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TRADE POLICY REVIEW

REPORT BY THE SECRETARIAT

SRI LANKA

This report, prepared for the fourth Trade Policy Review of Sri Lanka, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from Sri Lanka on its trade policies and practices.

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Document WT/TPR/G/347 contains the policy statement submitted by Sri Lanka.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Sri Lanka. This report was drafted in English.

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SUMMARY

1. Sri Lanka, a middle-income economy, has performed relatively well since its last review in 2010. Its economy has shown resilience in the aftermath of the global financial crisis and following the resolution of the internal conflict, with an average annual growth rate in real GDP of 6% during the review period. Growth was mainly driven by the construction, wholesale and retail trade, and financial services sectors. The main risks to growth sustainability and development result from the weak fiscal position – the fiscal deficit increased from 6.5% of GDP in 2011 to 7.5% in 2015, well above the government target of 4.4%; the declining revenue collection – revenue collection as a proportion of GDP declined to around 13% in 2015; and the resulting public debt overhang. The Government's reform agenda for the next three years plans to address these risks by introducing fundamental changes to tax policy and administration, encouraging stronger revenue performance, and reforming state-owned enterprises (SOEs). With inflation declining from 7.5% in 2012 to less than 1% in 2015, the Central Bank pursued an accommodative monetary policy from 2012, in part to spur economic growth, however, as credit and monetary aggregates expanded, the Central Bank commenced tightening monetary policy gradually towards the end of 2015. Economic activity is dominated by the services sector, which accounts for 60% of GDP, followed by manufacturing at 20%, and agriculture at 9% of GDP.

2. Trade played an important, albeit declining role in the economy during the review period, as trade in goods and non-factor services declined from the equivalent of about 55% of GDP in 2011 to 49% in 2015. While exports and imports grew in absolute terms over the review period, the merchandise trade deficit widened as imports increased more rapidly from US$12 billion to nearly US$19 billion, and exports from US$8 billion to US$10 billion. Sri Lanka's merchandise exports remain heavily concentrated with agriculture and clothing accounting for over 70% of 2015 total exports, while imports remain more diversified. Services trade exhibited strong growth, both in imports and exports, thus contributing to a reduction of the current account deficit during the period from US$4.6 billion in 2011 to US$2 billion in 2015. Receipts more than doubled due to large increases in transport and travel services, reflecting a significant increase in tourism.

3. In term of policy, Sri Lanka has been focusing on long-term strategic and structural development since the end of its internal conflict, as it strives to become an upper-middle-income country. Since its last review, the Government has been guided by its 2010 "*Mahinda Chinthana* – Vision for the Future" which sets out specific targets, e.g. for GDP and export growth, and also for structural change to reduce the reliance on agriculture in order to focus on development of the services and industrial sectors. There are also broad mandates for trade and investment policies, including pursuing preferential trade negotiations, revising tariffs under reciprocal trade agreements, and reviewing import tariff policies and border measures. Key priorities are to review and renegotiate existing trade agreements, adopt an export promotion strategy, encourage more foreign direct investment, and promote the diversification of exports.

4. Sri Lanka's preferential trade regime has remained unchanged during the review period and it continues to provide long-standing reciprocal preferences pursuant to two bilateral agreements with India and Pakistan, and two regional trade agreements – the Asia-Pacific Trade Agreement (APTA), and the South Asian Free Trade Area (SAFTA) Agreement. Sri Lanka receives GSP benefits from a number of countries and participates in the Global System of Trade Preferences among Developing Countries (GSTP). Developments during the review period included the launch of free trade negotiations with China in September 2014, and deepening of the bilateral relationship with India through the launch of negotiations on a new Indo–Sri Lanka Economic and Technology Cooperation Agreement. Trade under reciprocal preferential agreements for Sri Lanka is minimal, amounting to 3.4% of 2014 imports; this is in part attributed to overlapping trade concessions with the same trading partners through different preferential regimes.

5. Sri Lanka recognizes the importance of attracting foreign direct investment, in particular to rebuild the country after the internal conflict, as FDI levels remain relatively low. Despite a general increase over the period, FDI inflows declined in 2015 and stood at about 2% of GDP, below the Government's target of 3% of GDP. The telecommunications sector has been the largest recipient of foreign investment followed by manufacturing. Sri Lanka has a long-standing policy of offering incentives to attract investment, mostly through tax concessions and import duty exemptions, and has also specifically targeted certain sectors. The incentives have been modified and scaled back during the period and, since October 2014, no new fiscal incentives have been offered. As of June 2016, the Government was formulating a new incentive scheme in which it planned to focus on

facilitating investments and improving the ease of doing business. Despite efforts to encourage investment, there have been no changes in the long-standing investment restrictions, some of them applied in many strategic sectors, and more restrictions have been put in place such as prohibiting the sale of land to foreigners. Also to encourage investment, Sri Lanka maintains a number of specialized zones, in particular export processing zones which offer customs facilities and bonded facilities to attract potential investors.

6. In terms of the multilateral trading system, Sri Lanka granted at least MFN treatment to all its trading partners, made proposals to the DDA and participated in the regular work and Committees of the WTO, and has not been involved in any disputes under the WTO Dispute Settlement Mechanism during the review period. Sri Lanka made many WTO notifications during the review period that pertained mainly to customs valuation, agriculture, import licensing, SPS, TBT, TRIMs, and TRIPS.

7. Sri Lanka's trade measures on imports focus on tariffs, import licences, and additional charges and taxes; it does not have non-preferential rules of origin nor does it have legislation for trade remedies, i.e. anti-dumping, countervailing duties, and safeguards. Sri Lanka has followed the rules for valuation under the WTO Customs Valuation Agreement since 2003 but retains the right to use minimum values under certain conditions, which it applied to certain categories of motor vehicles during the review period.

8. The tariff regime remained relatively unchanged during the period, with applied rates declining slightly from an average of 11.5% in 2010 to 10.3% in 2016. MFN tariffs are quite varied; over 50% of tariff lines are duty-free, about 20% of tariff lines have a 15% duty, and 23% have a duty of 30%. About 4% of tariff lines have non-*ad valorem* rates, these include alternate and specific duties; specific duties mainly concern agricultural products. On average, there is significantly higher tariff protection in the agricultural sector (24%) compared to the industrial sector (7.5%). Sri Lanka maintains considerable flexibility with respect to tariffs as only 37.5% of tariff lines are bound and the average rate for bound tariffs is 34%, thus reducing somewhat the predictability of the tariff regime. Sri Lanka has amended its tariffs during the review period to reduce the number of tariff bands from four to three, which has also had an impact on the number of applied tariffs exceeding the bound rates. This has deteriorated since the last review with the MFN rate exceeding the bound rate on 132 lines in 2016, up from 103 lines in 2010; this situation mainly affects tobacco products, alcoholic beverages, textiles, carpets and switches.

9. Sri Lanka has in place a large number of additional levies and charges that are applied in addition to the tariff on a wide variety of products; these include the Export Development Board Levy (Cess), Excise Duty, Value Added Tax (VAT), Ports and Airports Development Levy, Nation Building Tax, port handling charges and the Special Commodity Levy. The Excise Duty, VAT, and Nation Building Tax apply to both imported and domestic goods while the others are charged on imported goods. The charges can be high and significantly increase the cost of importing, in some cases exceeding 100% of the c.i.f. value. Furthermore, many have been modified several times during the review period, thus adding unpredictability for importers.

10. The main developments in terms of customs procedures during the period were Sri Lanka's implementation of a single window system in January 2016 and its acceptance of the WTO Trade Facilitation Agreement in May 2016. Sri Lanka's single window application allows all entities involved in importing and exporting to submit required regulatory information to a single electronic gateway and to use electronic funds transfer or online payments. Pursuant to its notification of Category A commitments under the Trade Facilitation Agreement, Sri Lanka identified 11 provisions for implementation upon its entry into force.

11. Sri Lanka's regime and legislation for TBT and SPS measures have remained unchanged over the review period. The main legislation governing standards continues to be the Sri Lanka Standards Institution Act No. 6 of 1984; 123 trade-related technical regulations are in place. Food imports are regulated by the Food Act No. 26 of 1980, including its regulations and related amendments; animal, veterinary, and related products by the Animal Diseases Act No. 59 of 1992; while plant imports are governed by the Plant Protection Act No. 35 of 1999. Since January 2010, Sri Lanka has made 19 notifications to the Committee on Sanitary and Phytosanitary Measures regarding its SPS measures and 2 notifications to the Committee on Technical Barriers to Trade on technical regulations.

12. In terms of export measures, Sri Lanka applies duties, an export cess, prohibitions, and licensing requirements for selected exports. These are applied on a variety of products pursuant to the laws and requirements of different government entities. Export prohibitions are maintained for reasons of public health, protection of endangered species and the environment, and concern items such as explosives and drugs. The export cess is often levied on Sri Lanka's major export items, such as tea, rubber, coconuts, and cinnamon. There have been no major changes to Sri Lanka's export procedures except for the establishment of the single window system. Export incentives include tax and various fiscal incentives, a duty drawback scheme, a Temporary Importation for Export Processing (TIEP) Scheme, and a manufacture in bond scheme. A number of export finance instruments have been introduced during the review period to mitigate the impact of the financial crisis and to provide financial assistance; these include an Export Development Reward Scheme (EDRS), a Simplified Value Added Tax Scheme (SVAT), and the establishment of an Exim bank.

13. SOEs represent a substantial share of Sri Lanka's economic activity and the Government has acknowledged there is a need for their reform. There are 245 SOEs in Sri Lanka that collectively represent a risk to public finances as their outstanding obligations are the equivalent of 12% of GDP. As such, initiatives have commenced to strengthen the legal framework and oversight of SOEs, introduce market-based pricing mechanisms, and improve the efficiency of SOEs.

14. Government procurement in Sri Lanka represents about 6.3% of GDP and it is characterized as being fragmented, as it is done by decentralized agencies. Procurement continues to be an important instrument of economic policy, to promote domestic suppliers by granting price preferences for locally manufactured goods. There are 13 different procurement methods depending on the threshold and type of good/service or work to be procured. Works, services, and supplies are generally procured through the open competitive procedure but exceptions may occur under specific circumstances, e.g. emergency purchase or below thresholds. Sri Lanka has participated in the WTO Plurilateral Agreement on Government Procurement (GPA) as an observer since 2003.

15. Intellectual property rules in Sri Lanka cover copyright and related rights, industrial designs, patents, marks and trade names, layout designs of integrated circuits, unfair competition and undisclosed information, and geographical indications. They continue to be covered under the Intellectual Property Act No. 36 of 2003 and the Intellectual Property Regulations No. 1 of 2006. No new developments have occurred in the IP sector during the review period. Legislation on plant varieties has been developed but has not yet been adopted.

16. Sri Lanka's agricultural sector remains an important contributor to the economy and trade, accounting for nearly 9% of GDP and about one fourth of total exports. The sector can be divided into the main plantation crops, e.g. tea, rice, rubber, and coconut; and minor export crops, i.e. spices such as cinnamon, ginger, and pepper. Agricultural exports are dominated by a few commodities, i.e. tea, coconuts, cinnamon, and pepper, while imports are to meet domestic consumption needs, e.g. wheat, sugar, and milk products. A number of policy instruments are used in the sector, such as a special commodity levy; export cess; subsidies, notably the fertilizer subsidy; and tariffs. A number of state enterprises or marketing boards operate in the sector mainly for distribution and marketing, e.g. Paddy Marketing Board, Sri Lanka Cashew Corporation, and Sri Lanka Tea Board.

17. Manufacturing continues to be a significant area of economic activity accounting for about 20% of GDP. Sri Lanka continues to encourage development of its manufacturing sector by promoting value-added goods, capitalizing on its relatively low labour costs, benefiting from its connectivity, and improving linkages through value chains. The sector is dominated by the food products and beverages, and textiles and clothing subsectors. The textiles and clothing subsector is particularly important to trade and the economy as it accounted for over 45% of 2015 total exports, ranked second in terms of foreign exchange earnings, and accounted for approximately 50% of manufacturing employment.

18. Sri Lanka has a number of mineral resources that contribute to its economy and exports, in particular high purity graphite, mineral sands, and gemstones. The mining sector has not undergone any significant changes in its legal framework but recent developments included the prohibition of foreign firms from mining gems, a temporary ban on the export of scrap metal, and restrictions on soil mining. In the energy sector, Sri Lanka has diversified its energy sources during

the period by starting to use coal and promoting alternative sources such as wind and solar; achieved 100% countrywide electrification; and is expected to resume its first oil exploration activities in more than 25 years. Both the mining and energy sectors continue to have significant participation of state-owned enterprises either in production or distribution activities.

19. Sri Lanka's tourism sector has exhibited strong growth in recent years, achieving a 14.2% compound average growth rate, as it has benefited from policy initiatives and investment incentives. Tourism has been a focus of the Government post-conflict as a sector to expand the economy and invest in infrastructure. The sector has a significant impact on the economy as it is the third-largest foreign exchange earner, contributing over 12% to the foreign exchange earned in 2015. Developments during the period include the launching of a new policy and strategy for the sector, aligning regulations with international standards, and establishing a "One Stop Unit" for investment in tourism.

