that import for processing and subsequent exporting. The SVAT scheme also grants exemption of VAT liabilities on inputs. Yet, recurring complaints about extensive paperwork and delays with respect to these support schemes hinder implementation and have a burdensome effect on the industry. These administrative issues need to be addressed. Furthermore, simplifying the underlying structure of para-tariff measures seems advisable as they reduce transparency for Sri Lankan companies. Difficulties with unfavourable terms of payment demanded by private buyers may be mitigated by trade finance institutions such as the SLECIC. The envisaged establishment of an export/import bank would be a further promising step in this direction.

Apart from government-imposed NTMs, POs and an inefficient TBE were found to be a significant burden to textile and clothing trade. With only a few exceptions, these problems were encountered in Sri Lanka. Most complaints were related to Customs and Port Authorities, but also BOI. Frequently mentioned general complaints were delays, difficult paperwork and insufficient opening hours. Customs officials were often accused of incorrect classification of products and sometimes even of bribery. An insufficient implementation of electronic customs procedures, such as the EDI customs system, was also lamented several times. Further developing electronic customs infrastructure, coupled with training of officials in its use, may solve several of these problems.

⁸⁸ This issue was also highlighted by the president of the Joint Apparel Association Forum, Mr A. Sukumaran (see <http://sundaytimes.lk/110206/BusinessTimes/bt10.html>).

⁸⁹ Economist Intelligence Unit (2008).

⁹⁰ Website of the Central Bank of Sri Lanka, information on value added in industry at current market prices: http://www.cbsl.gov.lk/htm/english/08_stat/s_2.html.

Table 23: Textile imports: burdensome NTMs applied by Sri Lankan authorities

Reported import product		Import from the world		Number of reported NTM cases	
HS product code (as reported)	Product code description (abridged)	Product's import value in 2009 (US\$ '000)	Share of product in the sector's import value*	Additional charges	Sub-total
580190	Woven pile fabrics and chenille fabrics (excl. those of man-made fibres, wool or fine animal hair, terry towelling and similar woven terry fabrics, tufted textile fabrics and narrow woven fabrics of heading 5806)	595	0.04%	1	1
5209XX	Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing more than 200 g/m ²	n.a.**	n.a.**	1	1
Total		595	0.04%	2	2

Source: ITC survey on NTMs and ITC calculations based on Trade Map data.

* Total import of textile is US\$ 1,437,936,000.

** Trade data (value and share) is reported only for products on HS 6-digit level for consistency reasons.

Table 24: Textile imports: procedural obstacles and inefficient trade-related business environment

POs and inefficient TBE	Number of PO/TBE cases that occurred		
	...in Sri Lanka	...in partner countries	Sub-total
Delay in administrative procedures	9 Customs, Port Authorities		9
Inconsistent classification of products	3 Customs		3
Technological constraints, e.g. ICT	3 Customs		3
Inconsistent or arbitrary behaviour of officials	2		2
Informal payment, e.g. bribes	2 Customs		2
Limited/inappropriate facilities	2 Port Authorities		2
Large number of checks	1 Customs		1
No due notice for changes in procedure	1 Customs		1
Unusually high fees and charges		1 Pakistan	1
Lack of recognition e.g. of national certificates		1 Pakistan	1
Other obstacles	2 Chamber of Commerce, Customs	1 Pakistan	3
Total	25	3	28

Source: ITC survey on NTMs.

5. Chemicals, plastics and rubber-based products

5.1. The sector and its role in the value chain

Chemicals, plastics and rubber-based products represent the third largest industrial sector in terms of value added to Sri Lanka's gross domestic product (GDP), accounting for 10.6% of total industrial value added. In 2009, Sri Lanka has exported chemicals, plastics and rubber-based products worth US\$ 347 million, representing 4.7% of total exports. After value-added growth rates (in 2002 constant prices) continuously exceeding 5% since 2002, increases have dropped to 2% in 2009 due to the global downturn.⁹¹ In terms of exports, the crisis has been more severe with a 32.4% decline in 2009 after a still strong export growth of 15.1% in 2008. Especially rubber-based products, constituting the second largest export-oriented industry, were strongly affected by increased costs of inputs. Low demand in the international construction sector and for tyres reduced revenues for many chemicals, plastics and rubber-based products.⁹²

Having imported for US\$ 1,164 million in 2009, the trade balance is strongly negative, but these numbers only reflect a purely statistical perspective.⁹³ The sector must not be looked at as independent, but as an essential part of the value chain for many Sri Lankan products. Within the sector, chemicals like styrene and anhydrides are inputs for processed rubber and plastic production. Furthermore, several products are inputs for production in other sectors, which are not considered in the above production and trade statistics: fertilizers and fungicides are crucial in all agricultural sectors, several plastics such as nylon or polyamides are used in the production of textiles and clothing. Since agricultural goods and apparel represent the lion's share of Sri Lanka's commodity exports, access to chemicals and plastics as inputs is indirectly of major importance for exports. In this respect, rubber is an exception, as Sri Lanka is a large producer of both raw rubber as well as processed rubber products. In conclusion, trade restrictions of sector imports applied by Sri Lanka against foreign exporters should be viewed as an impediment for domestic producers and subsequent exports.

It should be noted that the above statistics and considerations refer to the ITC survey's classification of the sector, which slightly deviates from Sri Lanka's domestic sector definition that also includes petroleum and coal products. Given the special nature of these sub-sectors, which are dominated by state companies and large multinationals in a very particular international market, they are beyond the scope of this survey. For example, Sri Lankan petroleum trade, processing and domestic supplying is conducted by the Ceylon Petroleum Corporation⁹⁴ and is therefore not relevant for a private sector survey.

5.2. Companies affected by trade barriers

Reflecting the aforementioned structure of value chains and resulting direction of trade, the ITC survey also provides a stronger emphasis on imports. Thus, out of 46 face-to-face interviews with Sri Lankan companies, 20 firms import and export, 22 only import and 4 are exclusively exporting. Out of the 42 firms that have an import activity, 64% are trading agents that do not have their own production activity.

A large majority of firms surveyed (90%) reported burdensome non-tariff trade measures (NTMs) for their import transactions, as opposed to only few cases for exports. Looking at a more disaggregated composition of the sector reveals that Sri Lanka's exports from this sector are dominated by rubber-based products, which account for 77% of the sector's exports. It is conceivable that these products are much less subject to regulation than potentially hazardous chemical products, which represent the largest share of Sri Lanka's sectoral imports. The low representation of NTMs on exports should therefore

'Importer Security Filing form and a lot of additional documentation waste time. Getting numbers is a chore. We have to get bill of lading number – sometimes they give wrong numbers. We need to submit this within four days, which is hard.'

A Sri Lankan rubber-based product exporter (ITC survey on NTMs)

⁹¹ Calculations based on Central Bank of Sri Lanka data on value added in industry (2002 constant prices).

⁹² Central Bank of Sri Lanka (2009).

⁹³ ITC calculations based on Trade Map data, 2011.

⁹⁴ See website of the Ceylon Petroleum Corporation: <http://www.ceypetco.gov.lk/>.

not come as a surprise. Following the same logic, it is also understandable that 93% of burdensome NTMs are reported to be applied by Sri Lankan authorities. While some of the observations from export-related NTM complaints will be mentioned subsequently, the focus of discussion in this section will be on imports.

Firm size plays an important role in determining which sort of NTM companies encounter. The largest proportion (42%) of small and medium-sized enterprises (SMEs) interviewed reported conformity assessment as a burden on imports. Large companies, however, mentioned charges, taxes and para-tariff measures as the main NTM (43%), with only 29% encountering problems with conformity assessment. Given that larger firms have more financial resources for testing and certification, the latter observation is quite intuitive. Technical requirements affect about 15% of companies of all sizes interviewed.

Whether firms are producers or mere trading agents also makes a significant difference in the NTMs mentioned: Producing and trading companies mainly report conformity assessment (50% of producers) as an obstacle. Trading agents particularly find additional charges and para-tariff measures (32% of trading agents) problematic. Yet, technical requirements (27% of all companies) and conformity assessment (26%) constitute common trade burdens.

Procedural obstacles and an inefficient trade-related business environment are often reported – on average three different cases per firm interviewed. Corresponding to the encountered NTMs, these obstacles mostly occur in Sri Lanka. Delays in administration and transportation (45 cases, of which 6 cases in partner country), issues of product classification (22 cases, of which 1 case in partner country), and unusually high fees or informal payments (21 cases, of which 1 case in partner country) particularly stand out.

5.3. Non-tariff measures applied by partner countries and related procedural obstacles affecting exports

Two large producers of rubber-based products, an important exporting sub-sector, encountered barriers to their exports in partner countries. Firms lament difficulties with documentation and customs handling in the United States, and name issues of obtaining required certification for exports to the European Union (see table 25).

'The EU has very strict requirements for toy imports, from chemical content of the paint to physical specifications. A lack of requisite testing facilities in Sri Lanka forces companies to send samples abroad for testing and certification, increasing both cost and the time required to export.'

[A Sri Lankan toy producer \(ITC survey on NTMs\)](#)

Technical requirements and respective conformity assessment due to the European Union's Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) regulation on chemical substances⁹⁵ have been pointed out in detail. While the implied requirements per se are difficult to comply with, i.e. constituting a NTM applied by the European Union, resulting POs due to a lack of appropriate testing facilities occur domestically (table 27). Additional stakeholder interviews revealed that small firms are troubled by high testing and certification costs at private sector facilities. The Industrial Technology Institute (ITI), a Sri Lankan governmental testing agency, acknowledged the demand, but pointed out that the required initial investments for certain testing procedures are too high. On a related matter, according to the European Chamber of Commerce (ECC) of Sri Lanka, the ITI was not aware of the REACH standard until the ECC initiated contact. This indicates a potential to improve the information flow between those who impose standards and those who should provide the respective certification.

5.4. Non-tariff measures applied by Sri Lanka and related procedural obstacles affecting exports

Chemicals exporters from Sri Lanka are faced with problems in customs clearance and inspection. The exports affected by these NTMs, however, are likely to be negligible (see also table 26). The measures relate to product properties that may be harmful to 'humans, animals or plants', but exporters perceive the

⁹⁵For more information on REACH, see: http://ec.europa.eu/environment/chemicals/reach/reach_intro.htm.

measures as excessive. Related POs are administrative delays and alleged corruption in order to obtain customs clearances (see table 27).

Trading agents, although mostly small in size, did not report government-imposed trade restrictions in the face-to-face interviews conducted for the survey. A likely explanation is the focus of these firms on the actual export operation, giving them particular expertise in dealing with customs procedures that producing firms may not have. However, they complain about the inconsistent and arbitrary behaviour of Sri Lanka Customs officials, particularly mentioning informal payments, and insecure as well as limited trade facilities (see also table 27).

'We have to clear cargo within 48 hours of arrival as it is categorized as "Dangerous Cargo"; otherwise we have to pay high damage. Customs administration problems cause hindrance in clearing: all the officers are not present at the time and thus we are penalized for no fault of ours.'