20. Other services sectors examined include financial, telecommunications, and transportation services as they are considered important to the continued development of the country by providing the necessary infrastructure for economic progress. While there has not been any major liberalization in the telecommunications sector during the last six years, the sector nonetheless experienced significant expansion during the review period mainly due to growth in the mobile sector. The introduction of the Telecommunications Levy in 2011 was to simplify the various taxes by having one composite tax applied to telecommunications services. Sri Lanka's financial sector, i.e. banking, insurance, and other specialized financial institutions, continued to show improved performance, reflecting prudential regulatory measures undertaken in recent years. The insurance subsector has undergone substantial liberalization and deregulation over the last decade, promoting its continued expansion, reaching a growth of 16.12% in total premiums in 2015. As for capital markets, as of June 2016, a number of legal amendments were being consolidated into a draft law to further strengthen regulatory oversight, e.g. align SEC governance with international standards and introduce civil and administrative penalties. During the review period, the transportation sector benefited from continued investment in both ports and roads to improve infrastructure for trade in goods and movement of persons. The air transport subsector experienced overall growth of over 50% between 2010 and 2015, in part due to the increases in tourism and trade. There was continued reliance on foreign grants to maintain the rail sector.

1 ECONOMIC ENVIRONMENT

1.1. Sri Lanka is a middle-income economy, characterized by a dominant services sector, which accounts for around 60% of GDP and is responsible for around 45% of employment, making labour productivity relatively high in the sector. In contrast, the agricultural sector's contribution to GDP is around 9%, while it employs nearly 30% of the workforce. Manufacturing's contribution to GDP and employment is nearly 20%. Trade plays an important role in the economy, with trade (i.e. exports and imports) in goods and non-factor services as a share of GDP being about 50%.

1.2. In the aftermath of the global financial crisis and the resolution of the internal conflict, the Sri Lankan economy has shown resilience. Between 2011 and 2015, real GDP growth averaged over 6% annually, with growth expected to be around 5% in 2016.[1] As a result, GDP per capita rose from about US$3,100 to nearly US$4,000. On the other hand, the unemployment rate rose from 4.2% to 4.6% during the same period (Table 1.1).

Table 1.1 Selected macroeconomic indicators, 2011-15

	2011	2012	2013	2014	2015[a]
National account (% change, unless otherwise indicated)					
Real GDP	8.4	9.1	3.4	4.9	4.8
Consumption	8.6	2.6	7.0	5.7	6.9
Gross fixed capital formation	16.6	16.1	5.5	-2.1	1.4
Exports of goods and non-factor services	10.2	-0.2	6.6	4.3	4.7
Imports of goods and non-factor services	23.6	0.5	-1.5	9.6	10.6
XGS/GDP (%) (current prices)	20.9	19.8	20.3	20.9	20.5
MGS/GDP (%) (current prices)	34.1	31.7	28.9	28.9	28.0
Exchange rate					
Rs/US$ (annual average)	110.57	127.60	129.07	130.56	135.86
Nominal effective exchange rate (end-period, % change)	-0.2	-9.4	1.1	0.7	5.0
Real effective exchange rate (end-period, % change)	1.8	-5.9	5.0	1.3	4.2
Prices and interest rates					
Inflation (CPI, % change)	6.7	7.5	6.9	3.3	0.9
Central bank interest rate (%, end-period)					
Repurchase (repos) rate (overnight)	7.00	7.50	6.50	6.50	6.00
Rediscount (reverse repo) rate (overnight)	8.50	9.50	8.50	8.00	7.50
Commercial bank interest rate (%, end-period)					
Deposit rate (average weighted)	7.24	10.10	9.37	6.20	6.20
Prime lending rate (average weighted)	10.77	14.40	10.13	6.26	7.53
Fiscal policy (% of GDP)					
Government balance (excluding grants)	-6.5	-5.8	-5.5	-5.8	-7.5
Revenue	13.4	12.0	11.9	11.4	13.0
Tax revenue	11.7	10.4	10.5	10.1	12.1
Expenditure, incl. net lending	19.9	17.8	17.4	17.2	20.5
Revenue including grants	13.6	12.2	12.0	11.5	13.1
Government balance (including grants)	-6.3	-5.6	-5.4	-5.7	-7.4
Government total debt (end-period)	71.1	68.7	70.8	70.7	76.0
Domestic debt	38.8	37.0	40.0	40.9	44.3
Savings and investment (% of GDP)					
Gross national savings	26.3	33.3	29.9	29.5	27.8
Gross domestic capital formation	33.4	39.1	33.2	32.0	30.1
Savings-investment gap	-7.1	-5.7	-3.4	-2.5	-2.2
External sector (% of GDP, unless otherwise indicated)					
Current account	-7.1	-5.8	-3.4	-2.5	-2.4
Goods balance	-14.9	-13.8	-10.2	-10.4	-10.2
Exports	16.2	14.3	14.0	13.9	12.8

[1] IMF Press Release No. 16/262.

	2011	2012	2013	2014	2015[a]
Imports	31.0	28.0	24.2	24.3	23.0
Services balance	1.7	1.8	1.6	2.3	2.8
Capital account	0.3	0.2	0.1	0.0	0.1
Financial account	6.3	7.3	5.6	3.9	3.2
Direct investment	1.4	1.3	1.2	1.0	0.8
Balance of payments	-1.6	1.1	1.5	1.9	0.4
Terms of trade (% change)	-9.1	-1.4	4.7	4.1	2.3
Goods exports (% change)[b]	22.4	-7.4	6.4	7.1	-5.6
Goods imports (% change)[b]	50.7	-5.3	-6.2	7.9	-2.5
Service exports (% change)[b]	24.6	23.2	23.3	19.6	14.1
Service imports (% change)[b]	12.3	27.9	38.1	6.3	9.3
Foreign exchange reserve (US$ million)	6,170.0	6,300.2	6,522.1	7,237.2	6,470.4
Total external debt (US$ million, end-period)	32,747.9	37,098.1	39,905.3	42,914.1	44,797.0
Memorandum:					
Current GDP at market price (Rs billion)	7,219.1	8,732.5	9,592.1	10,448.5	11,183.2
Current GDP at market price (US$ million)	65,292.7	68,434.4	74,317.8	80,025.3	82,316.2
GDP per capita (US$)	3,129.0	3,351.0	3,610.0	3,853.0	3,924.0
Unemployment rate (%)	4.2	4.0	4.4	4.3	4.6

a Estimates.
b Growth rate based on trade figures in U.S. dollars.
Sri Lanka changed the base year to 2010 for national accounts, hence 2010 data was not used as growth rates would not be comparable.

Source: Central Bank of Sri Lanka online information; and IMF online information.

1.3. Trade continues to play an important albeit declining role in the economy. Trade in goods and non-factor services as a proportion of GDP declined from around 55% in 2011 to 48.5% in 2015. The share of merchandise trade in GDP declined markedly; it fell from around 47% in 2011 to 36% in 2015. In contrast, the share of services trade in GDP increased from around 7.8% to nearly 13% of GDP over the same period. These changes can be explained by weak demand in key merchandise export markets and an increase in tourism-related activity in Sri Lanka during the review period.

1.4. Growth during the review period was driven by the construction sector, wholesale and retail trade, financial services, real estate including ownership of dwellings, transport including warehousing, and, to a lesser extent, mining and insurance (Table 1.2). In contrast, growth in the agriculture, forestry and fisheries sector was tepid; this can be attributed to the vagaries of the weather.

Table 1.2 Basic economic indicators, 2011-15

	2011	2012	2013	2014	2015
GDP by economic activity in real 2002 prices (annual % change)					
Agriculture, forestry and fishing	4.6	3.9	3.2	4.9	5.5
Mining	18.6	24.6	7.6	2.2	-0.9
Manufacturing	3.5	3.2	2.3	2.3	4.7
Electricity, gas and water	7.1	4.7	2.9	4.7	10.1
Construction	26.3	21.2	7.5	6.6	-0.9
Services	8.9	11.2	3.8	5.2	5.3
Wholesale and retail trade	11.7	7.7	1.3	4.5	4.7
Transportation including warehousing	12.6	8.0	5.5	3.6	5.5
Postal and courier activities	0.0	9.2	-1.7	-7.1	-5.6
Accommodation, food and beverages	20.2	27.3	-5.8	4.0	-1.3
Programming/broadcasting activities and audio video productions	-13.8	3.4	7.5	3.8	5.5
Telecommunication	6.5	8.3	3.6	13.1	10.1
IT programming consultancy	16.5	10.5	21.6	9.3	21.1
Finance services	14.5	15.9	5.8	10.4	15.8
Insurance, reinsurance and pension funding	-0.3	2.1	2.6	5.8	9.3
Real estate, including ownership of dwelling	6.8	12.7	12.8	6.5	9.6
Professional services	13.6	22.3	4.0	2.8	-7.1

	2011	2012	2013	2014	2015
Public administration and defence; compulsory social security	-4.4	5.0	-0.8	5.2	6.9
Education	-1.7	22.7	-5.8	10.3	-7.5
Human health and social work activities	14.2	11.5	-15.7	1.0	5.5
Other personal activities	8.6	13.6	10.0	4.7	2.9
Share of sector in GDP (%, current basic prices)					
Agriculture, forestry and fishing	9.6	8.0	8.2	8.6	8.7
Mining	2.3	2.6	2.7	2.6	2.5
Manufacturing	20.0	20.9	19.3	18.9	19.5
Electricity, gas and water	1.3	1.2	1.3	1.1	0.7
Construction	6.8	7.6	8.0	8.1	7.9
Services	60.0	59.7	60.5	60.8	60.6
Wholesale and retail trade	12.7	12.0	11.7	11.7	11.6
Transportation including warehousing	11.8	13.0	13.0	13.2	12.5
Postal and courier activities	0.1	0.1	0.1	0.0	0.0
Accommodation, food and beverages	1.7	1.9	1.7	1.7	1.6
Programming/broadcasting activities and audio video productions	0.0	0.0	0.0	0.0	0.0
Telecommunication	0.4	0.4	0.5	0.5	0.5
IT programming consultancy	0.1	0.1	0.1	0.1	0.2
Finance services	3.4	3.5	3.5	3.6	3.6
Insurance, reinsurance and pension funding	0.9	1.0	0.9	1.0	1.0
Real estate, including ownership of dwelling	5.3	5.2	5.7	5.8	6.0
Professional services	2.0	2.2	2.2	2.2	1.9
Public administration and defence; compulsory social security	6.4	5.6	5.6	5.8	6.1
Education	2.2	2.1	2.1	2.2	2.4
Human health and social work activities	2.6	2.3	2.2	2.2	2.4
Other personal activities	10.3	10.3	11.0	10.9	10.7
Share of sector in total employment[a] (%)					
Agriculture	33.0	31.4	29.8	28.5	28.2
Mining	..	1.1	1.2	0.9	0.7
Manufacturing	16.9	17.6	18.0	18.2	18.3
Construction, electricity, gas, and water	..	7.6	7.0	7.3	7.0
Services	42.8	42.3	44.1	45.0	45.8
Wholesale and retail trade, repair of motor vehicles and motor cycles	..	13.8	13.7	13.2	13.5
Transport and storage	..	6.1	6.1	6.3	6.2
Accommodation and food services	..	1.6	2.2	2.4	2.6
Information and communication	..	0.9	0.7	0.8	0.7
Finance and insurance	..	1.6	1.8	1.9	1.9
Professional, scientific and technical services	..	0.7	0.8	0.6	0.9
Administrative and support services	..	0.9	1.3	1.3	1.6
Public administration and defence, compulsory social security	..	7.0	7.5	7.8	7.7
Education	..	4.1	3.9	4.0	4.1
Health and social work activities	..	1.7	1.7	1.6	1.7
Other services	..	3.9	4.3	5.0	5.0

.. Not available.

a Figures for 2011 are based on household population aged 10 years and above; from 2012 onwards aged 15 years and above.

Source: Central Bank of Sri Lanka online information. Viewed at: http://www.cbsl.gov.lk/pics_n_docs/10_pub/_docs/efr/annual_report/AR2015/English/17_Appendix.pdf.

1.5. The main risks to growth sustainability and development in Sri Lanka result from the weak fiscal position and the resulting public debt overhang. To a lesser degree, risks may also manifest themselves due to the concentrated nature of Sri Lanka's exports. Clothing and tea account for over 60% of export receipts. Exogenous shocks such as an economic downturn in key export markets, collapse in international commodity prices or adverse weather conditions would leave Sri Lanka's external position quite vulnerable.

1.6. The authorities are cognizant of the above issues, and the Government's reform agenda for the next three years is reflective of this: "The Government's economic programme aims at fundamental changes to tax policy and administration to reverse a two-decade decline in tax

revenues and put public finances on a sustainable medium-term footing. Stronger revenue performance will enable smaller fiscal deficits and lower borrowing, reduce the overhang of public debt, and ease pressure on the balance of payments – while at the same time preserving room for the Government's key social and development spending objectives. State-owned enterprise (SOE) reform will reduce fiscal risk, increase transparency and facilitate commercially viable operations. The macroeconomic stability and renewed market confidence from this fundamental re-set of policies will reduce vulnerabilities, boost growth, and foster sustainable job creation."

1.1 Fiscal Policy

1.7. During the period under review, the fiscal deficit increased from 6.5% of GDP in 2011 to 7.5% in 2015, well above the targeted 4.4%. The fiscal deficit for 2016 is targeted to be 5.4% of GDP.[2] Although growing in absolute terms, revenue collection as a proportion of GDP declined to around 13.0% in 2015. The decline came about despite the one-off revenue measures that the Government implemented such as the "super gains tax", which was a retroactive tax on individuals and companies that earned in excess of Rs 2 billion in profits in 2014. The authorities recognize that the continued weak revenue increase has been the key challenge of fiscal consolidation. Recent efforts to broaden the tax base, improve tax administration and to rationalize tax exemptions have not produced the desired results. Steps continue to be taken to enhance tax compliance, and to improve tax audit and risk management. Initiatives are also being taken to increase the efficiency of the Customs and Excise Departments by curtailing undervaluation, improving audits and streamlining licensing procedures.