[A Sri Lankan chemicals exporter \(ITC survey on NTMs\)](#)

Table 25: Chemicals, plastics and rubber-based products exports: burdensome NTMs applied by partner countries

Reported export product		Export to the world		Number of reported NTM cases			
HS product code (as reported)	Product code description (abridged)	Product's export value in 2009 (US\$ '000)	Share of product in the sector's export value*	Conformity assessment	Pre-shipment inspection and other formalities	Sub-total	Countries reported to apply burdensome NTMs
4001XX	Synthetic rubber and factice derived from oils, in primary forms or in plates, sheets or strips	n.a.**	n.a.**	1	-	1	EU
401699	Articles of vulcanized rubber (excl. hard rubber), n.e.s.	25,270	7.29%	-	1	1	United States
Total		25,270	7.29%	1	1	2	

Source: ITC survey on NTMs and ITC calculations based on Trade Map data.

* Total export value of chemicals, plastics and rubber-based products is US\$ 346,622,000.

** Trade data (value and share) is reported only for products on HS 6-digit level for consistency reasons.

Table 26: Chemicals, plastics and rubber-based products exports: burdensome NTMs applied by Sri Lankan authorities

Reported export product		Export to the world		Number of reported NTM cases		
HS product code (as reported)	Product code description (abridged)	Product's export value in 2009 (US\$ '000)	Share of product in the sector's export value*	Export inspection	Other export related measure	Sub-total
283429	Nitrates (excl. potassium and mercury)	26	0.01%	-	1	1
390791	Unsaturated polyesters and other polyesters, in primary forms	26	0.01%	1	-	1
Total		56	0.02%	1	1	2

Source: ITC survey on NTMs and ITC calculations based on Trade Map data.

* Total export value of chemicals, plastics and rubber-based products is US\$ 346,622,000.

** Trade data (value and share) is reported only for products on HS 6-digit level for consistency reasons.

Table 27: Chemicals, plastics and rubber-based products exports: procedural obstacles and inefficient trade-related business environment

POs and inefficient TBE	Number of PO/TBE cases that occurred		
	...in Sri Lanka (and agencies involved, if specified)	...in partner countries	Sub-total
Informal payment, e.g. bribes	3 ^t Customs		3
Low security level for persons and goods	2 ^t Customs		2
Limited/inappropriate facilities	1+1 ^t		2
Delay during transportation	1 Customs	1 United States	2
Delay in administrative procedures	1+1 ^t Customs		2
Documentation is difficult to fill out	1 ^t Customs		1
Large number of different documents		1 United States	1
Unusually high fees and charges		1 EU	1
Inconsistent classification of products	1 ^t		1
Other inconsistent or arbitrary behaviour of officials	1 ^t		1
Inaccessible/limited transportation system	1		1
Technological constraints, e.g. ICT (information and communications technologies)	1		1
Other obstacles	1 ^t Customs		1
Total	16	3	19

Source: ITC survey on NTMs.

^tPOs/TBE reported by trading agents are marked by ^t, all other obstacles were reported by producing companies.

5.5. Non-tariff measures applied by Sri Lanka and related procedural obstacles affecting imports

Burdensome NTMs encountered by Sri Lankan importers of chemicals, plastics and rubber-based products are exclusively reported to be applied by the home country. Judging from the affected product lines, 34.5% of imports in the sector are affected by NTMs. As mentioned before, the impact on domestic processing firms and exports, also in other sectors, is likely to be significant.

With respect only to producing firms' import activities, SMEs mostly complained about conformity assessment (63% of all reported NTMs among producing SME importers), while large firms were only troubled by charges, taxes and para-tariff measures. Trading agents exhibit a similar pattern, although they tend to be more concerned about technical regulations.

In the following, the major observed categories of NTMs will be discussed in further detail, also taking into account specific comments from the NTM survey as well as additional interviews with experts and stakeholders. The general results of import-related NTMs are summarized in table 28.

5.5.1. Technical requirements, conformity assessment and related procedural obstacles

Firms importing products from the chemicals sub-sector are especially affected by conformity assessment (64% of all reported NTM cases in the sector). Considering the special nature of chemicals this is not surprising, and is justified to the extent that human, animal and plant health need to be protected.

Imports of organic chemicals, colouring substances, lubricants, and fertilizers, insecticides and fungicides are impeded most strongly by conformity assessment and technical requirements. The two former groups of products are inputs for plastic and rubber processing, the third includes important substances for machinery of all kinds, and the latter are crucial for the entire agricultural sector. Consequently, Sri Lanka's main export sectors are affected by these NTMs applied on imports.

'Sri Lanka Customs take out samples from every shipment for testing but they don't give any kind of certification after testing.'

A Sri Lankan chemicals importer (ITC survey on NTMs)

Yet, the problems experienced by the business sector mostly concern conformity assessment, rather than technical requirements themselves. In turn, difficulties with conformity assessment largely rest upon two main domestic factors: a lack and insufficient capacity of domestic testing facilities, and inefficient clearance at Customs/Port Authority. Importing firms and stakeholders report several POs in this respect. These are also presented in table 29. Complaints about customs point out extensive inspections and documentation, delays and even corruption. Governmental testing and certification institutions reportedly take too much time or do not provide the required testing services. On the other hand, private sector firms, either domestic or outsourced internationally, involve higher costs that are hard to bear for small firms in particular. Given the special properties of potentially hazardous chemical substances, issues with POs and an inefficient TBE are not only reported for Customs and Port Authorities, but also involve institutions like the Defence Ministry, Health Ministry and Environment Ministry, the Ceylon Petroleum Corporation (in the case of greases and resins for oil machinery) and the SLSI.

'Government certification agencies such as SLSI and ITI cover some of the testing not provided by private sector firms, such as pesticide testing in tea. However, there are still many certifications that require outsourcing to an international testing facility. There were financial constraints to expanding SLSI's testing facilities.'

Interview at the Sri Lanka Standards Institution (SLSI)

Pharmaceuticals, which are exclusively imported by trading agents, as no further processing is intended for the product group, are subject to both technical requirements and conformity assessment. Importers lament excessive documentation and very long delays in cosmetics, devices and drugs (CDD) certification.

5.5.2. Additional charges and measures related to imports for processing and export

Many reports of additional charges (50%) refer to imports of raw plastics, which are particularly employed as inputs for textiles and packaging materials and therefore of major importance for some of Sri Lanka's main export products (table 28).

A 15% import surcharge was applied to the customs duty of many goods, including plastics during the time of the ITC survey, but – after several revisions – was eliminated as of 1 June 2010. Furthermore, products have been affected by a cess levied by the Sri Lanka Export Development Board since 2004; however, imports of raw or intermediate inputs for processing and subsequent export should be exempted from the cess according to the TIEP scheme.⁹⁶ Nevertheless, while even large companies complain about the difficulties and excessive paperwork needed for a company to be exempted from the levy or reimbursed, small companies may not even be aware of the scheme, as a representative of the EDB remarked.⁹⁷

Similarly, while the Sri Lankan government's SVAT system, implemented by the EDB, is intended to reduce tax burdens on the purchase of raw and intermediate inputs for the production of a final export product,⁹⁸ SMEs seem to have problems coping with delays, as well as documentation and registration requirements (see also table 29).

⁹⁶ WTO (2010); see also http://www.customs.gov.lk/exp_promo.htm (accessed on 24 March 2011).

⁹⁷ See also section 4 in the chapter on 'Clothing and textiles' and box 2.

⁹⁸ Sri Lanka Export Development Board website: <http://www.srilankabusiness.com/announ%5CExporters%5Cindex.htm> (accessed on 24 March 2011).

5.6. Summary and policy options

Despite a distinctly negative trade balance, the sector is of crucial importance to Sri Lanka's domestic production and exports. The chemicals and raw plastics sub-sectors provide essential raw and intermediate inputs for Sri Lanka's major export sectors, agriculture, textiles and apparel, and processed rubber and plastics. With an estimated 34.5% of the sector's imports being affected by NTMs, the impact on exports of the aforementioned industries is significant. Observing that all NTMs on imports are reported to be applied by Sri Lankan authorities, looking at domestic restrictions thus deserves equal attention as foreign protection in 'classic' export sectors.

Processed rubber products constitute an exception with strong net exports in the sub-sector, as both raw rubber and processed rubber products are produced domestically. Exporters are faced with strict certification and documentation requirements in the European Union and the United States. An alleged lack of domestic testing infrastructure aggravates the issue. In this respect Sri Lankan authorities have the opportunity to alleviate burdens by investing in domestic institutions and facilities.

Small and medium-sized importers are particularly concerned with conformity assessment and technical requirements applied by Sri Lankan authorities. Firms importing chemicals are especially troubled by testing and certification requirements imposed to protect human, animal and plant life. While enforcing necessary environmental protection itself should not be an issue to be discussed, inflicting excessive procedural burdens on the business sector should be minimized. In fact, only a minority of reported difficulties refer to the actual technical requirements, but rather to burdens in demonstrating compliance and with POs. To a large extent, the solution therefore depends on the efficient implementation of inspections by customs authorities as well as on effective domestic testing and certification facilities. Respective investments into technical infrastructure and training of involved officials are advisable.

Sri Lanka has imposed additional import surcharges and para-tariff measures (cess by the EDB). Raw inputs for later processing and export are supposed to be exempted based on the provisions of the TIEP scheme. However, companies complain about a lack of information, extensive documentation and delays in the procedure, which is particularly hard to bear for small firms. Similar observations are made with respect to VAT reimbursements in Sri Lanka's SVAT system. While the imposed exemption and reimbursement measures clearly show Sri Lanka's export promotion policy, whether the intended effect can be achieved or not rests upon their implementation. The given obstacles weigh heavily on small entrepreneurs and smallholders and detract from the government's objective of supporting SMEs. Further to streamlining processes and administration, the simplification of the apparently complex structure of additional taxes and charges, or even conversion into regular tariffs, may have a beneficial effect on both imports and exports.