1.8. To compensate for below target revenue collection, the authorities squeezed expenditure, including public-sector investment spending. Expenditure as a proportion of GDP declined from nearly 20% in 2011 to around 17% in 2014. However, current expenditure rose as the authorities increased public sector wages and pensions; consequently, expenditure as a proportion of GDP rose to 20.5% in 2015. Consequently, Sri Lanka is in a position where revenues cannot meet current expenditures and the Government has to borrow just to function. As a result of the persistent fiscal deficits, public debt rose to 76% of GDP in 2015 compared with around 71% in 2011.

1.9. Going forward, in the absence of new, more permanent revenue enhancing measures and the expiration of one-off measures, it is likely that revenue as a proportion of GDP will decline. Furthermore, the permanent increase in recurrent expenditure coupled with little or no space to reduce capital expenditures will in all probability lead to a higher fiscal deficit. To be able to sustain growth and meet its long-term growth objectives, the fiscal situation needs to be resolved. Tinkering with tax rates is not the answer. Rather a considerable expansion of the tax base is needed.

1.2 Monetary and Exchange Policy

1.10. Under the Monetary Law (Amendment Act) No. 32 of 2002, the Central Bank's main monetary policy objective is to achieve economic and price stability. The Central Bank, which is semi-autonomous, sets monetary policy independently, through the Monetary Board.[3] The Monetary Policy Committee (MPC), established in 2001, makes recommendations to the Monetary Board.

1.11. Monetary policy is based on a monetary targeting framework in which the final target is price stability. This is to be achieved by influencing money supply through reserve money, which is the operating target. The monetary programme sets out the desired path for monetary growth through quarterly average reserve money targets. To achieve the target, the Central Bank conducts open market operations within a corridor of policy interest rates, i.e. the repo rate and the reverse repo rate. Policy rates are reviewed usually once a month and adjusted if necessary to bring reserve money to the targeted path.

1.12. With the backdrop of a relatively benign inflationary environment, and with the objective of spurring growth, the Central Bank had pursued an accommodative monetary policy since 2012,

[2] Central Bank of Sri Lanka online information. Viewed at: http://www.cbsl.gov.lk/pics_n_docs/10_pub/_docs/efr/annual_report/AR2015/English/content.htm.

[3] Central Bank of Sri Lanka online information. Viewed at: http://www.cbsl.gov.lk/.

with the rediscount (reverse repo) overnight rate being 7.5% in September 2015 compared with 9.5% in 2012. This also resulted in private sector credit growth of nearly 24% on a year-on-year basis during the first eight months of 2015, compared with 12.3% at the end of 2014. However, as credit and monetary aggregates continued to expand at a faster pace than expected, the Central Bank commenced tightening monetary policy gradually towards end-2015. Accordingly, the statutory reserve requirement applicable to all rupee deposit liabilities of commercial banks was raised to 7.5%. Furthermore, several policy measures were introduced in the last quarter of 2015 to contain excessive credit flows to selected sectors; these include a minimum cash margin requirement on letters of credit opened for the importation of motor vehicles, which was replaced later on by a maximum loan to value ratio, and a macro prudential measure on loans and advances granted for the purpose of purchase or utilization of motor vehicles. Additionally, considering the possible aggravation of demand-driven inflationary pressures due to continued high monetary expansion, the Central Bank raised, as a pre-emptive measure, its standing deposit facility rate and the standing lending facility rate by 50 basis points each, to 6.5% and 8%, respectively, effective from 20 February 2016.

1.13. Inflation, as measured by the consumer price index, declined from 7.5% in 2012 to less than 1% in 2015. Reasons for the sharp fall in inflation can be attributed to a reduction in energy prices (in line with international prices), and the reduction of import duties on a number of food items under the 100-day programme of the Government (Section 3).

1.14. The *de jure* exchange rate arrangement has been free floating since its introduction by the Central Bank of Sri Lanka in 2001. The Sri Lankan rupee has stabilized within a 2% band against the U.S. dollar. Accordingly, the *de facto* exchange rate arrangement is classified as a stabilized arrangement. With pressure on the balance of payments and thus on foreign exchange reserves, the Central Bank allowed greater exchange rate flexibility. It adopted a policy of only intervening to address large foreign exchange needs related to oil or other large current account payments or to smooth excessive foreign exchange market volatility; otherwise allowing markets to clear on their own. As a result, the Sri Lankan rupee has depreciated by nearly 23% against the U.S. dollar since 2011 (Table 1.1).

1.3 Structural Changes

1.15. The weak fiscal position continues to hamper Sri Lanka's growth prospects. It is also exacerbated by the underperformance of state-owned enterprises (SOEs), which are a drain on the budget. With this backdrop, the Government has embarked on a fiscal consolidation through, *inter alia*, a tax and SOE reform programme.

1.16. Tax reforms include, *inter alia*, eliminating tax exemptions, holidays, and special rates. The reform is expected to broaden the tax base and create a tax system that is simple, efficient, and more equitable. Under the programme, which is implemented through a new Inland Revenue Act as well as reforming the VAT and the customs code, the Government targets raising the tax-to-GDP ratio to 15% by 2020.

1.17. These efforts on tax policy will be complemented by capacity building and reform in revenue administration, which would make full use of automated systems and information technology to bolster tax collection while also clamping down on corruption and discretionary tax treatment. Indeed, some of these measures such as the Revenue Administration Management Information System and the Single Window at Customs are already in place. Additionally, the Integrated Treasury Management Information System will cater to the requirements of the Treasury by automation of management of revenue and expenditure.

1.18. The programme envisages that the above measures, coupled with more efficient management of government expenditure, will realize a steady reduction of the overall fiscal deficit to 3.5% of GDP by 2020; this will be equivalent to a shift from primary (excluding interest costs) fiscal deficits to primary surpluses that will underpin a much-needed reduction of public debt. Under the programme, the authorities target containing the outstanding government debt to around 69% of GDP by 2017.

1.19. With a view to limiting future risk to public finances and enhancing the role of market forces in the economy, SOE reform is imperative. In this regard, the programme requires that key SOEs

and the Government's financial relations with these be governed transparently. This would require annually published statements of corporate intent. Under the programme, the Government will also ensure that the pricing of electricity and fuels is guided by the market, with subsidies needed to protect the poor and vulnerable being better targeted and clearly reflected in the Government's budget. This will avoid the accumulation of unfunded subsidy bills and ensure SOE operations are conducted on a commercially viable basis.

1.4 Balance of Payments

1.20. During the period under review, Sri Lanka's current account deficit peaked at US$4.6 billion (7.1% of GDP) in 2011; it then decreased to around US$2 billion (2.4% of GDP) in 2015 (Table 1.3). The decrease came about mainly due to the narrowing of the trade deficit and the large surplus registered in the services account reflecting the robust performance of the tourism sector, and the growth in current transfers – in particular, remittances by Sri Lankans abroad (a large and important source of consumption expenditure), which rose from US$5.1 billion in 2011 to nearly US$7 billion in 2015. In contrast, the deficit on the income account rose sharply.[4]

1.21. The capital and financial account has traditionally financed the current account deficit. The capital and financial account surplus declined from about US$4.3 billion in 2011 to US$2.7 billion in 2015. During the period under review, FDI inflows remained steady; in contrast, portfolio investment went from outflows of US$171 million in 2011 to inflows of aroundUS$2 billion in 2014, and have since declined to around US$700 million in 2015. Inflows under other investment declined from nearly US$3.4 billion in 2011 to around US$1.3 billion in 2015.

1.22. Foreign exchange reserves declined to US$6.5 billion in 2015, providing approximately 4 months of import cover.

Table 1.3 Balance of payments, 2010-15

(US$ million)

	2010	2011	2012	2013	2014	2015
Current account	-1,075.0	-4,615.4	-3,981.7	-2,540.6	-1,987.7	-2,008.5
Goods and services balance	-4,118.5	-8,611.2	-8,155.2	-6,428.7	-6,406.6	-6,104.9
Goods balance	-4,825.1	-9,710.0	-9,416.7	-7,608.5	-8,286.7	-8,429.7
Exports	8,625.8	10,558.8	9,773.5	10,394.3	11,130.1	10,504.9
Imports	13,450.9	20,268.8	19,190.2	18,002.8	19,416.8	18,934.6
Services balance	706.6	1,098.8	1,261.5	1,179.8	1,880.1	2,324.8
Receipts	2,474.2	3,083.9	3,799.9	4,685.1	5,605.0	6,396.7
Transportation	1,162.0	1,392.0	1,633.9	1,783.7	1,923.2	2,104.7
Travel	575.9	830.0	1,038.7	1,715.5	2,431.1	2,980.7
Payments	1,767.6	1,985.1	2,538.4	3,505.2	3,724.9	4,071.9
Transportation	817.0	953.0	1,172.4	1,382.0	1,461.6	1,578.7
Travel	453.0	501.0	710.4	1,188.1	1,262.5	1,419.6
Primary income	-616.9	-647.0	-1,218.6	-1,751.4	-1,808.1	-2,096.9
Credit	323.3	466.6	142.3	131.8	155.2	127.3
Compensation of employees	7.2	8.2	14.3	15.2	18.5	19.4
Investment income	316.1	458.4	128.0	116.6	136.7	107.9
Debit	940.1	1,113.6	1,360.8	1,883.2	1,963.3	2,224.3
Compensation of employees	18.1	19.3	33.8	66.0	68.3	82.6
Investment income	922.1	1,094.3	1,327.0	1,817.2	1,895.0	2,141.7
Current transfers	3,660.3	4,642.8	5,392.0	5,639.5	6,227.0	6,193.3
Credit	4,168.4	5,204.5	6,038.3	6,427.9	7,045.8	7,007.0
Worker remittances	4,116.0	5,144.8	5,985.3	6,407.0	7,017.8	6,980.3
Debit	508.1	561.7	646.3	788.4	818.7	813.7
Capital and financial account	2,876.7	4,261.8	5,154.2	4,246.3	3,142.8	2,667.3
Capital account	163.9	164.4	130.3	70.9	58.3	46.3
Financial account	2,712.8	4,097.4	5,023.9	4,175.4	3,084.5	2,621.0

[4] The income account is mainly the balance of remittance of profits of foreign firms based in Sri Lanka and Sri Lankan firms based abroad.

	2010	2011	2012	2013	2014	2015
Direct investment	435.1	895.9	877.2	867.5	826.8	628.0
In Sri Lanka	477.6	955.9	941.1	932.6	893.6	681.2
Abroad	-42.5	-60.0	-63.9	-65.1	-66.8	-53.3
Portfolio investment	-229.7	-171.4	2,125.7	2,068.4	2,065.3	688.9
Other investment	2,507.3	3,372.8	2,021.0	1,239.5	192.5	1,304.1
Net errors and omissions	-537.0	-706.9	-412.0	-594.1	393.4	-308.4
Reserve assets	-1,264.6	1,060.5	-760.5	-1,111.7	-1,548.5	-350.4

Note: 2010 and 2011 reflect BPM5. Years 2012 onwards reflect BPM6. Thus 2010 and 2011 are not strictly comparable with the rest.

Source: Central Bank of Sri Lanka online information.

1.5 Developments in Trade

1.23. During the period under review, both the shares in GDP of merchandise exports and imports fell; the share of exports declined from 16.2% in 2011 to 12.8% in 2015, while that of imports fell from 31.0% to 23.0% over the same period. In contrast, both the shares of services exports and imports increased during the same period. This was due mainly to increased payments and receipts on account of transport and travel services, reflecting a significant increase in tourism following the end of the internal conflict and the expansion of the tourist infrastructure such as hotels and resorts.

1.5.1 Composition of merchandise trade

1.24. Sri Lanka's exports continued to be heavily concentrated in a few product groups, with agriculture and clothing accounting for over 70% of total exports in 2015 (Chart 1.1 and Table A1.1). The combined share of these product groups was approximately the same in 2010. However, within these product groups there were changes; for example, the share of agriculture fell mainly due to a decrease in tea exports. In contrast, the shares of spices and pepper and of manufactures (including clothing) increased during the review period. However, within manufactures, the shares of semi-manufactures, including diamonds and jewellery, declined mainly reflecting weak demand.

1.25. As in most countries, the structure of Sri Lanka's imports is less concentrated than exports. The largest single import category continued to be machinery and transport equipment, and its share increased during the review period (Chart 1.1 and Table A1.2), which in turn led to an increase in the share of manufactures in the total import bill. Within machinery and transport equipment, the share of automobiles grew considerably. Consequently, the share of primary products in total imports fell. Within primary products, the decline was mainly due to a fall in the share of fuels and, to a lesser extent, against the background of a decline in international commodity prices, especially those of fuel.

1.5.2 Direction of merchandise trade

1.26. Sri Lanka's largest export markets continued to be the EU-28, followed by the United States and India (Chart 1.2 and Table A1.3), although the share of the EU-28 declined considerably during the period under review. A plausible reason for the decline could be the cancellation of GSP+ and the banning of fish imports from Sri Lanka. On the other hand, the share of the United States and Asia, particularly China and India, has risen since 2010. A reason for the latter could be the FTA with India.

1.27. In 2015, Sri Lanka's largest import supplier was India, followed by China and the EU-28 (Chart 1.2 and Table A1.4). The shares of India, China and the United States have risen considerably since 2010, while the shares of the EU-28, the Middle East and Singapore have posted a decline since then. Furthermore, the share of Asia as a whole posted an increase. The share of the Middle East has shown a significant decline since 2012, presumably due to the fall in international oil prices.

1.6 Foreign Direct Investment

1.28. Sri Lanka is an attractive FDI destination due to the many incentives in place for such investment (Section 2.4). According to Board of Investment data, since 2011 FDI inflows have been growing steadily and reached US$1.6 billion in 2014, while the stock of FDI in 2014 was approaching US$10 billion.[5] FDI inflows decreased to US$1.1 billion in 2015. The telecommunications sector has been the largest recipient of foreign investment followed by manufacturing, infrastructure projects and services.

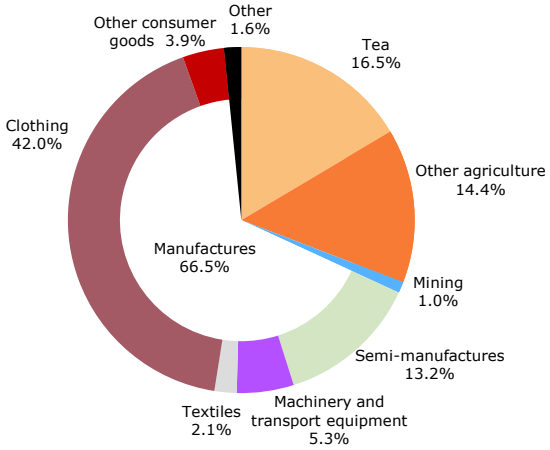
1.29. The largest foreign investors in Sri Lanka are Malaysia followed by the U.K., China, India and Hong Kong, China. The single largest investor in 2015 was also Hong Kong, China.

[5] According to data provided by the Board of Investment, the stock of FDI covers 2005-2014.

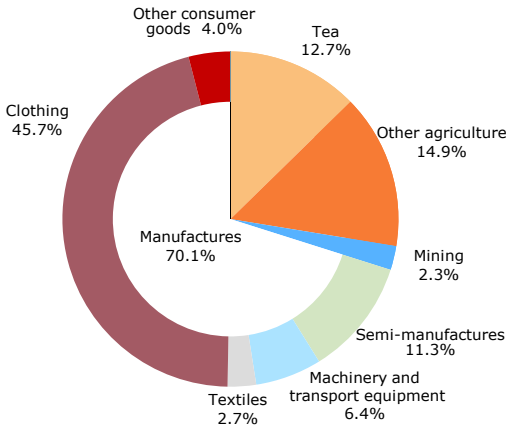
Chart 1.1 Product composition of merchandise trade, 2010 and 2015

2010 | **2015**

(a) Exports (f.o.b.)

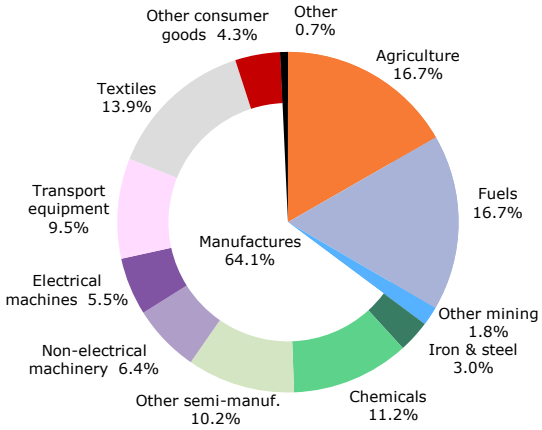


Total: US$8,304.1 million

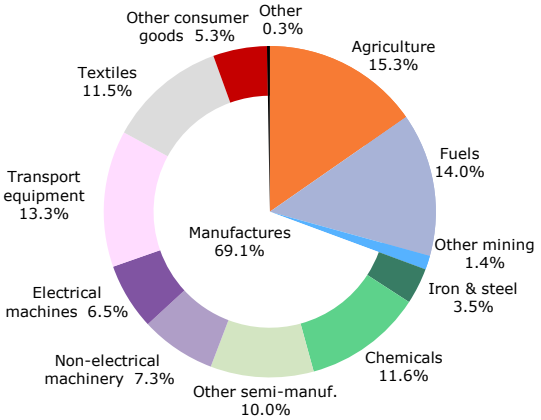


Total: US$10,439.7 million

(b) Imports (c.i.f.)



Total: US$12,353.7 million



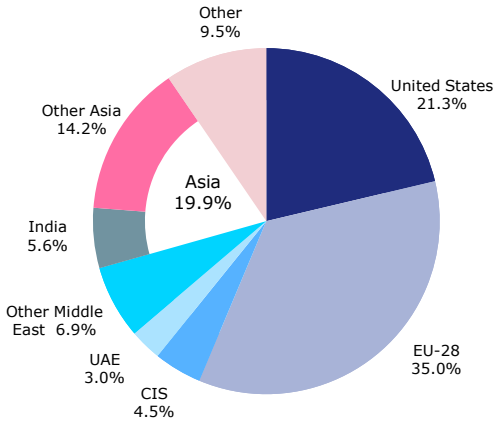
Total: US$18,967.2 million

Source: UNSD, Comtrade database (SITC Rev.3).

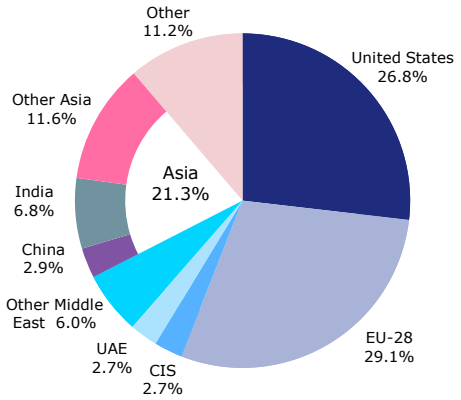
Chart 1.2 Direction of merchandise trade, 2010 and 2015

2010 **2015**

(a) Exports (f.o.b.)

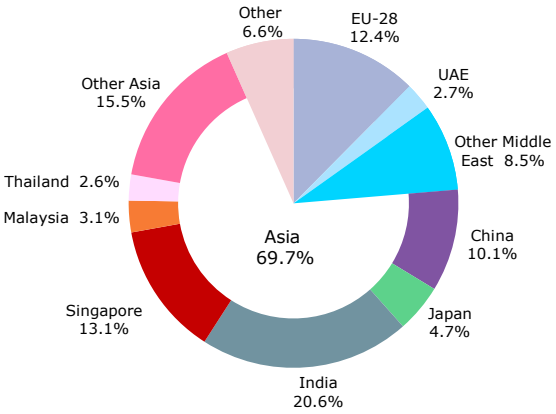


Total: US$8,304.1 million

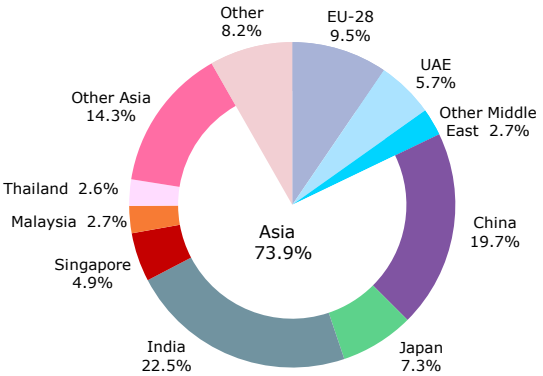


Total: US$10,439.7 million

(b) Imports (c.i.f.)



Total: US$12,353.7 million



Total: US$18,967.2 million

Source: UNSD, Comtrade database.

2 TRADE AND INVESTMENT REGIME

2.1 General Framework and Policy

2.1. The Democratic Socialist Republic of Sri Lanka, an island nation in the Indian Ocean, has a population of approximately 21 million. It is situated in a strategic location for sea traffic, has excellent harbours, and possesses one of the largest ports in South Asia.[1] Since its independence in 1948, the country has had three constitutions, including the current one since 1978.[2] The constitution provides for Sri Lanka's legal and institutional framework; it includes provisions for the legislature, the judiciary, and the executive, i.e. the President of the Republic, the Cabinet of Ministers, and the public service. It also contains provisions for sovereignty, fundamental rights, Buddhism, language, citizenship, principles of state policy, the superior courts, franchise and elections, finance, and public security.

2.2. Sri Lanka's current constitution has been amended 19 times, most recently in 2015 with the 19th Amendment, which, *inter alia*, reduced the powers of the Executive Presidency in such a way that it repealed the provisions of the 18th Amendment (2010) relating to the enhanced powers granted to the President, limited the term of office of the President to five years, and brought back many of the components of the 17th Amendment (2001).[3] The 19th Amendment re-established a Constitutional Council to act as a check on some of the presidential powers, and to set up certain independent commissions, such as the Election Commission. The amendment also reaffirmed that the President is, *inter alia*, the Head of State and the Head of the Executive and of the Government, and Commander-in-Chief of the Armed Forces.[4]

2.3. Parliament, as the legislative branch in Sri Lanka, is comprised of 255 members elected by proportional representation and has the power to enact laws. It is the executive that is responsible for the direction of policy and the initial drafting of the laws. Through the relevant ministry, the proposed law is framed and sent to the Cabinet of Ministers for approval and authorization for drafting. The judiciary comprises six types of court: the Supreme Court, the Court of Appeal, high courts, district courts, magistrate's courts, and primary courts. District courts are courts of first instance with wide civil powers, including jurisdiction over commercial litigation. High courts have both original and appellate jurisdiction, and include commercial high courts, which have jurisdiction over commercial transactions of over Rs 3 million and cases under the Intellectual Property Act.

2.4. The Government is comprised of 72 ministries, 75 departments, 61 statutory boards, 1 public company, 25 district secretariats, 333 divisional secretariats, 9 provincial councils, and many local authorities, including municipal, divisional, and urban councils.[5] The Constitution delegates certain functions to the central government (e.g. foreign affairs, defence, finance, trade (including inter-provincial trade), ports and harbours, national transport, minerals and mines, and aviation) and others to the provincial councils (e.g. police and public order, food supply, rural development, unincorporated societies and associations, and taxation); some functions are jointly shared (e.g. planning, education, agriculture, health, tourism, social services, and fisheries).[6] There are many ministries, departments, and institutions having generalized responsibilities for trade policy and its implementation (Table 2.1). Since September 2015, the Ministry of Development Strategies and International Trade has had a role in respect of potential free trade agreements with India, China, Singapore, and others.

2.5. Trade, investment, and related policies are developed under the aegis of the Ministry of National Policies and Economic Affairs with the necessary inputs furnished by the various other government bodies including the Department of Commerce of the Ministry of Industry and

[1] The Port of Colombo is ranked 33rd in the world in terms of container ports. World Shipping Council (2016).

[2] Policy Research & Information Unit of the Presidential Secretariat of Sri Lanka online information. Viewed at: http://www.priu.gov.lk/Cons/1978Constitution/CONTENTS.html.

[3] Ministry of Finance of Sri Lanka online information. Viewed at: http://www.treasury.gov.lk/documents/10181/12870/2014/23cd697c-85b6-4ad6-8ba3-2a007be8b56e?version=1.0.

[4] Nineteenth Amendment to the Constitution. Viewed at: http://slembassyusa.org/downloads/19th_Amendment_E.pdf.

[5] Official Web Portal of the Government of Sri Lanka online information. Viewed at: https://www.gov.lk/.

[6] Centre for International Migration and Development online information. Viewed at: http://www.logcluster.org/sites/default/files/documents/CIM-Overview-State-Structure.

Commerce, the Department of National Planning of the Ministry of National Policies and Economic Affairs, and the Trade and Investment Policy Department of the Ministry of Finance. They work under broad mandates for trade, tariff, and investment policies, including pursuing preferential trade negotiations; implementing revised tariffs under reciprocal trade agreements; and reviewing import tariff policies and border measures.

2.6. The implementation of Sri Lanka's trade policies is largely carried out by the Department of Commerce. The Department plays a key role in coordinating and integrating Sri Lanka's bilateral, regional and multilateral trade policy objectives and their implementation. The Ministry of Development Strategies and International Trade, created in 2015, has oversight committees to monitor progress in regard to trade-related policies conducted by other ministries and departments, and advisors and designated members of agencies for international trade and development[7]; these are operational but await formal establishment by an Act of Parliament.

2.7. According to the authorities, all ministries and institutions concerned with international trade have regular consultations with the private sector, although there are no specific laws on the matter. These consultations take place through trade associations, industry associations, as well as trade chambers. In dialogues concerning particular sectors, individual exporters, manufacturers, or industrialists are often included for their comments and inputs through a series of meetings or individual consultations.

Table 2.1 Overview of government responsibilities on certain trade-related matters

Subject	Relevant ministry or body
Trade agreements, tariff policy	Ministry of Industry and Commerce (Department of Commerce), Ministry of Development Strategies and International Trade
Customs matters	Sri Lanka Customs
Agriculture and fisheries	Ministry of Agriculture (Department of Agriculture), Ministry of Primary Industries (Department of Export Agriculture), Ministry of Rural Economic Affairs (Department of Animal Production and Health), Ministry of Fisheries and Aquatic Resources Development (Department of Fisheries and Aquatic Resources), Ministry of Plantation Industries (Department of Rubber Development and Sri Lanka Tea Board)
Investment	Board of Investment
Intellectual property	National Intellectual Property Office of Sri Lanka
Trade remedies	Department of Commerce
Licensing	Department of Import and Export Control
TBT	Sri Lanka Standards Institution
SPS	Ministry of Healthcare and Nutrition, Department of Animal Production and Health, National Plant Quarantine Service
Exports	Sri Lanka Export Development Board, Department of Import and Export Control
State enterprises	Ministry of State Resources and Enterprise Development
Government procurement	National Procurement Agency
Manufacturing	Ministry of Industrial Development, Ministry of Industry and Commerce, Department of Government Factory, Ministry of Textile Industry Development
Business	Department of Registrar of Companies
Competition	Consumer Affairs Authority
Tourism	Ministry of Tourism Development and Christian Religious Affairs, Sri Lanka Tourism Development Authority

Source: Compiled by the WTO Secretariat based on Official Web Portal of the Government of Sri Lanka online information (viewed at: https://www.gov.lk/index.php) and other sources.