Table 28: Chemicals, plastics and rubber-based products imports: burdensome NTMs applied by Sri Lankan authorities

Reported import product		Import from the world		Number of reported NTM cases					
HS product code (as reported)	Product code description (abridged)	Product's import value in 2009 (US\$ '000)	Share of product in the sector's import value*	Technical requirements	Conformity assessment	Charges, taxes and other para-tariff measures	Finance Measures	Rules of origin	Sub-total
<i>Organic chemicals</i>									
29XXXX	Organic chemicals	n.a.**	n.a.**	1	-	-	-	-	1
290250	Styrene	673	0.06%	-	1	-	-	-	1
2903XX	Halogenated derivatives of hydrocarbons	n.a.**	n.a.**	1	-	-	-	-	1
290532	Propylene glycol propane-1,2-diol	520	0.04%	-	1	-	-	-	1
291714	Maleic anhydride	132	0.01%	-	1	-	-	-	1
291735	Phthalic anhydride	538	0.05%	-	1	-	-	-	1
300390	Medicaments consisting of two or more constituents mixed together for therapeutic or prophylactic uses	552	0.05%	-	-	1	-	-	1
<i>Pharmaceutical products</i>									
3004XX	Medicaments (excluding goods of heading 30.02)	n.a.**	n.a.**	-	2	1	-	-	3
300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes	135,227	11.61%	2	1	-	-	-	3
<i>Fertilizers</i>									
310210	Urea, whether or not in aqueous solution	110,411	9.48%	-	-	-	1	-	1
310240	Mixtures of ammonium nitrate with calcium carbonate or other inorganic non-fertilizing substances	0	0.00%	1	-	-	-	-	1
<i>Colouring substances</i>									
320500	Colour lakes; preparations	1,359	0.12%	-	-	1	-	-	1
3206XX	Other colouring matter; preparations	n.a.**	n.a.**	-	1	-	-	-	1
321100	Prepared driers	603	0.05%	-	1	-	-	-	1
<i>Cosmetics</i>									
330510	Shampoos	1,954	0.17%	1	-	-	-	-	1
<i>Soaps and lubricants</i>									
34XXXX	Soaps and lubricants	n.a.**	n.a.**	-	-	1	-	-	1
3403XX	Lubricating preparations (including cutting-oil preparations)	n.a.**	n.a.**	1	1	1	-	-	3
340399	Lubricant preparations	2,558	0.22%	1	-	-	-	-	1

Reported import product		Import from the world		Number of reported NTM cases					
HS product code (as reported)	Product code description (abridged)	Product's import value in 2009 (US\$ '000)	Share of product in the sector's import value*	Technical requirements	Conformity assessment	Charges, taxes and other para-tariff measures	Finance Measures	Rules of origin	Sub-total
3405XX	Polishes and creams	n.a.**	n.a.**	-	1	-	-	-	1
<i>Insecticides, Fungicides and miscellaneous chemicals</i>									
380891	Insecticides	9,748	0.84%	-	1	-	-	-	1
380892	Fungicides	3,847	0.33%	-	1	-	-	-	1
382200	Diagnostic or laboratory reagents on a backing	5,538	0.48%	1	-	-	-	-	1
<i>Plastics and articles thereof</i>									
3901XX	Polymers of ethylene, in primary forms	n.a.**	n.a.**	-	1	1	-	-	2
390110	Polyethylene with a specific gravity of < 0,94, in primary forms	41,118	3.53%	-	-	2	-	-	2
390120	Polyethylene with a specific gravity of >= 0,94, in primary forms	29,082	2.50%	-	1	1	-	-	2
390210	Polypropylene, in primary forms	31,891	2.74%	-	-	1	-	-	1
3904XX	Polymers of vinyl chloride or of other halogenated olefins, in primary forms, NOT SPECIFIED	n.a.**	n.a.**	-	-	1	-	-	1
390690	Acrylic polymers, in primary forms (excl. polymethyl methacrylate)	3,262	0.28%	-	-	-	1	-	1
390890	Polyamides, in primary forms (excl. polyamides-6, -11, -12, -6,6, -6,9, -6,10 and -6,12)	1,156	0.10%	-	1	-	-	-	1
391990	Self-adhesive plates	6,968	0.60%	-	-	-	1	-	1
392020	Plates of polymers of propylene	13,611	1.17%	-	-	-	1	1	2
<i>Rubber and articles thereof</i>									
4011XX	New pneumatic tyres, of rubber	n.a.**	n.a.**	-	-	1	-	-	1
401140	New pneumatic tyres, of rubber, of a kind used for motorcycles	1,331	0.11%	-	2	-	-	-	2
Total		1,164,425	34.5%	9	18	12	4	1	44

Source: ITC survey on NTMs and ITC calculations based on Trade Map data.

* Total import value of chemicals, plastics and rubber-based products is US\$ 1,164,525,000.

** Trade data (value and share) is reported only for products on HS 6-digit level for consistency reasons

Table 29: Chemicals, plastics and rubber-based products imports: procedural obstacles and inefficient trade-related business environment

POs and inefficient TBE	Number of PO/TBE cases that occurred		
	...in Sri Lanka (and agencies involved, if specified)	...in partner countries	Sub- total
Delay in administrative procedures	29 Customs, Ceylon Petroleum Corporation, Defence Ministry, Chamber of Commerce, Health Ministry, SLSI, Port Authorities, Dept. of Inland Revenue, Environment Ministry	4 China Bangladesh, India, Chinese Taipei	33
Informal payment, e.g. bribes	14 Customs, Port Authorities		14
Inconsistent classification of products	10 Customs		10
Other inconsistent or arbitrary behaviour of officials	9 Customs, Ceylon Petroleum Corporation, Defence Ministry	1 China	10
Delay during transportation	8 Customs, Dept. of Commerce		8
Information is not adequately published and disseminated	6 Customs		6
Inaccessible/limited transportation system	5		5
Other obstacles	5 Customs, Ministry of Defence, Ceylon Petroleum Corporation		5
Regulations change frequently	4		4
Limited/inappropriate facilities	4 Customs		4
Low security level for persons and goods	4 Customs		4
Documentation is difficult to fill out	3 Customs		3
No due notice for changes in procedure	3		3
Unusually high fees and charges	3 Customs, Port Authorities		3
Large number of different documents	2 Customs		2
Large number of checks	2 Customs		2
Technological constraints, e.g. information and communications technologies (ICT)	2 Customs, Port Authorities		2
Total	113	5	118

Source: ITC survey on NTMs.

6. Other manufacturing products

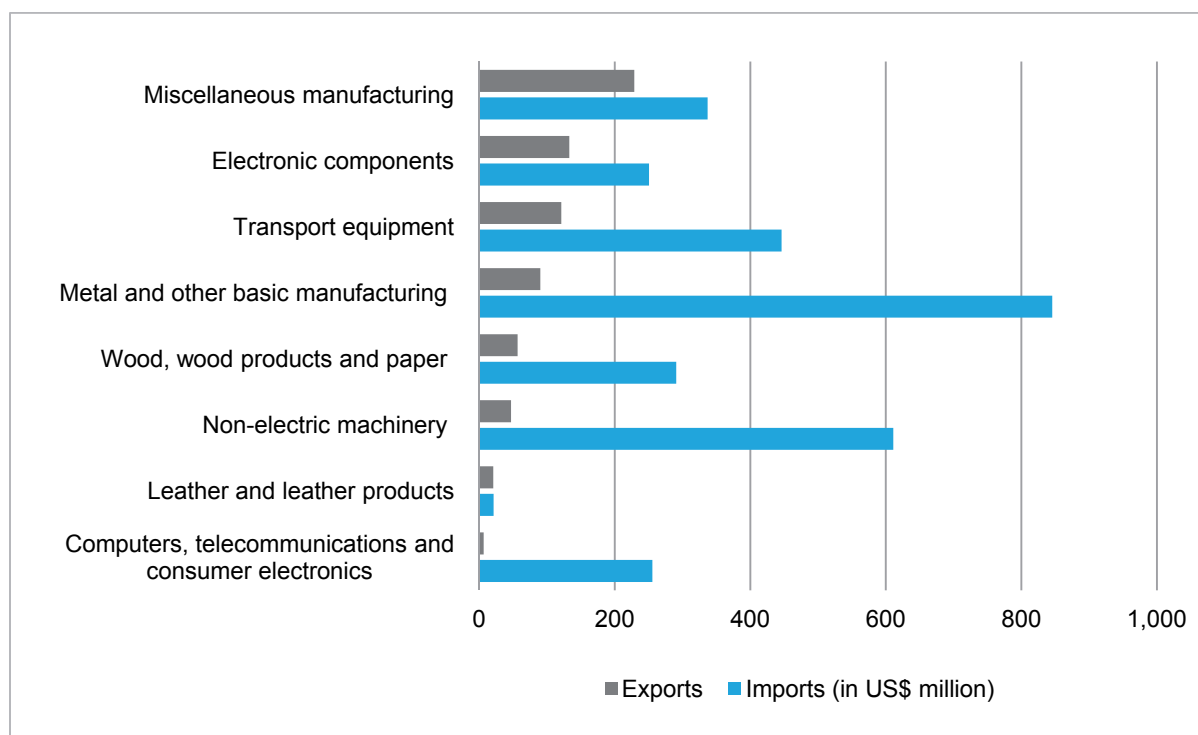
6.1. Sector composition and trade background

The 'other manufacturing products' sector comprises the remaining subsectors of manufacturing that have not been treated previously in this report. Jointly, domestic production in these industries accounts for 13% of Sri Lanka's total value added, and 30% of manufacturing value added.⁹⁹ The group of subsectors represents only 16% of manufacturing exports, but 53% of total manufacturing imports. Figure 15 shows trade statistics at a more disaggregated level, also indicating the product groups evaluated as part of the other manufacturing sector.

The overall negative trade balance amounts to US\$ 2,353 million. However, as for the case of chemicals and plastics, it should be kept in mind that many goods in this sector are important inputs for domestic production and services, and that this indirect impact on value added and exports is not reflected in the above-mentioned numbers. Some products, such as leather, wood and metals, serve as intermediates for production of further processed manufacturing. While a number of products, such as machinery, transport equipment, computers and other consumer electronics, are usually not re-exported as a direct input, they serve as essential inventory inputs for specific and general business operations. This not only affects manufacturing industries, but also all other sectors, from agriculture and agricultural processing to the growing services sector.

Sri Lanka's industrial policy aims to promote diversification and expansion of industrial production and exports. The balancing act between giving infant industry protection to manufacturing, on the one hand, and not restricting access to inputs for other sectors, as well as allowing for healthy competition, on the other hand, is a major challenge for trade policy.

Figure 15: Exports and imports of subsectors comprised in other manufacturing in 2009



Source: ITC calculations based on Trade Map data, 2010.

⁹⁹ Calculations based on data on value added in industry at current market prices from the Central Bank of Sri Lanka. In the definition used by the ITC survey, processed food and agro-based products are grouped together with agricultural products.

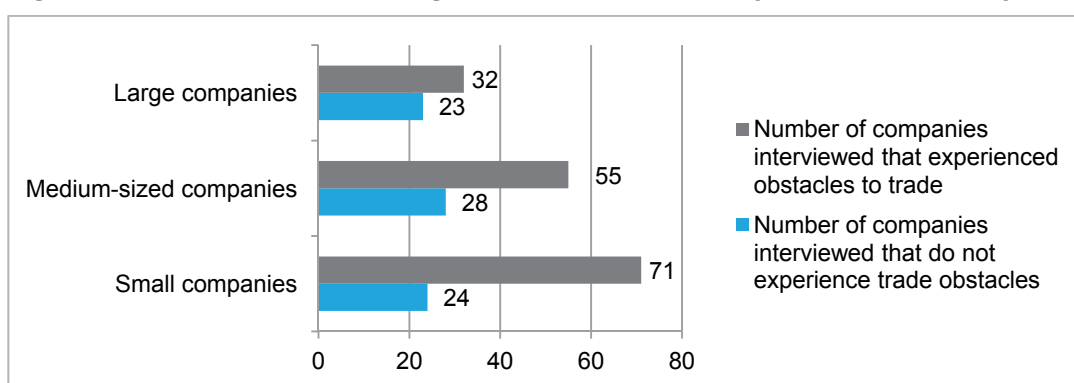
6.2. Companies affected by trade barriers

Phone screen interviews with 247 companies showed an overall share of 68% of companies being affected by burdensome NTMs and other obstacles. Both exporting and importing operations were almost equally troubled by NTMs, with 67% and 69% respectively. Out of all companies interviewed, small firms (75% are affected) struggle more with trade barriers than large firms (58%) that tend to have more financial resources (see figure 16).

The ITC survey conducted face-to-face interviews with 82 firms affected by burdensome NTMs, procedural obstacles and an inefficient trade-related business environment. Mirroring the actual direction of trade, 44 firms both import and export, 30 only import and 8 only export. While 48% of these firms were producing companies, the remaining 52% of firms were trading agents or forwarding companies. Firms were classified by based on the number of employees: 41 firms as small, 26 as medium-sized and 15 as large.

In this sample, 85% of burdensome NTMs were reported for import transactions, of which all referred to Sri Lankan authorities. Burdens on exports were mentioned as being applied by partner countries in 91% of cases.

Figure 16: Other manufacturing companies affected by trade barriers, by size



Source: ITC survey on NTMs.

6.3. Non-tariff measures applied by partner countries and related procedural obstacles affecting exports

Producers and exporters of manufacturing products complain in particular about additional charges and taxes (27% of reported NTMs in this group), standards (23%) and related certification problems (27%). Table 30 provides an overview.

Sri Lankan electronic component exporters report that India's Customs overestimate value addition and thus levy higher taxes. Similarly, an exporter of miscellaneous final manufacturing products claims to bear an excessive burden of VAT payments due to an undervaluation of raw material inputs in several European Union countries. Another complaint concerns additional charges for domestic transportation being levied by the Maldives.

Safety standards, especially for physical properties and chemical contents of toy products as defined by the European EN-71 regulation,¹⁰⁰ are applied by European Union countries as well as Australia. Sri Lankan producers face difficulties both in complying with the standards per se, but also lament high costs of certifying compliance at foreign testing facilities. Furthermore, they complain that authorities in the aforementioned countries sometimes do not respect Sri Lankan certifications (also refer to POs, table 34). Difficulties with

'[There are] stringent safety regulations such as EN-71.'

'The cost of testing is very high as the items need to be sent abroad for testing before exporting. Testing should be done in Sri Lanka at a standard price to help export markets, such as small niche markets.'

[A Sri Lankan toys exporter \(ITC survey on NTMs\)](#)

¹⁰⁰ See: <http://ec.europa.eu/enterprise/policies/european-standards/documents/harmonised-standards-legislation/list-references/toys/>.

rules of origin measures with respect to wood are reported for Denmark and Japan, but a large part of the actual problem seems to be obtaining the relevant certificate from the domestic Forestry Ministry.

The only reported case of an affected trading agent is a high import deposit for jewellery exports to France (table 30).

6.4. Non-tariff measures applied by Sri Lanka and related procedural obstacles affecting exports

The vast majority of export-related NTMs are reported by producing and exporting firms, whereas only one trading agent complains about additional charges levied by Sri Lanka Customs on articles of jewellery. Over 80% of the affected firms are small and medium-sized enterprises (SMEs), which are particularly concerned with inspection, certification and export licensing. Table 31 summarizes the survey results.

Producers of a diverse mixture of manufacturing products, from books and furniture to electrical and non-electrical machinery, are troubled by inspection and certification requirements. These troubles involve not only POs surrounding inspection delays and costs faced at Sri Lanka Customs (see table 34), but also technical measures imposed and certification by the SLSI or the Forestry Ministry (e.g. paper mill certificate). Small handicraft art producers lament a large number of export licenses to be obtained for various inputs such as wood, leather and raw agricultural materials.

An exporter of scrap metals reports a prohibition of copper exports. While an actual prohibition could not be confirmed from policy documents,¹⁰¹ a 50% export cess on the free-on-board value of the merchandise is applied. The fact that Sri Lanka indeed does not export copper¹⁰² may hint that the cess is prohibitively high. Such additional charges were also reported to be burdensome, yet not prohibitive, by other exporters of metal, which face 10% to 25% cesses according to the Sri Lanka Export Development Board (EDB) Act No. 4.¹⁰³

'Direct Trader Input (DTI) systems have been used for the last 10 years by Customs, but still have not come to the second stage.'

'X-ray machines are available, but hardly used for cargo examination procedures. Physical examination takes a long time and costs a lot of money.'

'In addition to the normal documents, four other types of documents are needed to get approval for export shipment.'

A Sri Lankan exporter of mattresses (ITC survey on NTMs)

6.5. Non-tariff measures applied to imports

Both producing companies and trading agents are affected by burdensome NTMs on input and final goods imports. Producing firms emphasize the negative impact of additional charges and taxes (43% of reported NTMs of importing producing firms). Conformity assessment (27% of reported NTMs of all importing firms) and pre-shipment inspections (16%) account for another large share of reported NTMs across both types of firms. Technical requirements are only mentioned by trading agents. Quantity controls and finance measures represent the remaining burdens on imports of other manufacturing products to Sri Lanka.

Across all burdensome NTMs, metal manufacturing, basic manufacturing, non-electric machinery, electronics, computer and telecommunication equipment were most strongly affected (78% of reported NTMs on imports). The surprisingly low number of small firms that reported NTMs (26%) could be rated as a success of Sri Lanka's industrial policy that is aimed at promoting SMEs in manufacturing.¹⁰⁴ The observed burdensome NTMs were all reported to be applied by Sri Lankan authorities (table 32 provides an overview) with the only exception of export licensing applied in Singapore to electronic products (see table 33). As a result of most of these NTMs, companies face additional costs and delays.

¹⁰¹ The Imports and Exports Control Act (see <http://www.customs.gov.lk/docs/25298.pdf>) requires export licensing for precious scrap metals according to Extraordinary Gazette No 1574-12 (see <http://www.imexport.gov.lk/download/Comodity%20list%20under%20Extraordinary%20Gazette%20No%201574-12.pdf>). Copper, however, is not included.

¹⁰² According to ITC Trade Map data (2010).

¹⁰³ WTO (2010).

¹⁰⁴ *Ibid.*

Table 30: Other manufacturing products exports: burdensome NTMs applied by partner countries

Affected product groups	Export to the world		Number of reported NTM cases							Countries reported to apply burdensome NTMs (number of cases)
	Export value in 2009 (US\$ '000)	Share of product group in the sector's export value*	Technical requirements	Conformity assessment	Charges, taxes and other para-tariff measures	Quantity control measures	Finance measures	Rules of origin	Sub-total	
Metal, basic manufacturing and non-electric machinery	135,586	19.79%	1	-	-	-	-	1	2	India, United States
Wood, wood products and paper	56,501	8.25%	-	-	-	-	-	2	2	EU, Japan
Electronics, computers and telecoms	142,994	20.87%	-	-	1	-	-	-	1	India
All remaining manufacturing products	349,967	51.09%	4	6	5	1	1 [†]	-	17	EU (9+1 [†]), Australia (3), India, Japan, Maldives, Singapore
Total	685,048	100.0%	5	6	6	1	1	3	22	

Source: ITC survey on NTMs and ITC calculations based on Trade Map data.

Table 31: Other manufacturing products exports: burdensome NTMs applied by Sri Lankan authorities

Affected product groups	Export to the world		Number of reported NTM cases					Sub-total
	Export value in 2009 (US\$ '000)	Share of product group in the sector's export value*	Inspection, certification and technical measures	Licences, quotas and prohibitions	Taxes and charges	Other export related measures		
Metal, basic manufacturing and non-electric machinery	135,586	19.79%	-	1	1+1 [†]	2	5	
Wood, wood products and paper	56,501	8.25%	-	2	-	-	2	
Electronics, computers and telecoms	142,994	20.87%	2	-	-	-	2	
All remaining manufacturing products	349,967	51.09%	5	4	1	-	10	
Total	685,048	100.0%	7	7	3	2	19	

Source: ITC survey on NTMs and ITC calculations based on Trade Map data.

*Total export value of other manufacturing products is US\$ 685,048,000.

[†]Measures reported by trading agents are marked by [†], all other NTMs were reported by producing companies.

Note: In order to facilitate understanding of the table above, product groupings condense highly disaggregated product-level information. By construction, the share of affected products in the sector's total export value therefore adds up to 100%; this does not imply that all trade is actually affected by NTMs.

Table 32: Other manufacturing products imports: burdensome NTMs applied by Sri Lankan authorities

Affected product groups	Import from the world		Number of reported NTM cases						
	Import value in 2009 (US\$ '000)	Share of product in the sector's import value*	Technical requirements	Conformity assessment	Pre-shipment inspection and other formalities	Charges, taxes and other para-tariff measures	Quantity control measures	Finance measures	Sub-total
Metal, basic manufacturing and non-electric machinery	1,456,755	47.53%	1	4	7	10	1	5	28
Wood, wood products and paper	287,570	9.38%	1	4	-	-	-	-	5
Electronics, computers and telecoms	524,380	17.11%	-	4	3	6	5	-	18
All remaining manufacturing products	796,471	25.98%	2	3	-	2	1	-	8
Total	3,065,176	100.0%	4	15	10	18	7	5	59

Source: ITC survey on NTMs and ITC calculations based on Trade Map data.

*Total import value of other manufacturing products is US\$ 3,065,176,000.

Note: In order to facilitate understanding of the table above, product groupings condense highly disaggregated product-level information. By construction, the share of affected products in the sector's total export value therefore adds up to 100%; this does not imply that all trade is actually affected by NTMs.

Table 33: Other manufacturing products imports: burdensome NTMs applied by partner countries

Affected product groups	Import from the world		Number of reported NTM cases		
	Import value in 2009 (US\$ '000)	Share of product group in the sector's import value*	Licensing or permit to export	Sub-total	Partner country applying the measures
Electronics, computers and telecoms	524,380	17.11%	3	3	Singapore (3)
Total	524,380	17.11%	3	3	

Source: ITC survey on NTMs and ITC calculations based on Trade Map data.

*Total import value of other manufacturing products is US\$ 3,065,176,000.

Note: In order to facilitate understanding of the table above, product groupings condense highly disaggregated product-level information. By construction, the share of affected products in the sector's total export value therefore adds up to high percentages; this does not imply that all trade is actually affected by NTMs.

6.5.1. Conformity assessment, licensing and pre-shipment inspections

Several electrical and computer equipment importers complain about problems with certification at the SLSI, and in the case of telecommunication equipment about the Telecommunications Regulatory Commission of Sri Lanka (TRC). These include delays (up to 6 months), costs and also difficulties in providing appropriate samples or repetitive testing of every shipment. The same certification and testing issue also holds for the Cosmetics, Devices

'[There are] documentation problems: the Telecom Regulatory Commission wants too many documents, so the process of importing becomes burdensome – they need licences obtained for every shipment, though it is the same item that is being imported.'

[A Sri Lankan importer of telecommunication equipment \(ITC survey on NTMs\)](#)

and Drugs (CDD) certification under the CDD Act,¹⁰⁵ which was reported for medical equipment. Domestic private-sector testing facilities are scarce and are even reported to be both more expensive and more time-consuming than governmental institutions. Outsourcing to international testing institutions would further increase costs and delays.