2.8. Since the end of its internal conflict, Sri Lanka has been focusing on long-term strategic and structural development, as it strives to become an upper-middle-income country.[8] As part of these development plans, Sri Lanka launched a "*Mahinda Chinthana* – Vision for the Future" in 2010 as its development policy. The Vision has sought "to reposition Sri Lanka in the global arena as a knowledge-based strong middle-income country with better and improved living standards which

[7] Cabinet Memorandum PMO/06/03/CM/2016.

[8] World Bank online information. Viewed at: http://www.worldbank.org/en/results/2014/04/11/sri-lanka-transforming-into-a-middle-income-country.

continues to preserve cultural values and traditions".[9] Particular emphasis was paid to Sri Lanka's strategic geographical location, whereby developing naval, aviation, commercial, energy, and knowledge hubs were important to place Sri Lanka as a key link between East and West. The Vision also proposed to reach specific targets by 2016 through rapid economic growth and changing the structure of the country:

- Almost doubling GDP per capita by 2016 to above US$4,000, to be attained through an economic growth of over 8% per annum;
- Investment to be increased to 33-35% of GDP with sustained commitment of public investment of 6-7% of GDP to support private investment;
- Exports to grow at twice the rate of real GDP;
- High-spending tourism to grow in order to generate fourfold expansion in tourist earnings, and remittances inflows, based on skills, to be doubled;
- The share of rural employment to decline from about two thirds to half; and
- The share of urban population to increase from a quarter to a third.[10]

2.9. There were improvements in many of the target areas during the review period. In 2015, for example, per capita GDP reached US$3,924; total investment as a percentage of GDP reached 30.1%; tourist earnings reached US$2.92 billion; and remittances reached US$6.98 billion.[11]

2.10. Structural change in Sri Lanka was also foreseen in the Vision. The main shift envisioned was a reliance on agriculture in the initial phase to start a rapid recovery. In addition to agriculture, industry[12] and services were also recognized as key drivers, and it was anticipated that the share of agriculture in GDP was to be eventually consolidated at 12%, industry at 28-30%, and services at around 60% by 2016, thereby diversifying the economy.[13] It was noted that managing balanced growth was important to prevent widening of the urban-rural divide and for those in agriculture to have higher returns. As of 2015, the share of agriculture, industry, and services to GDP was at 7.9%, 26.2%, and 56.6% respectively.[14]

2.11. As a result of its elections in 2015, Sri Lanka had a change of government and shift in certain policies. For the first time in its history, Sri Lanka has formed a coalition or national unity government for two years that includes all parties in the Parliament in order to achieve reconciliation among all communities and achieve greater socio-economic development. Accompanying this development, as an initial step to address certain policy changes, a "100 Day Programme" was launched for reforms and to address fundamental and structural changes.[15] In addition to setting up the National Executive Council for the inclusive representation of parties represented in Parliament, the 100 Day Programme has introduced, *inter alia*, guaranteed purchase prices for various basic agricultural commodities; lowered taxes on essential food items; provided for higher quality fertilizer; introduced state contributions for agricultural insurance schemes; initiated a process to regain GSP+ (an extended version of the Generalized System of Preferences) provisions; established an institution to regulate trade in food items, cosmetics, drugs and other essential items; removed excessive taxes on fishing boats; and addressed barriers to fish exports to the EU market.[16]

2.2 Trade Policy Objectives

2.12. Comprehensive and consistent trade, investment, and related policies are currently being developed by the Ministry of Development Strategies and International Trade. A key priority

[9] Department of National Planning, Ministry of Finance and Planning (2010), *Mahinda Chinthana – Vision for the Future*.

[10] Department of National Planning, Ministry of Finance and Planning (2010), *Mahinda Chinthana – Vision for the Future*.

[11] Information provided by the authorities.

[12] Includes mining, manufacturing, electricity, gas, and construction.

[13] Department of National Planning, Ministry of Finance and Planning (2010), *Mahinda Chinthana – Vision for the Future*.

[14] Information provided by the authorities.

[15] Ministry of Finance online information. Viewed at: http://www.treasury.gov.lk/images/depts/fpd/docs/reports/annualreport/2014/full/annualReport-2014E.pdf.

[16] Partial list of initiatives under the 100 Day Programme. For full list, see Colombo Telegraph online information. Viewed at: https://www.colombotelegraph.com/index.php/maithripala-sirisenas-100-day-work-programme-detailed-diary-description/.

identified by the Government at this time is to review and renegotiate existing trade agreements. According to the Trade and Investment Policy Department of the Ministry of Finance, there are broad mandates for trade, tariff, and investment policies; these include pursing preferential trade negotiations; implementing revised tariffs; and reviewing import tariff policies and border measures.[17] Further, the Government has recognized the importance of export promotion and diversification, encouraging more foreign direct investment, import replacement initiatives, and the promotion of locally value-added products.[18] The authorities plan to adopt an export promotion strategy that will aim to develop competitive high-value-added products and processes to ensure transformation and diversification of exports.

2.13. Sri Lanka's "Vision" outlines overall economic and development policies as well as certain trade-specific policies such as implementing a paperless trade facilitation system, adopting "competitive high-value-added" export promotion and import replacement strategies to increase global trade, and creating international trade-related infrastructure and logistics facilities.[19] More recently, emphasis is being placed on encouraging export product specialization rather than the value added of processing everything within the country.[20]

2.14. Sri Lanka's "100 Day Programme", issued after the 2015 change of government, also contained some objectives specific to trade (Section 2.1). In November 2015, the policy statement by the Prime Minister outlined policies that led to an activity plan for the industry, trade, and investment sectors, containing many elements (Box 2.1).[21] These activities are executed by the Ministry of Development Strategies and International Trade, and monitored by the Department of Project Management and Monitoring of the Ministry of National Policies and Economic Affairs.

Box 2.1 Industry, trade, and investment priority activities, 2015

Activities
Put in place an Investment Act to replace the Strategic Development Act
Introduce a Trade Regulation Act to replace the Imports and Exports (Control) Act to facilitate trade
Attract globally competitive investors to Sri Lanka
Strive to connect local and global investors in Sri Lanka to the value added chain
Establish economic development zones – commence work on Hambantota, Raigama, Trincomalee, and Mahaoya in 2016
Restructure the Board of Investment, Export Development Board and Tourism Authority
Establish an Agency for Development to bear the responsibility of managing all economic activities during the restructuring period of the Board of Investment, Export Development Board and Tourism Authority
Establish an International Trade Agency to handle all aspects of international trade and formulate an international trade policy framework
Impose new laws to protect local and global investors and give them freedom to engage in business
Further review the Trans-Pacific Partnership (TPP) Agreement to avoid an adverse impact on Sri Lanka's exports
Appoint a committee to create a council for the development of small- and medium-scale enterprises
Encourage small- and large-scale entrepreneurs to participate in the global economy
Enter into trade agreements with the United States, India, and China and enter EU markets through GSP+ concessions
Provide tax concessions for small and medium businesses
Provide tax concessions for local entrepreneurs from 2016 to enhance their productivity levels and develop competitiveness

Source: Department of National Planning, *Draft Activity Plan Based on the Policy Statement of the Honourable Prime Minister on 5 November 2015*.

2.15. Sri Lanka's Department of Commerce also has specific trade objectives for areas falling under its auspices. Its 2014 work programme focused on strengthening existing trade ties, finding

[17] Ministry of Finance online information. Viewed at: http://www.treasury.gov.lk/documents/58941/59617/Performance+Report+2015+-TIP.pdf/b218f39d-b7f3-4f24-90e5-4382a4c593ff.

[18] Ministry of Finance online information. Viewed at: http://www.treasury.gov.lk/documents/10181/12870/2014/23cd697c-85b6-4ad6-8ba3-2a007be8b56e?version=1.0 .

[19] Department of National Planning, Ministry of Finance and Planning (2010), *Mahinda Chinthana – Vision for the Future*.

[20] Information provided by the authorities.

[21] Department of National Planning, *Draft Activity Plan Based on the Policy Statement of the Honourable Prime Minister on 5 November 2015*.

new markets for products, promoting new products, encouraging effective participation of SMEs in the international trading system, and promoting Sri Lanka as a trading hub in the South Asian region.[22] For 2015, emphasis was placed on: regaining EU GSP+; entering into new trading agreements with Japan, Korea, Bangladesh, Viet Nam, and BRICS[23]; conducting surveys to identify new markets; preparing for Sri Lanka Expo 2016; organizing overseas business forums and participation in international trade fairs; and organizing trade missions.[24]

2.3 Trade Agreements and Arrangements

2.3.1 WTO

2.16. Sri Lanka became a GATT contracting party in 1948; it is an original Member of the WTO, and participates in many aspects of the WTO. Sri Lanka grants at least MFN treatment to all its trading partners. Its trade policies have been reviewed three times under the Trade Policy Review Mechanism (TPRM), the last review having taken place in 2010. During the review period, Sri Lanka made proposals to the DDA and participated in the regular work and Committees of the WTO. Sri Lanka was not involved in any disputes under the WTO Dispute Settlement Mechanism during the review period; its last involvement was as a third party in 2003.[25] Sri Lanka is not a party to any of the WTO plurilateral agreements; it has been an observer to the Agreement on Government Procurement since 2003.

2.17. In terms of the Trade Facilitation Agreement, Sri Lanka notified its Category A commitments on 31 July 2014, in which it identified 11 provisions for implementation upon the entry into force of the agreement.[26] Furthermore, it ratified the agreement and presented its instrument of ratification to the WTO on 31 May 2016.[27]

2.18. In terms of the Doha Round, Sri Lanka made proposals and/or revisions to proposals to the Negotiating Group on Market Access, the Negotiating Group on Rules, and the Trade Negotiations Committee (TNC) during the review period. The co-sponsored proposal on market access concerned an understanding that would interpret the Agreement on Technical Barriers to Trade with respect to the labelling of textiles, clothing, footwear, and travel goods.[28] The co-sponsored proposal submitted to the Negotiating Group on Rules concerned an amendment to Articles 27.2 and 27.4 of the Agreement on Subsidies and Countervailing Measures in respect of developing countries covered under Annex VII.[29] Sri Lanka was also one of a number of countries that co-sponsored a draft decision to the TNC to amend Section 3 of Part II of the TRIPS Agreement with respect to the protection of geographical indications.[30]

2.19. During the review period, Sri Lanka made many notifications to several WTO Committees (Table A2.1). Notifications during the review period pertained mainly to customs valuation, agriculture, import licensing, SPS, TBT, TRIMs, and TRIPS.

2.3.2 Regional and preferential agreements

2.20. Sri Lanka's regional and preferential trade regime has remained largely unchanged since its last review. Sri Lanka continues to participate in two longstanding regional and two longstanding bilateral free trade agreements: Asia-Pacific Trade Agreement (APTA), South Asian Free Trade Area (SAFTA), Indo–Sri Lanka Free Trade Agreement (ISFTA), and the Pakistan–Sri Lanka Free Trade Agreement (PSFTA). Sri Lanka receives GSP benefits from a number of countries and participates in the Global System of Trade Preferences among Developing Countries (GSTP). One feature of Sri Lanka's regional and preferential agreements is that they involve a limited number of

[22] Department of Commerce, *Performance Report and Annual Accounts for the Year 2014*.
[23] Brazil, Russia, India, China and South Africa.
[24] Department of Commerce, *Performance Report for 1st-3rd Quarter 2015*.
[25] DS246.
[26] WTO document WT/PCTF/N/LKA/1. The 11 provisions are: 4.1, 5.2, 6.3, 7.2, 7.8, 9, 10.6, 10.7, 10.8, 10.9, and 11.
[27] WTO online information. Viewed at: http://www.tfafacility.org/ratifications.
[28] WTO documents TN/MA/W/93/Rev.2 and TN/MA/W/93/Rev.1/Add.1.
[29] WTO documents TN/RL/GEN/177/Rev.1 and TN/RL/GEN/177/Rev.2.
[30] WTO document TN/C/W/60.

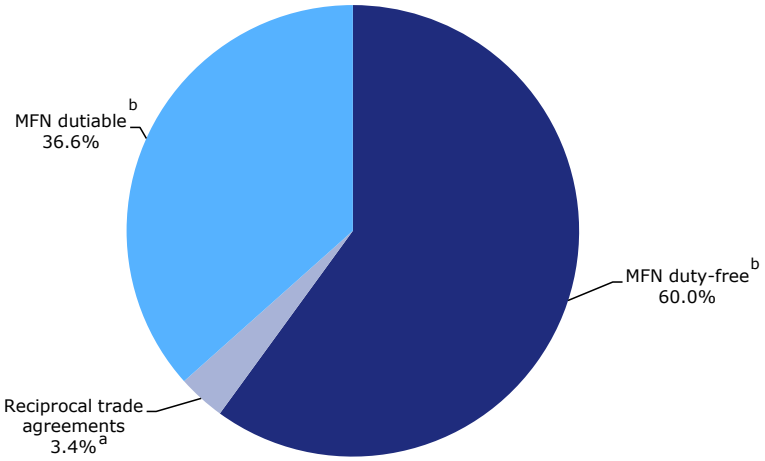
partners in close proximity and often with overlapping concessions through more than one agreement.

2.21. Developments during the review period include the launch of free trade negotiations with China in September 2014.[31] The proposed agreement was still under negotiation as of June 2016.[32] Negotiations concerned a comprehensive FTA covering goods, services, investment, customs cooperation, technical barriers to trade, sanitary and phytosanitary measures, and safeguards. Furthermore, with a view to deepening and widening Sri Lanka's economic ties and trade prospects with India, negotiations are being held on a new Indo–Sri Lanka Economic and Technology Cooperation Agreement.