A similar burden is faced directly at the border when imported goods are apparently excessively inspected. Such physical controls of cargo particularly affect products containing chemicals, jewellery and electronics.

6.5.2. Charges, taxes and other para-tariff measures

Apart from tariffs, which are already rather high in the segment of final goods, further charges and taxes

'Because of the tax, duty and charges in the customs, product cost is very high.'

A Sri Lankan exporter of industrial equipment (ITC survey on NTMs)

appear to be a significant impediment to imports. While customs surcharges should have been eliminated by June 2010, cess rates by the EDB and the NBT for firms exceeding a quarterly turnover of Rs 650,000 (US\$ 5,800) remain applicable to many products.¹⁰⁶ While the cess is supposed to be exempted for producers that use the imported product as an input for later exports according to the TIEP scheme, claiming this benefit appears to be a major bureaucratic obstacle for many firms. The same administrative procedures problem also occurs when firms attempt to obtain VAT reimbursements according

to the SVAT scheme. The increase of the NBT from 1% to 3% in 2009 is also felt to be significant.

'Hidden taxes have to be paid to the customs.'

In general, the structure, lack of transparency and sheer number of different charges and taxes cause confusion, especially for SMEs.

A Sri Lankan importer of metals (ITC survey on NTMs)

6.6. Procedural obstacles and an inefficient trade-related business environment

Across all trade operations, exports (see table 34) and imports (see table 35), delays in any kind of administrative procedure are felt to be the most outstanding burden for firms. This is followed by informal payments and other arbitrary or inconsistent behaviour of officials. In most cases, even in export transactions, Sri Lanka Customs and Port Authorities are held responsible for these delays. So far, the survey results on POs and an inefficient TBE are very similar to most other evaluated sectors. However, a large number of other domestic institutions that have a specific stake in the respective products are also involved: Forest Authority, SLSI, CDD Authority and the TRC, are mentioned several times. While such obstacles do not refer to an explicit policy per se, they are often related to an inefficient and poor implementation of policies. It therefore does not come as a surprise that these institutions are responsible for the testing and certification of many aforementioned conformity assessment regulations.

In the case of imports, the overall geographical distribution of POs and inefficient TBE between domestic authorities and partner countries is matched by where the NTM is imposed. This is different for exports: While 91% of NTMs were reported as imposed by the partner country, 81% of obstacles were experienced domestically. Taking the recurring example of a conformity requirement as the partner's NTM, delays and costs caused by domestic testing and certification facilities then constitute the PO.

6.7. Summary and policy options

The products subsumed under the 'other manufacturing' sector include electronics, computers, transport equipment, basic manufacturing and machinery. They account for 13% of Sri Lanka's manufacturing exports, but are mostly imported. Many of these manufacturing goods are important direct inputs and investment goods for sectors of domestic production, exports and services.

¹⁰⁵ Available online at:

http://www.lawnet.lk/section.php?file=http://www.lawnet.lk/docs/statutes/leg_enact_1981/indexes/1981Y17V545C.html (accessed on 24 March 2011).

¹⁰⁶ WTO (2010).

On the export side, Sri Lankan firms mostly struggle with technical measures and additional charges that are predominantly imposed by developed countries, but also India. In the latter case such issues can be addressed bilaterally within the framework of ISFTA or the pending CEPA. With partners like the European Union, Japan or the United States this is likely to be more difficult, yet bilateral mutual recognition agreements (MRAs) could be realized or brought to the WTO in critical cases. However, another part of the complaints refer to obstacles within domestic borders: exporting firms lament export inspections and licensing requirements that entail excessive documentation and delays. Furthermore, as equally encountered for imports and in other sectors, problems at Customs and Ports were frequently reported. These mostly refer to delays, inconsistencies with respect to product classification or even bribery. Expanding electronic customs systems, enforcing the use of X-ray machines for inspections, and training of officials were proposed as a way forward. These findings highlight that, even if foreign trade policies cannot be influenced in favour of Sri Lankan exporters, a large potential for trade facilitation exists in streamlining domestic institutions and infrastructure.

Table 34: Other manufacturing products exports: procedural obstacles and inefficient trade-related business environment

POs and inefficient TBE	Number of PO/TBE cases that occurred		
	...in Sri Lanka (and agencies involved, if specified)	...in partner countries	Sub-total
Delay in administrative procedures	17+3 ^t Customs, Forest Authority, Chamber of Commerce, Dept. of Inland Revenue, Port Authorities	1+2 ^t EU (2 ^t), India	23
Inconsistent classification of products	9+2 ^t Customs, Port Authorities		11
Informal payment, e.g. bribes	10 Customs, Forest Authority		10
Unusually high fees and charges	1	3+1 ^t EU ^t , India, Maldives, Singapore	5
Lack of recognition e.g. of national certificates		4 EU (3), Australia	4
Low security level for persons and goods	3 Customs		3
Large number of different documents	3 Customs		3
Inconsistent or arbitrary behaviour of officials	3 Customs, Dept. of Commerce		3
Information is not adequately published and disseminated	2 Customs, BOI		2
Delay during transportation	2		2
Technological constraints, e.g. information and communications technologies (ICT)	2 Customs		2
Limited/inappropriate facilities	1 ^t Port Authorities		1
Large number of checks	1 Customs		1
Other obstacles	3 Customs, Port Authorities	4 EU (3), Australia	7
Total	62	15	77

Source: ITC survey on NTMs.

^tPOs/TBE reported by trading agents are marked by ^t, all other obstacles were reported by producing companies.

Table 35: Imports of other manufacturing products: procedural obstacles and inefficient trade-related business environment

POs and inefficient TBE	Number of PO/TBE cases that occurred		
	...in Sri Lanka (and agencies involved, if specified)	...in partner countries	Sub-total
Delay in administrative procedures	55 Customs, Ministry of Defence, Chamber of Commerce, Ministry of Health, SLSI, Port Authorities, Dept. of Inland Revenue, Ministry of Finance, Ceylon Petroleum Corporation	3 China, Hong Kong SAR, Singapore	58
Inconsistent or arbitrary behaviour of officials	36 Customs, National Gem and Jewellery Authority, Dept. of Commerce, Customs, Telecommunication Regulatory Commission, Port Authorities		36
Informal payment, e.g. bribes	31 Customs, Port Authorities		31
Inconsistent classification of products	24 Customs		24
Low security level for persons and goods	17 Customs, Port Authorities		17
Large number of checks	15 Customs		15
Unusually high fees and charges	9 Customs, Chamber of Commerce, Port Authorities		9
Limited/inappropriate facilities	8 Customs, Port Authorities, SLSI		8
Technological constraints, e.g. ICT	8 Customs, Port Authorities		8
Large number of different documents	7 Customs, CDD		7
Documentation is difficult to fill out	5 Telecom Regulatory Commission, Customs		5
Delay during transportation	3	1 India	4
No due notice for changes in procedure	3 Customs		3
Information is not adequately published and disseminated	2 Customs, Sri Lankan Airlines		2
Regulations change frequently	2 Customs		2
No advance binding ruling procedure	1 Port Authorities		1
No dispute settlement procedure	1 Customs		1
Lack of recognition e.g. of national certificates	1 CDD, SLSI		1
Other obstacles	11 Customs		11
Total	239	4	243

Source: ITC survey on NTMs.

Looking at the large import sector, firms report problems with certification, inspections and licensing procedures imposed by Sri Lankan authorities. Even where NTM policies, particularly standards and technical regulations, are reasonable or necessary, their practical implementation is of paramount concern. In this respect, a remarkable result of the survey is that underlying standards or technical requirements barely seem to be the problem, but rather the process of demonstrating compliance. Recurring critiques were directed at the domestic institutions that both define standards and provide respective certificates and licenses: in particular the SLSI, the TRC, the Cosmetics, Devices and Drugs Authority and the Forestry Ministry. The predominant role of the SLSI as a focal point for most certification procedures was regarded as a bottleneck for many production and trade operations. Therefore, a mismatch between the defined requirements, albeit oriented at international standards, and actual capacities at the procedural level is evident from the survey results. Investing in domestic testing and certification infrastructure to minimize unwanted frictions for export and import operations should thus be highly beneficial for domestic enterprises.

Another frequently mentioned concern of firms was the number of charges and taxes on imports. Apart from customs tariffs, several other charges are levied: VAT, PAL, a cess by the EDB and the Nation Building Tax (only for large firms). Until recently, additional surcharges were imposed. Firms were not only troubled by the total amount of taxes, which in some cases doubles the overall fee as compared to the actual tariff, but also by a lack of information about them. Similarly, benefitting from the numerous exemptions and reimbursements schemes in favour of exporting firms, such as the Temporary Importation for Export Processing, cess exemption and Duty Rebate Scheme, seems to be very difficult for SMEs due to lack of awareness and cumbersome registration requirements. Lifting the surcharges as per June 2010 was a first notable step towards simplifying the structure of taxes and charges. Going further in this direction, essentially coupled with information and awareness campaigns, could improve the economic performance of manufacturing firms, especially SMEs. Also, converting these so-called 'hidden' taxes into a clear-cut structure of regular tariffs is likely to achieve transparency and facilitate business operations.

Conclusions

Non-tariff measures (NTMs) have become a principal concern in international trade. Although arguably imposed for legitimate reasons in many cases, NTMs often have a negative effect on trade. Due to their diverse nature and complexity, NTMs are notoriously difficult to evaluate. This lack of transparency also tends to aggravate the impact on the business sector. This survey reviews the essential business perspective and increases the understanding of the issues at stake. Expanding the scope beyond NTMs towards procedural obstacles and inefficiencies of the trade-related business environment provides an even richer picture. The combined assessment of policy and implementation delivers the essential basis for further evaluation of welfare effects and government action.

The survey reveals that both exports and imports are strongly affected by NTMs and other obstacles to trade. Trade of raw and processed agricultural commodities tends to be slightly more affected than manufacturing goods. While NTMs could be identified on the side of partner countries, an outstanding result of the survey is that many obstacles occur domestically in Sri Lanka. As opposed to import tariffs levied by a partner country on all exporters, domestic costs of NTMs and other obstacles cannot be passed on to the consumer in competitive markets. Similarly, additional costs on the import of inputs for domestic production and subsequent export have an equivalent effect. In addition to addressing trade policies with foreign partners, it is therefore also crucial to minimize any unnecessary costs and frictions at home.

Technical requirements, conformity assessment and rules of origin

Technical requirements are mostly applied by the importing country, thus Sri Lanka's partners when exporting and Sri Lanka's own authorities when importing. In some cases, the standards demanded in important markets like the European Union and the United States were found to be difficult to comply with. Sri Lankan requirements on their imports are generally oriented at international standards. These are both defined and implemented by the SLSI, the national body of International Organization for Standardization (ISO), complemented by sector specific entities like the Telecommunications Regulatory Commission (TRC), Cosmetics, Devices and Drugs (CDD) or the Forestry Authority. In the majority of cases surrounding export and import technical regulations, however, businesses state that compliance with the requirement itself tends to be only a minor problem. The greater burden is demonstrating conformity with the underlying technical requirement.

First of all, firms report facing a bottleneck in domestic technical testing and certification facilities. As the national focal point for these tasks, the SLSI has been subject to considerable criticism from the business sector. Delays and costs of procedures were lamented most of all, along with a lack of some testing methods that need to be outsourced internationally and problems with recognition of certificates by buyers in developed countries. The United Nations Industrial Development Organization (UNIDO) implemented a number of successful projects on Sri Lanka's technical facilities between 1999 and 2007, significantly improving capacities and the number of clients served. Still, with a continuous rapid growth of demand for technical testing and certification, further efforts are required. The SLSI also confirmed a need for funds to satisfy the large demand and to expand services. Increased government investment into technical testing and certification infrastructure is likely to achieve a significant trade promotion effect. It seems commendable to focus on mandatory standards in the largest developed markets before moving on to smaller markets and private standards.

A similar matter is reported with respect to rules of origin. Benefitting from preferential trade agreements with large markets, such as the GSP and the temporarily suspended GSP+, requires certificates of origin that many exporters find hard to obtain. In the clothing sector especially, the rules of origin cause problems due to high shares of imported inputs in the final product. However, as for technical measures, there are many cases where getting the certificate of origin is more of a burden than complying with the underlying rules of origin. Efforts should be made to increase efficiency and cut lead times in the respective institutions. Besides, it should be kept in mind that preferences are likely to be eroded in the medium or long term. Unsustainable market concentration due to preferential market access should therefore be reduced.

Additional charges and incentive schemes for imported inputs

A second cross-cutting burden includes a number of charges and taxes in addition to regular customs duties. Export cesses are levied by the Sri Lanka EDB, Tea Boards and Coconut Development Authority. When importing, the EBD cess, PAL, NBT and SRL are applied. These levies have a clear designation to finance specific domestic development promotion activities, but are still felt to be problematic for business performance in several cases. Apart from the actual financial burden, the sheer number of levies is reported to be confusing, even perceived as 'hidden taxes', and complicating business planning. In this light, it becomes doubtful whether a system of earmarking tax revenues has benefits worth the business costs of such a complex regime of levies. A reasonable step forward, even if fiscal revenues from taxes need to be maintained, would be a simplification of the structure of charges. For imports, a conversion of charges and taxes into regular customs duties would be the most transparent solution.

Additional taxes also affect import sectors that are crucial in the value chain of domestic production: major examples are textiles as inputs for the clothing industry, chemicals for agricultural production, and a variety of manufactures as investment goods across sectors. Indeed these interconnections are evidently recognized and actively tackled by policymakers. Several schemes are in place to relieve firms that need inputs for processing and subsequent export. The TIEP I and TIEP IV, Duty Rebate Scheme, Manufacture in Bond scheme and, currently, the SVAT should implement reimbursements, exemptions and rebates from duties and other charges. However, many firms complain about extensive paperwork and other costly administrative burdens to register for the respective schemes. While already being most strongly affected by such fixed costs, SMEs are also said to be lacking awareness of the schemes. Extensive delays can also cause severe disruptions in business financing. Again, simplification efforts, administrative streamlining and information campaigns could offer a potential for export promotion.

Procedural obstacles, trade-related infrastructure and private standards

While the aforementioned government-imposed NTMs entailed related specific POs in testing infrastructure and administration, several obstacles and inefficiencies of the TBE that were repeatedly mentioned are unrelated to particular policies. Given that these obstacles therefore affect all trade operations, irrespective of sector and direction of trade, considerable attention should be paid to them.

Customs and Port Authorities are the most reported agencies in this respect. Firstly, complaints about inspections referred to very long delays, especially if several government agencies are involved, and sometimes to damaged cargo due to manual examinations. An initiative that requires all relevant agencies to be represented at the same time for a 'single inspection', combined with training of officials, may alleviate frictions at Customs and Ports. Furthermore, in order to avoid damages to cargo, the use of existing X-ray machines for inspections should be increased and investments into additional modern technology may be considered.

Secondly, with manual procedures being slow, companies expressed a need for improved electronic customs systems, adding that the EDI and the Direct Trader Input Facility in the Sri Lanka customs (DTI) were not fully operational and cost additional fees. In a related matter, customs paperwork is felt to consist of too many documents, often from several different authorities. Furthermore, companies complained about a general lack of cargo handling capacities and insufficient opening hours, which not only resulted in delays but also in high demurrage. Customs officials were also accused of inconsistent classification and valuation of products, and even bribery. Since all trade operations are affected by these obstacles, a further effort in the direction of improved customs infrastructure, simplified documentation and capacity building of officials is likely to facilitate trade. Apart from directly trade-related infrastructure, domestic transport in the form of roads and railroads also seems to need rebuilding.

Another group of problems is affecting firms in their direct relationship with business partner companies, with respect to terms of payment and voluntary standards. Where Sri Lanka is competing with other exporters for large buyers in developed countries, usually only the least favourable terms of payment, i.e. letter of credit or deferred payment against acceptance, can be negotiated for exporters. While a direct government intervention is hardly feasible here, strengthening the Sri Lanka Export Credit Insurance Corporation and implementing the envisaged setting up of an export/import bank may help the business sector's trade financing.

Voluntary private standards may also become compulsory *de-facto* in reaction to market developments. An example of this is labour standards. To avoid direct competition with dominant mass producers like Bangladesh and China, a focus on quality and higher standards to find a niche in European Union and United States markets has proven successful so far. Combining the voluntary Garments Without Guilt initiative in Sri Lanka's clothing industry with government efforts in the same direction continues to be a promising way forward, irrespective of whether or not GSP+ preferences can be reinstated. Organic agricultural products only represent a small share in Sri Lanka's current markets, but it should be noted that a lack of recognition of Sri Lanka's domestic organic standards in the European Union is an impediment to further development in this segment.

Levels of government intervention

There is potential for government action on several levels. At the multilateral stage, Sri Lanka should continue its current efforts in the World Trade Organization Doha Round to promote market access and trade facilitation, and raise concerns about discriminatory restrictions and standards. The bilateral and regional level of trade agreements is also crucial for addressing NTMs. Priorities should be the largest markets in the European Union and the United States, but also regional partner countries, particularly India, which appears relatively more difficult with regard to NTMs. As the major burdens, technical requirements and conformity assessment need to be addressed. Apart from seeking tariff preferences in trade agreements, it is therefore important to focus on NTMs, for example through Mutual Recognition Agreements (MRAs) of standards and certifications. This approach may be more promising in regional partnerships. In chronological order, regional trade agreements starting from the ISFTA, over PSFTA and APTA to the SAFTA did indeed contain increasingly specific language on NTMs. Renegotiations of NTM provisions, as conducted in the case of the CEPA with India, are an important step forward and should contain an emphasis on NTMs.

However, a highly significant and promising venue of policies for trade promotion is domestic. Trade facilitation for exports and imported inputs can be achieved by means of strengthening domestic testing and certification facilities, simplifying tax structure and exemption schemes as well as administrative procedures, investing in customs and ports infrastructure, and capacity building of officials. In order to define specific implementation strategies, public-private partnerships between high-level government and business sector representatives may lead the way forward. A committee could consist of officials from the Ministry of Commerce, Ministry of Finance and Planning, Plantations Ministry, SLSI, EDB, sector institutions like the Sri Lanka Tea Board, Central Bank, and business stakeholders, possibly led by the Chamber of Commerce. Subgroups of the committee may elaborate approaches and costs of implementation within their area of expertise. Priorities and actions to be taken could then be decided in the main committee. Eliminating identified obstacles to trade could play a significant role in achieving the goals outlined in Sri Lanka's development plan, the *Mahinda Chintana*.

Appendix I Global methodology of the non-tariff measure surveys

Non-tariff measure surveys

From 2008 to 2010,¹⁰⁷ the International Trade Centre (ITC) completed large-scale company-level surveys on burdensome non-tariff measures and other barriers to trade (NTM surveys hereafter) in 10 developing and least-developed countries on all continents.¹⁰⁸ In 2011 the NTM surveys will be launched in 10 countries. The main objective of the NTM survey is to capture how businesses perceive burdensome NTMs and other obstacles to trade at a most detailed level – by product and partner country.

All surveys are based on a global methodology consisting of a core part and a country-specific part. The core part of the NTM survey methodology, described in this appendix is identical in all survey countries, enabling cross-country analyses and comparison. The country-specific part allows flexibility in addressing the requirements and needs of each participating country. The country-specific aspects and the particularities of the survey implementation in Sri Lanka are covered in chapter 2 of this report.

Scope and coverage of the non-tariff measure surveys

The objective of the NTM survey requires a representative sample allowing for the extrapolation of the survey result to the country level. To achieve this objective, the NTM survey covers at least 90% of the total export value of each participating country (excluding minerals and arms). The economy is divided into 13 sectors, and all sectors with more than a 2% share in total exports are included in the survey.

The NTM Survey sectors are defined as follows:

1. Fresh food and raw agro-based products
2. Processed food and agro-based products
3. Wood, wood products and paper
4. Yarn, fabrics and textiles
5. Chemicals
6. Leather
7. Metal and other basic manufacturing
8. Non-electric machinery
9. Computers, telecommunications; consumer electronics
10. Electronic components
11. Transport equipment
12. Clothing
13. Miscellaneous manufacturing

¹⁰⁷ The work started back in 2006, when the Secretary-General of UNCTAD (United Nations Commission on Trade and Development) established the Group of Eminent Persons on Non-Tariff Barriers (GNTB). The main purpose of GNTB is to discuss definition, classification, collection and quantification of non-tariff barriers – to identify data requirements, and consequently advance understanding of NTMs and their impact on trade. To carry out the technical work of the GNTB, a Multi-Agency Support Team (MAST) was also set up. Since then, the ITC is advancing the work on NTMs in three directions. First, ITC has contributed to the international classification of non-tariff measures (NTM classification) that was finalized in October 2009. Second, ITC undertakes NTM Surveys in developing countries using the NTM classification. Third, ITC, UNCTAD and the World Bank jointly collect and catalogue official regulations on NTMs applied by importing markets (developed and developing). This provides a complete picture of NTMs as official regulations serve as a baseline for the analysis, and the surveys identify the impact of the measures on enterprises, and consequently, on international trade.

¹⁰⁸ The first NTM surveys were carried out in cooperation with UNCTAD in 2008–2009 in Brazil, Chile, India, the Philippines, Thailand, Tunisia and Uganda. The pilot surveys provided a wealth of materials allowing to significantly improve both the NTM classification and the NTM survey methodology. Since then, ITC has implemented NTM surveys based on the new methodology in Burkina Faso, Hong Kong SAR, Peru and Sri Lanka.

Companies trading arms and minerals are excluded. The export of minerals is generally not subject to trade barriers due to a high demand, and the specificities of trade undertaken by large multinational companies. The export of arms is out of the scope of ITC activities.