2.3.2.1 Reciprocal trade agreements

2.22. Trade under reciprocal preferential agreements for Sri Lanka is minimal, amounting to just 3.4% of 2014 imports, while the majority of trade enters MFN duty free (Chart 2.1). While Sri Lanka has provided many concessions under reciprocal trade regimes, many of these have been eroded due to the large number of tariff lines that are currently MFN duty free. Sri Lanka's FTAs are also concentrated on countries in the region, sometimes with overlaps, as in the case with India, whereby concessions are possible through three agreements.

Chart 2.1 Imports by type of import regime, 2014



a "Reciprocal trade agreements" cover trade benefiting from an RTA; and "MFN duty-free" covers all trade entering at MFN duty-free rates (based on 2014 tariff schedule).
b Figures are approximative as no import data is available at 8-digit tariff line level.

Source: WTO Secretariat estimates, based on data provided by the authorities and UNSD Comtrade database.

2.3.2.1.1 Asia–Pacific Trade Agreement (APTA)

2.23. Since its entry into force in 2006, APTA, known previously as the Bangkok Agreement, was the first preferential trade agreement among developing countries in the region; it is intended to promote economic development through the adoption of mutually beneficial trade liberalization measures.[33] Sri Lanka has participated in APTA[34] since 2006, and was a member of the Bangkok Agreement from 1976; it has participated in the four rounds of tariff reductions under the agreement. As of June 2016, the fourth round of negotiations was expected to be concluded at the fourth Ministerial Council which was scheduled to be held in 2016. Thus, Sri Lanka now provides

[31] Chinese Ministry of Commerce (MOFCOM) online information. Viewed at: http://fta.mofcom.gov.cn/list/ensri/enchinasrinews/1/encateinfo.html; and information from the Sri Lankan authorities.
[32] Information provided by the authorities.
[33] UNESCAP online information. Viewed at: http://www.unescap.org/sites/default/files/01_APTA%20Brochure_20140820.pdf.
[34] Current ATPA participants include Bangladesh, China, India, Laos, Mongolia, Republic of Korea, and Sri Lanka.

preferences negotiated during the first three rounds on 427 tariff lines[35] under the normal APTA regime (approximately 200 are already MFN duty free), mostly on industrial products including plastics, machinery, steel products, and wood. Special and differential treatment is provided for APTA LDCs, whereby additional concessions are granted; for Sri Lanka this includes an additional 77 tariff lines, of which the majority, i.e. 60 tariff lines, are already MFN duty free, concentrated on textile goods. ATPA is accompanied by common rules of origin for participants, and operational procedures for the certification and verification of the origin of the goods.[36]

2.24. In addition to the main agreement on tariffs on goods, APTA participants have also signed framework agreements on trade facilitation, investment, and trade in services.[37] Sri Lanka has signed and accepted these framework agreements, including the Framework Agreement on the Promotion and Liberalization of Trade in Services signed in August 2011. The agreement on trade facilitation includes provisions for harmonization and standardization, simplicity and efficiency, and transparency and consistency, in order to improve the efficiency of trading goods across national borders.[38] The framework on investment calls for: negotiation and implementation for the cooperation and facilitation programme; the promotion and awareness programme; the liberalization programme; and the protection programme.[39] For trade in services, the framework agreement calls for the liberalization of services beyond what is committed in the GATS. In particular, it provides for liberalization and negotiation of specific commitments.

2.3.2.1.2 South Asian Free Trade Area (SAFTA) and SAARC Framework Agreement on Trade in Services (SATIS)

2.25. Under the auspices of the South Asian Association for Regional Cooperation (SAARC), in which Sri Lanka participates, the South Asian Free Trade Area (SAFTA) Agreement was signed in January 2004 and implemented with effect from 1 January 2006. As a successor to the South Asian Preferential Trade Arrangement (SAPTA), SAFTA was designed to reach a higher level of integration of trade in the region, while cognizant of the varying levels of development, in order to reach achievable targets. SAFTA comprises the eight SAARC members[40], including Sri Lanka, and has developed a trade liberalization programme containing tariff schedules providing tariff reductions (for LDCs and non-LDCs), and also sensitive lists where no reductions occur per an agreed schedule for LDCs and non-LDCs respectively. Sri Lanka completed this tariff liberalization with effect from 21 November 2015 for non-LDCs, and LDCs are to be completed by 2016. In 2012, SAFTA undertook initiatives to reduce the number of products on the sensitive lists by 20%; these were implemented in 2014, thus Sri Lanka has 1,765 tariff lines on the revised sensitive list for LDCs and 1,948 tariff lines on the revised sensitive list for non-LDCs.[41] This 20% reduction in the sensitive list was also subject to a gradual phase out, which is scheduled to be completed by 2020 and for Sri Lanka, by 2018. The SAFTA also contains provisions on rules of origin, consultations and dispute settlement, and safeguard measures. Sri Lanka has provided zero duties or a margin of preference on over 5,000 tariff lines for non-LDCs and nearly 7,000 lines for LDCs, covering nearly all agricultural and industrial sectors. However, the majority of these tariff lines are MFN duty free, thus the concessions apply to approximately 1,500 tariff lines only.

2.26. SAARC members also cooperate on other areas such as customs, standards, double taxation, and trade in services. In 2010, SAARC completed negotiations on trade in services, and the SAARC Framework Agreement on Trade in Services (SATIS) entered into force in 2012.[42] However, SATIS focuses on schedules of specific commitments to achieve services' liberalization,

[35] Tariff lines means at the 8-digit level.

[36] UNESCAP online information. Viewed at: http://www.unescap.org/apta/tariff-concessions.

[37] The agreements are: Framework Agreement on Trade Facilitation (15 December 2009); Framework Agreement on the Promotion, Protection and Liberalization of Investment (15 December 2009); and the Framework Agreement on the Promotion and Liberalization of Trade in Services (24 August 2011). UNESCAP online information. Viewed at: http://www.unescap.org/apta.

[38] UNESCAP online information. Viewed at: http://www.unescap.org/resources/framework-agreement-trade-facilitation-0.

[39] UNESCAP online information. Viewed at: http://www.unescap.org/sites/default/files/04_FA%20on%20Trade%20in%20Investment.pdf.

[40] These include: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. SAARC online information. Viewed at: http://saarc-sec.org/.

[41] SAARC online information. Viewed at: http:// saarc-se.org/areaofcooperation/detail.php?activity_id=35; and information provided by the authorities.

[42] SAARC online information. Viewed at: http://saarc-se.org/areaofcooperation/detail.php?activity_id=46.

and this process was not yet completed as of June 2016; the draft official SATIS list of Sri Lanka is under the scrutiny of its higher authorities. SATIS participants agreed to a higher level of commitments for non-LDC participants, thus Sri Lanka's offer on specific commitments includes commitments on telecommunications, financial, and tourism and travel-related services; and additional commitments on business and transport services.[43]

2.3.2.1.3 Indo–Sri Lanka Free Trade Agreement (ISFTA)

2.27. The Indo–Sri Lanka Free Trade Agreement (ISFTA) was signed by the parties in 1998 and entered into force in 2000, with full implementation achieved in 2008. The agreement covers only trade in goods, providing additional market access through the elimination of duties, or respective lists providing a margin of preference for selected products. There are related provisions on rules of origin and safeguards.[44] In addition, both parties maintain negative lists, in respect of which no concessions can be granted; in the case of Sri Lanka, 1,220 lines at the 6-digit level are affected. India also retains tariff rate quotas (TRQs) under ISFTA on a number of items including tea, pepper, clothing, and coconuts, many of which are major Sri Lankan exports.

2.28. As of 2016, Sri Lanka provided concessions on 4,675 tariff lines, although the majority are already MFN duty free – thus only about 1,000 lines have concessions that are applied, nearly all at 0%. Most products covered under the agreement are industrial goods, e.g. chemicals, wood and paper, textiles and clothing, steel, and machinery. India remains one of Sri Lanka's most important trading partners, and the balance of trade has been in favour of India during the review period, averaging about US$3 billion. Only a small part of the trade however is covered by ISFTA.

2.29. As noted above, Sri Lanka and India have agreed to expand their economic cooperation and a preliminary exchange of information on a proposed Economic and Technology Cooperation Agreement has taken place.

2.3.2.1.4 Pakistan–Sri Lanka Free Trade Agreement (PSFTA)

2.30. Sri Lanka's second FTA was signed with Pakistan in 2002 and entered into force in 2005, reaching full implementation in 2010. It has a similar structure to that with India, as it contains mainly tariff concessions in the form of zero duties or a margin of preference (for Pakistan only), and related provisions on rules of origin and safeguards. It also contains a negative list (list of products not subject to tariff concessions) and a list of products subject to TRQs for each party. Sri Lanka's negative list contains about 700 lines at the 6-digit level, including in agriculture, rubber, footwear, iron and steel products, machinery, and furniture.[45]

2.31. Concessions were granted by Sri Lanka on 5,511 tariff lines covering agricultural and industrial products such as meat, fish, vegetables, minerals, chemicals and plastics, wood and paper, textiles and clothing, steel products, and machinery and equipment. The majority of the tariff lines are already MFN duty free, leaving about 1,800 tariff lines where concessions are utilized. Sri Lanka's trade with Pakistan is about one tenth that with India, and Sri Lanka maintained a US$245 million trade deficit with Pakistan on average during the period.[46]

2.3.2.1.5 Global System of Trade Preferences among Developing Countries (GSTP)

2.32. Sri Lanka participates in the Global System of Trade Preferences among Developing Countries (GSTP) and grants GSTP benefits on 135 tariff lines, although concessions are actually given on 98 tariff lines, as 37 are MFN duty free. All GSTP benefits are in the form of a duty reduction from the MFN rate, with GSTP rates ranging from 9 to 27% *ad valorem*. Most tariff lines impacted are vehicles of chapter 87 of the HS. Other sectors having benefits include certain machinery (including ball bearings), certain stones, rock phosphate, certain fish, and apples.

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[43] Information provided by the authorities.

[44] Department of Commerce online information. Viewed at: http://www.doc.gov.lk/web/index.php?option=_com_content&view=article&id=110&Itemid=112&lang=en.

[45] Department of Commerce online information. Viewed at: http://www.doc.gov.lk/web/images/stories/PSFTA/nl%20sl.pdf.

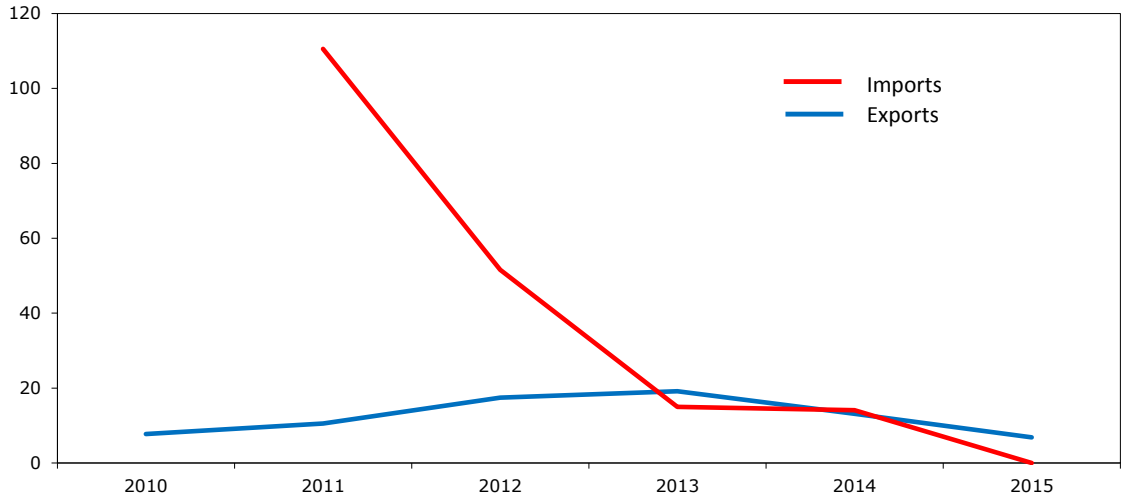
[46] UNSD Comtrade.

2.33. Like the concessions, most GSTP imports are vehicles of chapter 87. During the review period, there was a sharp decline in GSTP imports and a growth in GSTP exports; imports declined by over 90% (Chart 2.2). During the review period, there were no changes in the coverage of GSTP products; declining GSTP imports were mainly due to a reduction in imports of passenger cars, particularly from India.

2.34. Sri Lanka's exports under GSTP are concentrated on Peru, Mexico, and Chile; they are mainly cinnamon, cinnamon-tree flowers, and desiccated coconuts.

Chart 2.2 Trade under GSTP, 2010-15

(US$ million)



Note: Figures for 2015 are for part of the year only.

Source: Data provided by the authorities.

2.3.2.2 Unilateral preferential regimes

2.35. Sri Lanka, as a developing country, receives GSP benefits from a number of trading partners including Australia, Belarus, Canada, the EU, Japan, Kazakhstan, the Kyrgyz Republic, New Zealand, Norway, the Russian Federation, Switzerland, Turkey, and the United States. Additionally, it receives GSP+ benefits from Norway. Recently, as announced in its 100 Day Programme, Sri Lanka made a request to the EU to regain GSP+ benefits that were revoked in 2010 by the EU. As of June 2016, a draft comprehensive application was being prepared that would address the issues raised by the EU. If Sri Lanka were to re-gain GSP+ benefits, it would attain zero duties on nearly all of its exported products to the EU.[47]

2.36. GSP benefits from the EU are the most utilized, as Sri Lankan GSP exports to the EU amounted to US$2,122 million in 2015.[48] Other GSP exports are mainly to the United States, the Russian Federation, Japan, and Canada.