The NTM surveys are undertaken among companies exporting and importing goods. Companies trading services are excluded, as a survey on NTMs in services would require a different approach and methodology. Yet, the NTM Survey includes companies specialized in the export-import process and services, such as agents, brokers, forwarding companies (referred to as 'trading agents' for brevity). These companies can be viewed as service companies, as they provide trade logistics services. The answers provided by trading agents are in most cases analysed separately from the answers of the companies that export their own products.

The NTM surveys cover legally registered companies of all sizes and types of ownership. Depending on country size and geography, one to four geographic regions with high concentrations of economic activities (high number of firms) are included in the sample.

Two-step approach

The representatives of the surveyed companies, generally export/import specialists or senior-level managers, are asked to report trade-related problems experienced by their companies in the preceding year and representing a serious impediment for their operations. To identify companies that experience burdensome NTMs, the survey process consists of phone screens with all companies in the sample (step 1) and face-to-face interviews undertaken only with the companies that reported difficulties with NTMs during the phone screens (step 2).

Step 1: Phone screens

The first step includes short phone screen interviews. Phone screens consist of questions identifying the main sector of activity of the companies and the direction of trade (export or import). The respondents are then asked whether their companies have experienced burdensome NTMs. If a company does not report any issues with NTMs, the phone screen is terminated. Companies that report difficulties with NTMs are invited to participate in an in-depth face-to-face interview, and the time and place for this interview is scheduled before terminating phone screen.

Step 2: Face-to-face interviews

The second-step interviews are required to obtain all the details of burdensome NTMs and other obstacles at the product and partner country level. These interviews are conducted face-to-face due to the complexity of the issues related to NTMs. Face-to-face interactions with experienced interviewers helps to ensure that respondents correctly understand the purpose and the coverage of the survey, and accurately classify their responses in accordance with predefined categories.

The questionnaire used to structure face-to-face interviews consists of three main parts. The first part covers the characteristics of the companies: number of employees, turnover and share of exports in total sales, whether the company exports their own products or represents a trading agent providing export services to domestic producers.

The second part is dedicated to exporting and importing activities of the company, with all trade products and partner countries recorded. During this process, the interviewer also identifies all products affected by burdensome regulations and countries applying these regulations.

During the third part of the interview, each problem is recorded in detail. A trained interviewer helps respondents identify the relevant government-imposed regulations, affected products (6-digit level of the Harmonized System), the partner country exporting or importing these products, and the country applying the regulation (it can be partner, transit or home country).

Each burdensome measure (regulation) is classified according to the NTM classification, an international taxonomy of NTMs, consisting of over 200 specific measures grouped into 16 categories (see appendix II).

The NTM classification is the core of the survey, making it possible to apply a uniform and systematic approach to recording and analysing burdensome NTMs in countries with very idiosyncratic trade policies and approaches to NTMs.

The face-to-face questionnaire captures not only the type of burdensome NTMs, but also the nature of the problem (so called *procedural obstacles* explaining why measures represent an impediment), the place where each obstacle takes place, and the agencies involved, if any. For example an importing country can require the fumigation of containers (NTM applied by the partner country), but fumigation facilities are expensive in the exporting country, resulting in a significant increase in export costs for the company (POs located in the home country). The companies can also report generic problems not related to any regulation, but affecting their export or import, such as corruption and lack of export infrastructure. These issues are referred to as problems related to business environment (see appendix III).

Local survey company

Both phone screens and face-to-face interviews are carried out by a local partner selected through a competitive bidding procedure. The partner is most often a company specializing in surveys. Generally, the NTM surveys are undertaken in local languages. The phone screens are recorded either by a Computer Assisted Telephone Interview system, computer spreadsheets, or on paper. The face-to-face interviews are initially captured using paper-based interviewer-led questionnaires that are then digitalized by the partner company using a spreadsheet-based system developed by ITC.

Open-ended discussions

During the surveys of companies and preparation of the report, open-ended discussions are held with national experts and stakeholders, for example trade support institutions and sector/export associations. These discussions provide further insights, quality check and validation of the survey results. The participants review the main findings of the NTM survey and help to explain the reasons for the prevalence of the certain issues and their possible solutions.

The open-ended discussions are carried out by the survey company, a partner in another local organization or university, or by graduate students participating in the special fellowship organized in cooperation with Columbia University (United States).

Confidentiality

The NTM survey is confidential. Confidentiality of the data is paramount to ensure the greatest degree of participation, integrity and confidence in the quality of the data. The paper-based and electronically captured data is transmitted to ITC at the end of the survey.

Sampling technique

The selection of companies for the phone screen interviews of the NTM survey is based on the stratified random sampling. In a stratified random sample, all population units are first clustered into homogeneous groups ('strata'), according to some predefined characteristics, chosen to be related to the major variables being studied. In the case of the NTM surveys, companies are stratified by sector, as the type and incidence of NTMs are often product-specific. Then simple random samples are selected within each sector.

The NTM surveys aim to be representative at the country level. A sufficiently large number of enterprises should be interviewed within each export sector to ensure that the share of enterprises experiencing burdensome NTMs is estimated correctly and can be extrapolated to the entire sector. To achieve this

objective, a sample size for the phone screens with exporting companies is determined *independently for each export sector*.¹⁰⁹

For importing companies, the sample size is defined at the country level. The sample size for importing companies can be smaller than the sample size for exporters, mainly for two reasons. First, the interviewed exporting companies are often import intermediaries and provide reports on their experiences with NTMs as both exporters and importers. Second, problems experienced by importing companies are generally linked to domestic regulations required by their home country. Even with a small sample size for importing companies, the effort is made to obtain a representative sample by import sectors and the size of the companies.

Exporting companies have difficulties with both domestic regulations and regulations applied by partner countries that import their products. Although the sample size is not stratified by company export destinations, a large sample size permits a good selection of reports related to various export markets (regulations applied by partner countries). By design, large trading partner are mentioned more often during the survey, simply because it is more likely that the randomly selected company would be exporting to one of the major importing countries.

The sample size for face-to-face interviews depends on the results of the phone screen interviews.

Average sample size

Based on the results of the NTM surveys in 10 countries, the number of successfully completed phone screens can range from 150 to 1,000, with subsequent 150 to 300 face-to-face interviews with exporting and importing companies. The number of phone screens is mainly driven by the size and the structure of the economy, availability and quality of the business register and the response rate. The sample size for the face-to-face interviews depends on the number of affected companies and their willingness to participate in the face-to-face interviews.

Survey data analysis

The analysis of the survey data consists of constructing frequency and coverage statistics along several dimensions, including product and sector, NTMs and their main NTM categories (e.g. technical measures, quantity control measures), and various characteristics of the surveyed companies (e.g. size and degree of foreign ownership).

The frequency and coverage statistics are based on 'cases'. A case is the most disaggregated data unit of the survey. By construction, each company participating in a face-to-face interview reports at least one case of burdensome NTMs, and, if relevant, related procedural obstacles and problems with business environment.

¹⁰⁹ The sample size depends on the number of exporting companies per sector and on the assumptions regarding the share of exporting companies that are affected by NTMs in the actual population of this sector. The calculation of a sample size will be based on the equation below (developed by Cochran, 1963) to yield a representative sample for proportions in large populations (based on the assumption of normal distribution).

$$n_o = \frac{t^2 * p(1-p)}{d^2}$$

Where

n_o : Sample size for large populations

t : t-value for selected margin of error (d). In the case of the NTM survey 95% confidence interval is accepted, so t-value is 1.96.

p : The estimated proportion of an attribute that is present in the population. In the case of the NTM survey, it is a proportion of companies that experience burdensome NTMs. As this proportion is not known prior to the survey, the most conservative estimate leading to a large sample size is employed, that is $p=0.5$.

d : Acceptable margin of error for the proportion being estimated. In other words, a margin of error that the researcher is willing to accept. In the case of NTM survey $d=0.1$.

Source: Cochran, W. G. 1963. *Sampling Techniques*, 2nd Ed., New York: John Wiley and Sons, Inc.

Each case of each company consists of one NTM (a government-mandated regulation, for example sanitary and phytosanitary [SPS] certificate), one product affected by this NTM, and partner country applying the reported NTM. For example, if there are three products affected by the very same NTM applied by the same partner country and reported by one company, the results would include 3 cases. If two different companies report the same problem, it would be counted as two cases.

The scenario where several partner countries apply the same type of measure is recorded as several cases. The details of each case (e.g. the name of the government regulations and its strictness) can vary as regulations mandated by different countries are likely to differ. However, if the home country of the interviewed companies applies an NTM to a product exported by a company to several countries, the scenario will be recorded as a single NTM case. Furthermore, when an interviewed company both exports and imports, and reports cases related to both activities, it is included in the analysis two times: once for the analysis of exports and once for the analysis of imports. The distinction is summarized in the table below.

Table: Dimensions of an NTM case

Country applying the measure Dimensions	Home country (where survey is conducted)	Partner countries (where goods are exported to or imported from) and transit countries
Reporting company	X	X
Affected product (HS 6-digit code or national tariff line)	X	X
Applied NTM (measure-level code from the NTM classification)	X	X
Trade flow (export or import)	X	X
Partner country applying the measure		X

Cases of POs and problems with business environment are counted in the same way as NTM cases. The statistics are provided separately from NTMs, even though in certain instances they are closely related. (For example, delays can be caused by the pre-shipment inspection requirements). As many of the POs and problems with business environment are not product-specific, the statistics are constructed along two dimensions: type of obstacles and country where they occur, as well as agencies involved.

Enhancing local capacities

The NTM surveys enhance national capacities by transmitting skills and knowledge to a local partner company. ITC does not implement the surveys, but guides and supports a local survey company and experts in doing this.

Before the start of the NTM survey, the local partner company, including project managers and interviewers are fully trained on the different aspects of the NTMs, the international NTM classification, and the ITC NTM survey methodology. ITC representatives stay in the country for the launch of the survey and initial interviews, and remain in contact with the local partner during the entire duration of the survey, usually around six months, to ensure a high quality of survey implementation. ITC experts closely follow the work of the partner company, providing a regular feedback on the quality of the captured data (including classification of NTMs) and the general development of the survey, helping the local partner to overcome any possible problems.

Furthermore, ITC helps to construct a business register (list of exporting and importing companies with contact details) which remain at disposal of the survey company and national stakeholders. The business register is a critical part of any company-level survey, but unfortunately it is often unavailable, even in the advanced developing countries. ITC puts much time, effort and resources into constructing a national business register of exporting and importing companies. The initial information is obtained with the help of national authorities and other stakeholders (e.g. sectoral associations). In cases where it is not available from government sources or a sectoral association, ITC purchases information from third companies, and in certain cases digitalizes it from paper sources. The information from various sources is then processed and merged into a comprehensive list of exporting and importing companies.

So, upon completion of the NTM survey, the local partner company is fully capable of independently implementing a follow-up survey or other company-level surveys, as it is equipped with the business register and trained on the survey, trade and NTM-related issues.

Caveats

The utmost effort is made to ensure the representativeness and the high quality of the survey results, yet several caveats must be kept in mind.