2.37. According to the Sri Lankan authorities, Sri Lanka provides unilateral preferences to Bangladesh on 28 tariff lines, of which 18 are already MFN duty free. Thus, concessions are provided on imports of ginger, certain cosmetic items, certain soaps or surfactants, and electrical insulators.

[47] Information provided by the authorities.
[48] Information provided by the authorities.

2.3.3 Other agreements and arrangements

2.3.3.1 Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)

2.38. The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) comprises seven member States, including Sri Lanka, and was established in 1997 as a bridge between South and South East Asia for cooperation and reinforcement of relations.[49] BIMSTEC cooperates in a number of areas, including trade and investment, tourism, fisheries, agriculture, transport and communication, and energy, among others. Member countries agreed to negotiate a Free Trade Area Framework Agreement through the establishment of a Trade Negotiating Committee to cover trade in goods and services, investment, economic cooperation, trade facilitation, and technical assistance for LDCs.[50] The Trade Negotiating Committee has been finalizing the text on trade in goods and Sri Lanka has submitted its schedule of commitments, which includes concessions and a negative list. The trade liberalization programme of BIMSTEC consists of three tracks: fast-track elimination, normal track elimination, and normal track reduction.

2.3.3.2 Indian Ocean Rim Association (IORA)

2.39. The Indian Ocean Rim Association (IORA) was created in 1997 to enhance economic cooperation among the countries of the Indian Ocean Rim. It comprises 21 member States, including Sri Lanka. They aim to build and expand understanding through consensus and cooperation in a number of areas including maritime safety and security; trade and investment facilitation; fisheries management; disaster risk management; academia, science and technology; tourism and cultural exchanges; and gender empowerment.[51] In terms of trade, IORA has recognized that effective trade linkages should be established for member States in several sectors, including: food, SMEs, financial services, mining, tourism, the ocean economy, and renewable energy. For 2016, IORA has recognized that enhancing trade and investment will be an area of priority.[52]

2.40. In October 2015, IORA member States agreed to a Maritime Cooperation Declaration that contains six main elements supporting the maritime sector in the region.[53] These are: promoting sustainable development of coastal and small island areas through sustainable tourism and leisure activities; encouraging increased investment in and development of sustainable and resilient maritime infrastructures; encouraging cooperation in shipping, logistics, and allied industries; enhancing cooperation in sustainable marine economic development and food security through responsible fisheries management and marine resource preservation; supporting and strengthening regional cooperation in challenges such as illegal unreported and unregulated fishing, piracy, irregular movement of people, marine pollution, drug trafficking, illegal trafficking in wild life, and disasters; and increasing engagement between research institutions on maritime education, research, development, and innovation. According to the authorities, there has been no tangible progress in these areas.

2.41. In terms of preferential trade, Sri Lanka made a proposal to IORA members to establish a preferential trade agreement for the region to remove trade and tariff barriers for the expansion of short- and medium-term trade and investment opportunities within the region. [54] No progress has been made on this initiative.

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[49] Member States include: Bangladesh, Bhutan, India, Nepal, Sri Lanka, Myanmar, and Thailand. BIMSTEC online information. Viewed at: http://www.bimstec.org/index.php?page=overview.

[50] BIMSTEC online information. Viewed at: http://www.bimstec.org/index.php?page=free-trade-agreement.

[51] Member States include: Australia, Bangladesh, Comoros, India, Indonesia, Iran, Kenya, Madagascar, Malaysia, Mauritius, Mozambique, Oman, Seychelles, Singapore, Somalia, South Africa, Sri Lanka, Tanzania, Thailand, United Arab Emirates, and Yemen. IORA online information. Viewed at: http://www.iora.net/about-us/membership.aspx.

[52] IORA online information. Viewed at: http://www.iora.net/media/160811/151222_iora_round_up.pdf.

[53] IORA online information. Viewed at: http://www.iora.net/media/160000/iora_maritime_cooperation_declaration_2015.pdf.

[54] IORA online information. Viewed at: http://www.iora.net/projects/flagship-projects/preferential-trade-agreement.aspx.

2.4 Investment Regime

2.42. Since the end of the internal conflict, Sri Lanka has recognized the importance of rebuilding the economy and establishing an attractive environment for foreign direct investment. As part of its 2010 Vision, it was recognized that FDI would be important to bring new technology and development to Sri Lanka. It was also recognized that investment inflows were disproportionately low (about 1.5% of GDP) and that there was an infrastructure gap between Sri Lanka and its neighbours. Thus, the Vision established targets to raise FDI to 3% of GDP and to prioritize the targeting of investments.[55] Despite a number of incentives and an overall growth in FDI to record levels, FDI has not reached the levels envisaged, and remains at about 2% of GDP.[56] According to UNCTAD, Sri Lanka ranked fifth in the South Asia region in terms of 2014 investment inflows, behind India, Iran, Pakistan, and Bangladesh.[57] Furthermore, there have been no major multinational enterprises setting up operations in Sri Lanka in manufacturing during the past decade.[58] Some recent government policies, such as restricting land purchases by foreigners and utilization of the Underutilized Assets Act, adopted by Parliament in November 2011, to expropriate companies and assets, may have actually deterred potential foreign investment.

2.4.1 Legal framework

2.43. Sri Lanka's main law on investment, the Board of Investment of Sri Lanka Act (BOI Act), as amended, continues to provide the main legal framework for investment in Sri Lanka. The law was last amended in 2012 and its related regulations were last updated in 2006.[59] The 2012 amendments mainly concerned the election and term of the Board as well as the appointment of the Director-General of the Board.

2.44. In 2014, Sri Lanka passed the Land (Restrictions on Alienation) Act that imposed new restrictions on the sale, transfer, or lease of land, properties, or condominium units.[60] The law prohibits the transfer of land to a foreigner, foreign company, or a local company with more than 50% foreign ownership. Certain exceptions applied to any land transferred to a company with more than 50% foreign ownership from 1 January 2013 to 29 October 2014 if the company had been in active operation in Sri Lanka for a period of not less than 10 consecutive years; and also for diplomatic missions, condominium parcels on or above the fourth floor, transfer/disposition to a next of kin foreigner, and duel citizens. The law also introduced a new land lease tax of 15% applied to foreigners leasing land, but it only remained in place for about two years, as it was later removed in the 2016 Budget.[61]

2.45. The Finance Act No. 12 of 2012 (Part IV) and the Commercial Hub Regulation No. 1 of 2013 amended certain provisions so as to exempt certain foreign investors (65% minimum ownership) involved in certain business activities, such as entrepôt trade, from the provisions of the Customs Ordinance (Chapter 235), the Exchange Control Act (Chapter 423), and the Imports and Exports (Control) Act No. 1 of 1969 (see Section 2.4.5 on commercial hub activities). Other laws that may impact investment are the Companies Act No. 7 of 2007, the Exchange Control Act No. 24 of 1953, and the Strategic Development Projects Act No. 14 of 2008.

2.46. Sri Lanka currently has 24 bilateral investment treaties, also known as Investment Protection Agreements (IPAs), with other countries or groups of countries in force (Table A2.2). It has also signed agreements with the Czech Republic, Iran, Kuwait, and Viet Nam, but these agreements have not yet entered into force. Sri Lanka's IPAs generally include provisions on scope and definition of investment, admission and establishment, national treatment, most-favoured-

[55] Department of National Planning, Ministry of Finance and Planning (2010), *Mahinda Chinthana – Vision for the Future*.

[56] Ministry of Finance online information. Viewed at: http://www.treasury.gov.lk/documents/58941/59617/Performance+Report+2015+-TIP.pdf/b218f39d-b7f3-4f24-90e5-4382a4c593ff.

[57] UNCTAD online information. Viewed at: http://unctad.org/en/PublicationsLibrary/wir2015_en.pdf.

[58] Daily Mirror online information. Viewed at: http://www.dailymirror.lk/94949/reforming-sri-lanka-s-trade-and-investment-policies-for-export-growth.

[59] Board of Investment of Sri Lanka (Amendment) Act No. 3 of 2012.

[60] Land (Restrictions on Alienation) Act No. 38 of 2014. *Gazette of the Democratic Socialist Republic of Sri Lanka* of 31 October 2014.

[61] PricewaterhouseCoopers online information. Viewed at: https://www.pwc.com/lk/en/assets/document/PwC_Budget_2016_Summary.pdf.

nation treatment, fair and equitable treatment, compensation in the event of expropriation or damage to the investment, guarantees of free transfers of funds, and dispute settlement mechanisms (both state-state and investor-state).

2.47. In 2014, Sri Lanka notified the TRIMs Committee that it had six laws relating to investment, but that to the best of its knowledge, none provided any measures inconsistent with the TRIMs Agreement.[62]

2.4.2 Investment management and policy

2.48. As established by the Board of Investment of Sri Lanka Act, Sri Lanka's Board of Investment (BOI) is tasked with facilitating foreign direct investment into the country and it is the central facilitation point for investors. It is also the government body authorized to enter into agreements with investors regarding tax holidays, tax concessions, and exemptions from customs duties.

2.49. Overall policy direction for investment is determined by the Ministry of Development Strategies and International Trade and as outlined in various policy documents (Sections 2.1 and 2.2). Current policy considerations include: encouraging more foreign direct investment, enacting the Investment Act in replacement of the Strategic Development Act, attracting globally competitive investors to Sri Lanka, striving to connect local and global investors in Sri Lanka to the value added chain, and restructuring the Board of Investment.

2.4.3 Investment restrictions

2.50. Sri Lanka continues to restrict investments in certain sectors or otherwise impose limitations such as advance permissions or additional capital on certain investments; these remain unchanged since the previous review (Table 2.2). Many of the restrictions are in strategic sectors such as tea, coconuts, communications, and fishing; and there are no plans at present to liberalize these. Furthermore, there are restrictions on the sale of land to foreigners (Section 2.4.1).

Table 2.2 Investment restrictions, exclusions, or limitations, 2016

Subject to:	Provisions	Sectors/businesses
Exclusions	Permission shall not apply in respect of shares of a company proposing to carry on or carrying on any of the following businesses	Money lending, pawn broking, retail trade with a capital of less than one million U.S. dollars, coastal fishing, and provision of security services including security management, assessment and consulting to individuals or private organizations
Limitations	a. The permission shall apply in respect of shares in a company carrying on or proposing to carry on any of the following businesses only up to 40% of the issued capital of such company, or if approval has been granted by the Board of Investment of Sri Lanka for a higher percentage of foreign investment in any company, only up to such higher percentage	Production of goods where Sri Lanka's exports are subject to internationally determined quota restrictions; growing and primary processing of tea, rubber, coconuts, cocoa, rice, sugar and spices; mining and primary processing of non-renewable national resources; timber-based industries using local timber; fishing (deep sea fishing); mass communications; education; freight forwarding; travel agencies; and shipping agencies
	b. The permission shall apply in respect of the shares of a company carrying on or proposing to carry on any of the businesses up to the percentage of the issued capital of the company for which percentage either general or special approval has been granted by the Government of Sri Lanka or any legal or administrative authority set up for the approval of	Air transportation; coastal shipping; industrial undertaking in the second schedule of the Industrial Promotion Act No. 46 of 1990, namely any industry manufacturing arms, ammunitions, explosives, military vehicles and equipment, aircraft and other military hardware; any industry manufacturing poison, narcotics,

[62] WTO document G/TRIMs/N/2/Rev.24/Add.3, 23 December 2014.

Subject to:	Provisions	Sectors/businesses
	foreign investment in such businesses	alcohols, dangerous drugs and toxic, hazardous, or carcinogenic material; any industry producing currency, coins or security documents; large-scale mechanized mining of gems; and lotteries
Conditions	a. A person resident outside Sri Lanka who is a party to a transaction permitted under the Exchange Control Act shall make a declaration to the effect that such person is resident outside Sri Lanka on the share transfer form or share application form as applicable b. The payment for shares in any issue or transaction permitted under the Exchange Control Act shall be made only out of or into a Securities Investment Account opened in a commercial bank of Sri Lanka in accordance with directions given by the Controller of Exchange in that behalf to commercial banks c. A commercial bank, a licensed share broker or any other person entrusted with the payment of capital monies such as sale proceeds of shares, dividends and commissions in respect of any transaction permitted hereunder shall make such payment only into or out of a Securities Investment Account referred to in sub-paragraph b. above d. The Secretary/Registrar to a company in which the issue or transfer of shares to persons resident outside Sri Lanka are limited under "Limitations" shall not register the name of any person resident outside Sri Lanka or a citizen of a foreign State or their nominee as a shareholder in such company if by such registration the limits specified in "limitations" shall be exceeded	n.a.

n.a. Not applicable.

Source: Notice under the Exchange Control Act, *Gazette of the Democratic Socialist Republic of Sri Lanka*, 19 April 2002.

2.4.4 Investment incentives and promotion

2.51. Sri Lanka has had specific provisions to attract certain industries or sectors (Box 2.2); fiscal incentives are provided on a case-by-case basis. As of June 2016, corporate income tax holidays were being revised and a new incentive scheme was to be formulated by the Government, placing special focus on facilitating investments and ease of doing business. Investment incentives have included corporate tax incentives, import duty exemption, exemption of the tax on dividends, and exemption of exchange controls. These fiscal investment incentives were amended periodically during the review period. The Government ceased to offer them to new investments as of 31 October 2014, however, those agreements concluded with investors under the BOI Act (Section 17) before that date remain active and in place. It is noted that Sri Lanka has promoted certain sectors in which investment restrictions still remain, e.g. aviation, energy/mining, telecommunications, and retail trade.