First, the NTM surveys generate *perception data*, as the respondents are asked to report burdensome regulations representing *a serious impediment* to their exports or imports. The respondents may have different scales for judging what constitutes an impediment. The differences may further intensify when the results of the surveys are compared across countries, stemming from cultural, political, social, economic and linguistic differences. Furthermore, some inconsistency may be possible among interviewers (e.g. related to matching reported measures against the codes of the NTM classification) due to the complex and idiosyncratic nature of NTMs.

Second, in many countries a systematic business register covering all sectors is not available or not complete. As a result, it may be difficult to ensure random sampling within each sector, and a sufficient rate of participation in smaller sectors. Whenever this is the case, the survey limitations are explicitly provided in the corresponding report.

Finally, certain NTM issues are not likely to be known by the exporting and importing companies. For example, exporters may not know the demand-side constraints behind the borders, e.g. 'Buy domestic' campaigns. Furthermore, the scope of the survey is limited to legally operating companies, and does not include unrecorded trade, e.g. shuttle traders.

After the non-tariff measure survey

The findings of each NTM survey are presented and discussed at a dissemination workshop. The workshop brings together government officials, experts, companies, donors, non-governmental organizations (NGOs) and academics. It fosters a dialogue on NTM issues and helps identify possible solutions to the problems experienced by exporting and importing companies.

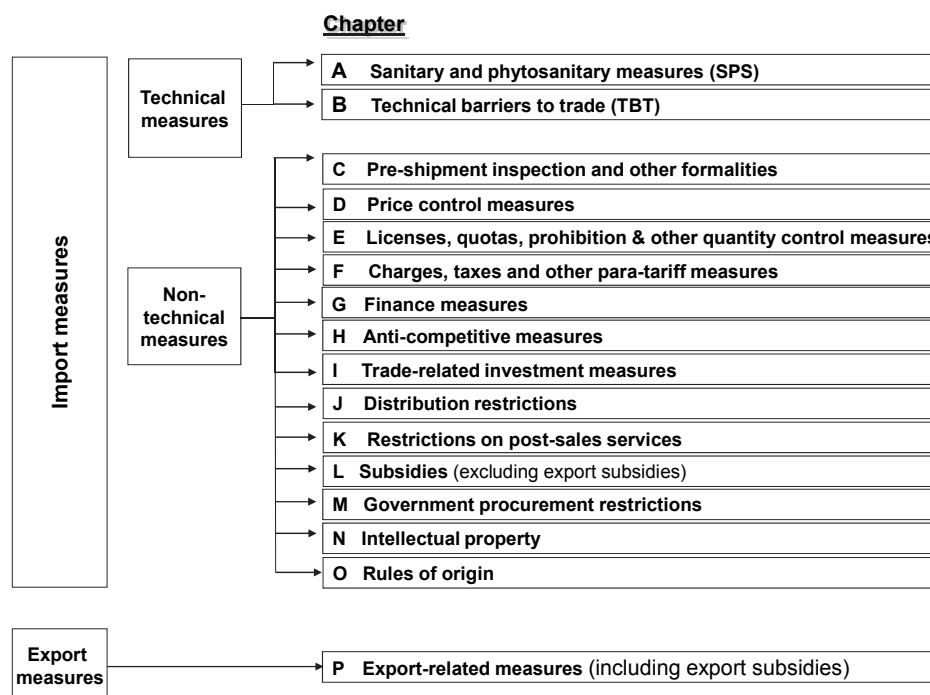
The NTM survey results serve as a diagnostic tool for identifying and solving predominant problems. This can be realized at the national or international level. The survey findings can also serve as a basis for designing projects to address the problems identified and for supporting fundraising activities.

Appendix II Non-tariff measure classification

Importing countries are very idiosyncratic in the ways they apply non-tariff measures. This called for an international taxonomy of NTMs, which was prepared by a group of technical experts from eight international organizations, including the Food and Agriculture Organization, the International Monetary Fund, the International Trade Centre, the Organisation for Economic Co-operation and Development, the United Nations Conference on Trade and Development (UNCTAD), the United Nations Industrial Development Organization, the World Bank and the World Trade Organization. This classification is used to collect, classify, analyse and disseminate information on NTMs received from official sources, e.g. government regulations; and for working with perception-based data, e.g. surveys of companies.

The NTM classification differentiates measures according to 16 chapters (denoted by alphabetical letters), each comprising 'sub-branches' (1-digit), 'twigs' (2-digits) and 'leaves' (3-digits). This classification drew upon the existing, but outdated, UNCTAD Coding System of Trade Control Measures, and has been modified and expanded by adding various categories of measures to reflect current trading conditions. The current NTM classification (see figure below) was finalized in November 2009.

Figure: The structure of the NTM classification



Chapter A, on sanitary and phytosanitary measures (SPS), refers to laws, decrees, regulations, requirements, standards and procedures to protect human, animal or plant life or health from certain risks such as the establishment or spread of pests, diseases, disease-carrying organisms or disease-causing organisms; risks from additives, contaminants, toxins, disease causing organisms in foods, beverages or feedstuffs. Hygienic requirements, fumigation requirements or quarantine are examples. The chapter is also known as SPS.

Chapter B, on technical barriers to trade (TBT), contains measures referring to the technical specification of products or production processes and conformity assessment systems thereof. They exclude SPS measures, but a TBT measure may be applied on food products, if the measure is not for food safety. Product identity or quality requirements are examples.

Chapter C, on pre-shipment inspection and other formalities, refers to the practice of checking, consigning, monitoring and controlling the shipment of goods before or at entry into the destination country.

Chapter D, on price control measures, includes measures implemented to control the prices of imported articles in order to: support the domestic price of certain products when the import price of these goods is lower; establish the domestic price of certain products because of price fluctuation in domestic markets, or price instability in a foreign market; and counteract the damage resulting from the occurrence of 'unfair' foreign trade practices.

Chapter E, on licences, quotas, prohibitions and other quantity control measures, includes measures that restrain the quantity of goods that can be imported, regardless of whether they come from different sources or from one specific supplier. These measures can take the form of restrictive licensing, fixing of a predetermined quota, or through prohibitions.

Chapter F, on charges, taxes and other para-tariff measures, refers to measures other than tariffs that increase the cost of imports in a similar manner, i.e. by a fixed percentage or by a fixed amount. They are also known as para-tariff measures. Customs surcharges and general sales taxes are examples.

Chapter G, on finance measures, refers to measures that are intended to regulate the access to and cost of foreign exchange for imports and define the terms of payment. They may increase import costs in the same manner as tariff measures

Chapter H, on anti-competitive measures, refers to measures that are intended to grant exclusive or special preferences or privileges to one or more limited groups of economic operators.

Chapter I, on trade-related investment measures, refers to measures that restrict investment by requesting local content, or requesting that investment be related to export to balance imports.

Chapter J, on distribution restrictions, refers to restrictive measures related to the internal distribution of imported products.

Chapter K, on restrictions on post-sales services, refers to measures restricting the provision of post-sales services in the importing country by producers of exported goods.

Chapter L, on subsidies, includes measures related to financial contributions by a government or government body to a production structure, be it a particular industry or company, such as direct or potential transfer of funds (e.g. grants, loans, equity infusions), payments to a funding mechanism and income or price support.

Chapter M, on government procurement restrictions, refers to measures controlling the purchase of goods by government agencies, generally by preferring national providers.

Chapter N, on intellectual property, refers to measures related to intellectual property rights in trade. Intellectual property legislation covers patents, trademarks, industrial designs, lay-out designs of integrated circuits, copyright, geographical indications and trade secrets.

Chapter O, on rules of origin, covers laws, regulations and administrative determinations of general application applied by the governments of importing countries to determine the country of origin of goods.

Chapter P, on export-related measures, encompasses all measures that countries apply to their exports. It includes export taxes, export quotas or export prohibitions, among others.

Appendix III Procedural obstacles

List of procedural obstacles related to compliance with non-tariff measures and to inefficient business environment and infrastructure

A.	Administrative burdens	A1. Large number of different documents <i>(please specify number of documents)</i> A2. Documentation is difficult to fill out A3. Difficulties with translation of documents from or into other languages <i>(please specify language)</i> A4. Large number of checks <i>(e.g. inspections, checkpoints, weigh bridges – please specify the number and type of the checks)</i> A5. Numerous administrative windows/organizations involved <i>(please specify number / type of involved windows/organizations)</i>
B.	Information/transparency issues	B1. Information is not adequately published and disseminated B2. No due notice for changes in procedure B3. Regulations change frequently B4. Requirements and processes differ from information published
C.	Inconsistent or discriminatory behaviour of officials	C1. Inconsistent classification of products C2. Inconsistent or arbitrary behaviour of officials
D.	Time constraints	D1. Delay in administrative procedures <i>(please specify number of days)</i> D2. Delay during transportation <i>(please specify number of days)</i> D3. Deadlines set for completion of requirements are too short <i>(please specify required time)</i>
E.	Payment	E1. Unusually high fees and charges <i>(please specify amount)</i> E2. Informal payment, e.g. bribes <i>(please specify amount)</i> E3. Need to hire a local customs agent to get shipment unblocked
F.	Infrastructural challenges	F1. Limited/inappropriate facilities <i>(e.g. storage, cooling, testing, fumigation – please specify)</i> F2. Inaccessible/limited transportation system <i>(e.g. poor roads, road blocks – please specify)</i> F3. Technological constraints, e.g. information and communications technology <i>(please specify)</i>
G.	Security	G1. Low security level for persons and goods
H.	Legal constraints	H1. No advance binding ruling procedure H2. No dispute settlement procedure H3. No recourse to independent appeal procedure H4. Poor intellectual property rights protection, e.g. breach of copyright, patents, trademarks, etc. H5. Lack of recognition, e.g. of national certificates
I.	Other	I1. Other obstacles <i>(please specify)</i>

Appendix IV Experts and stakeholders interviewed

Experts and stakeholders who participated in the open-end discussions on non-tariff measures and related obstacles

Academy for International Trade and Transport

American Chamber of Commerce in Sri Lanka

Asian Development Bank

Board of Investment of Sri Lanka

Colombo Tea Traders Association

Ceylon Chamber of Commerce

Department of Commerce

Embassy of the United States of America

European Chamber of Commerce of Sri Lanka

Industrial Technology Institute

Institute of Policy Studies of Sri Lanka

Joint Apparel Association Forum

Lanka Market Research Bureau

National Chamber of Commerce of Sri Lanka

Small and Medium Sector Apparel Industry Association

Sri Lanka Customs

Sri Lanka Export Development Board

Sri Lanka Standards Institution

Sri Lanka Tea Board

World Bank office in Sri Lanka

Private companies in various sectors: 12 open-ended discussions undertaken by graduate students from the School of International Public Policy of the Columbia University (United States) in addition to the structured NTM survey interviews realized by LMRB.

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Street address
International Trade Centre
54-56 Rue de Montbrillant
1202 Geneva, Switzerland

P: +41 22 730 0111
F: +41 22 733 4439
E: itcreg@intracen.org
www.intracen.org

Postal address
International Trade Centre
Palais des Nations
1211 Geneva 10, Switzerland

The International Trade Centre (ITC) is the joint agency of the World Trade Organization and the United Nations.