2.52. FDI must receive government approval. The BOI Act has two types of approval for foreign investments: under Section 16, which provides for the approval of foreign investment without fiscal incentives, subject to normal Sri Lankan laws; and under Section 17, which involves approval of projects and the entering into agreements with the BOI to grant exemptions to certain laws allowing incentives. The BOI also helps arrange visas, aid in import/export facilitation, and facilitate industrial labour relations. Sri Lanka's 2012 Budget introduced a new tax incentive regime for private investors, according to the size and type of enterprise and the sector in which it

operates (Table 2.3). Generally, the larger the investment, the longer the period for which the tax incentives were given.

2.53. A One-Stop-Shop (OSS) has been formally established by the BOI to expedite the investment approval process. All investor needs are met within the BOI premises without the need to go to other line agencies. The OSS is expected to reduce the lead time for investment approval to a target of no more than 25 days. The relevant regulatory agencies[63] provide a response to the OSS within 20 working days of receipt of the request for the relevant approval, permit, or required regulatory or administrative clearance.

Box 2.2 Promotion of investment in certain sectors, 2014

Sectors
Maritime sector
Aviation sector
Knowledge sector
Energy sector
Commercial hub related services
Tourism sector
Manufacturing sector (apparel, rubber-based products, food processing, high-tech manufacturing)
Infrastructure sector (roads, ports, housing, shopping malls, water supply, industrial zones, and warehousing and logistical centres)
Services sector
Agriculture sector
Development of zones

Note: Promotion of certain sectors ceased as of 31 October 2014.

Source: BOI, *BOI Investment Guide 2014*. Viewed at: http://www.investsrilanka.com/images/publications/pdf/Investment_Guide_2014.pdf.

Table 2.3 Overview of investment incentives, 2010-31 October 2014

Category	Sub-category or general conditions	Qualifying criteria	Tax incentive or period (years)
Small enterprises (new enterprises)	Manufacturing (other than any liquor or tobacco products)	Minimum investment of Rs 50 Mn	4
	1. Agriculture and/or agro processing, animal husbandry and/or processing, fisheries and/or fish processing 2. Services: creative work including work of an artist and information technology	Minimum investment of Rs 25 Mn	4
Medium enterprises (new enterprises)	1. Manufacturing (other than any liquor or tobacco products) 2. Agriculture: including animal husbandry or fishing 3. Services: information technology, software development, business/knowledge process outsourcing, healthcare, education, beauty care, cold room and storage facilities, tourism, sports and fitness centres, creative work including art work and mini hydro power projects	Investment of Rs 50 Mn and above	Up to 6 years

[63] These are: Urban Development Authority (UDA), Central Environment Authority (CEA), Tourism Development Authority, Geological Survey and Mines Bureau, Department of Registrar of Companies, Department of Immigration and Emigration, municipal councils/local authorities, Department of Inland Revenue, Coast Conservation, Disaster Management Centre, Ministry of Agriculture, Mahaweli Authority of Sri Lanka, Land Commissioner General's Department, Forest Conservation Department, Sri Lanka Land Reclamation and Development Corporation, Department of Wild Life, Ceylon Electricity Board, National Water Supply and Drainage Board, Ministry of Finance/Treasury, Ministry of Defence, Attorney General's Department, Sri Lanka Customs, and Department of Import and Export Control.

Category	Sub-category or general conditions	Qualifying criteria	Tax incentive or period (years)
Large enterprises (new enterprises)	1. Agriculture or forestry cultivation of food crops, industrial crops or horticulture, forestry, animal husbandry: dairy, poultry, swine, goat, etc.	Minimum investment of Rs Mn: 300-500 500-700 700-1,000 1,000-1,500 1,500-2,500 Above 2,500	 6 7 8 9 10 12
	2. Manufacturing 2.1 Manufacturing, production or processing of non-traditional goods for export, including deemed exports 2.2 Manufacturing for domestic and/or export market: boats, pharmaceuticals, tyres and tubes, motor spare parts, furniture, ceramics, glassware or other	Minimum investment of Rs Mn: 300-500 500-700 700-1,000 1,000-1,500 1,500-2,500 Above 2,500	 6 7 8 9 10 12
	3. Services - Provided to a person or partnership outside Sri Lanka - Tourism or tourism-related projects - Providing hotel services, guest houses or similar services - Infrastructure projects including construction of commercial buildings - Development of any warehousing or storage facility - Power generation using renewable resources - Establishment of industrial estates, special economic zones or knowledge cities - Urban housing or town centre development - Provision of any sanitation facility or waste management systems - Development of water services - Development of internal waterways, and /or related transport (passenger/freight) - Construction of hospitals and provision of healthcare services - Maintenance /repair of maritime vessels/aircrafts - Sporting services (e.g. motor racing or golf course) - Information technology - Software development - Business/knowledge process outsourcing - Any project in light or heavy engineering industry - Artificial insemination for cattle (dairy development) - Higher education/skills development /adult education -Processing and solid waste management	Minimum investment of Rs Mn: 300-500 500-700 700-1,000 1,000-1,500 1,500-2,500 Above 2,500	 6 7 8 9 10 12

Category	Sub-category or general conditions	Qualifying criteria	Tax incentive or period (years)
Expansion of existing undertakings	Any existing enterprise (activities specified in Section 16C or 17A)	Minimum investment of Rs 50 Mn	The investment will be treated as a qualifying payment deductible from the assessable income of the enterprise subject to a maximum of 25% of the investment for each year of assessment falling within the period of 4 years commencing from the year of investment since 01.04.2011
Strategic import replacement enterprises	i. Fabric ii. Pharmaceutical iii. Milk Powder iv. Cement	Minimum investment of Rs Mn: 5 10 30 50	For new enterprises: 5-year tax holiday followed by a concessionary tax rate of 12% For existing enterprises: Concessionary tax rate (12%) for 5 years coupled with, qualifying payment relief (investment is considered as a qualifying payment deductible from the assessable income of the enterprise subject to a maximum of 25% of the investment for each year of assessment falling within the period of 4 years commencing from the year of investment)
Strategic development projects	Any investment capable of altering the economic landscape of Sri Lanka	n.a.	Strategic Development Projects Act covers full or partial exemptions (depending on the type and the level of investment) of the following taxes: (i) Value Added Tax (VAT) (ii) Income Tax (iii) Economic Service Charge (ESC) (iv) Customs Duty (v) Excise Duty (vi) Nation Building Tax (NBT) (vii) Ports and Airports Development Levy (PAL) (viii) Taxes under the Finance Acts
Section 17A, strategic import replacement enterprises and project expansions	VAT, Customs Duty, and PAL – exemptions on imports of capital goods	n.a.	To reduce the upfront cost incurred on account of importation of project-related plant, machinery and equipment, the applicable VAT, Customs Duty, and PAL will be deferred during the project implementation period, and such deferment will be treated as an exemption on the fulfilment of the conditions specified by the BOI

n.a. Not applicable.

Note: Ceased as of 31 October 2014

Source: Ministry of Finance online information. Viewed at: http://www.treasury.gov.lk/depts/fpd/taxreform/new-incentive-regime.pdf.

2.4.5 Export processing zones, industrial parks, free ports, and bonded areas

2.54. Sri Lanka maintains a number of special zones to, *inter alia*, improve industrial development and attract investment inflows into the country. There are a number of different types of zones including: export processing zones (EPZs) (Section 3.2.4), industrial estates, export processing parks, investment zones, and free ports. The BOI administers 13 EPZs and the Ministry of Industry and Commerce administers 29 industrial estates. There are also two private zones relating to the

apparel and related industries sector and IT/knowledge services.[64] The Government has plans to make 45 new development zones in different regions, including agro zones and tourist zones.[65]

2.55. In addition to providing infrastructure, EPZs often provide facilities of the Customs of Sri Lanka for importation and exportation, and bonded areas. The number of zones has remained constant during the review period. There have been no changes to the laws or regulations pertaining to EPZs during the review period. Of the 13 EPZs, the one at Katunayake (Western Province) is the most significant, accounting for the largest number of establishments and highest annual revenue and exports (Table 2.4). Nearly all EPZs contain firms producing for the garment industry, while other typical manufacturing includes rubber products, paper, food and beverages, steel products, and vehicle spare parts.

Table 2.4 Overview of EPZs, 2016

	Number of establishments	Annual revenue (Rs)	Exports from EPZs (Rs million)	Cumulative investment (Rs million as of Dec. 2014)
Katunayake	83	760,000,485	200,542	50,718
Biyagama	58	494,898,030	57,026	72,160
Koggala	21	128,545,230	6,528	13,561
Kandy	13	119,225,206	719	..
Mirigama	9	75,560,955	5,723	..
Malwatta	6	22,868,030	597	..
Wathupitiwela	16	61,660,207	13,214	..
Seethawaka	26	341,260,706	39,169	..
Horana	17	172,224,497	3,553	..
Mawathagama	7	42,295,865	56	..
Polgahawela	5	43,430,603	8,948	..
Mirijjawila	4	11,997,411	332	..
Wagawatha	2	..	..	..

.. Not available.

Source: Information provided by the authorities.

2.56. Industrial estates, which are outside the customs territory of Sri Lanka, have been established to enhance industrialization and increase employment opportunities at the regional level, which thus far has been concentrated in a few districts. The Ministry of Industry and Commerce provides infrastructure facilities – mainly water, road, and electricity infrastructure – and technical consultancy assistance to industrialists. To date, the Ministry has spent Rs 3.1 billion on infrastructure development and the value of investments by private investors is Rs 28.8 billion, with annual turnover of the industries in the estates at Rs 31.4 billion. There are 338 industries operating in the estates, with over one third concentrated in the Western Province. Slightly more firms export (59), compared to import (48); and there are few firms with foreign investors (15) (Table 2.5).

Table 2.5 Overview of industrial estates by province, 2016

	Number of industries	Number importing	Number exporting	Number with foreign investment
Western Province	133	9	19	4
North Western Province	74	14	22	3
Central Province	22	7	5	1
North Central Province	11	3	0	0
Southern Province	18	6	5	2
Eastern Province	15	2	2	2
Sabaragamuwa Province	59	4	3	3
Uva Province	3	1	1	0
Northern Province	3	2	2	0

Source: Information provided by the authorities.

[64] BOI online information. Viewed at: http://www.investsrilanka.com/setting_up_in/boi_zones.
[65] Information provided by the authorities.

2.57. Since 2012, Sri Lanka has established provisions for commercial hub activities, specifically free ports and bonded areas, to facilitate the import of goods and services.[66] There are currently two established free ports, two declared bonded areas, and two specified bonded areas for projects engaged in entrepôt trade with approval for manufacturing or assembling a product.[67] Free ports and bonded areas are legally outside the customs territory of Sri Lanka and only allow the following types of activities: entrepôt trade, off-shore business, front end services to clients abroad, headquarters operations, and logistic services. Entrepôt trade normally involves importation, minor processing, and re-export, but under certain conditions a per cent may be sold locally if approval is given by the BOI and Ministry of Finance. Depending on the type of activity, the minimum investment of fixed assets required ranges from US$1 to US$5 million, and the annual re-export turnover to be reached in 5 years ranges from US$10 to US$20 million. Like the other investment incentives, free ports and bonded area investments are exempt from VAT, excise taxes, import and export controls, special commodity levy, exchange controls, customs ordinance, etc. and benefit from certain tax concessions.

[66] Finance Act No. 12 of 2012, Finance Act No. 12 of 2013, and Commercial Hub Regulation No. 1 of 2013 (*Gazette of the Democratic Socialist Republic of Sri Lanka* No. 1818/30 of 11/07/2013).

[67] BOI online information. Viewed at: http://www.investsrilanka.com/images/publications/pdf/Investment_Guide_2014.pdf.

3 TRADE POLICIES AND PRACTICES BY MEASURE

3.1 Measures Directly Affecting Imports

3.1.1 Customs procedures and requirements

3.1. During the period under review, the main change to import procedures in Sri Lanka was the implementation of a single window system in January 2016. Under the programme, all entities involved in importing and exporting are able to submit the required regulatory information to a single electronic gateway. Furthermore, all traders using the system can use electronic funds transfer or online payments to pay customs duties and levies associated with clearance formalities. Sri Lanka Customs is also implementing an online payment system, which would link all major banks in the country. Currently two banks are linked to the system.

3.2. The authorities stated that the above measures would help overcome many obstacles in the import and export procedures; they would also help reduce clearance times as well as fraud and malpractice.

3.3. The main legislation governing customs procedures in Sri Lanka is the Customs Ordinance; it was amended most recently through the Customs (Amendment) Act No. 2 of 2003. The Ordinance is administered and implemented by Sri Lanka Customs, which is under the remit of the Ministry of Finance.

3.4. As per the provisions of the legislation, importers and exporters must be registered with Customs to be able to trade in Sri Lanka. For registration purposes, importers need to obtain a tax identification number (TIN) by registering with the Inland Revenue Department. In addition, importers need to submit a completed customs declaration (CUSDEC) 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 (with an English translation for used motor vehicles); a load port survey certificate for food items; and, if applicable, an import licence and/or a sanitary and phytosanitary or quarantine certificate. Sri Lanka Customs must ensure that the necessary approvals have been obtained from other relevant government authorities (e.g. Import and Export Control Department, Sri Lanka Standards Institution, and Ministry of Healthcare and Nutrition, and National Plant Quarantine Service) prior to releasing a cargo. Sri Lanka uses the Automated System for Customs Data (ASYCUDA) for centralized, electronic implementation and control of customs procedures. The authorities stated that if documents are in order it takes less than 4 hours on average to clear a consignment and over 80% of the consignments are cleared on the same day.

3.5. Letters of credit (LC), documents against payment (DP), documents against acceptance (DA), or advance payment (AP) can be used to pay for import charges. Letters of credit are valid for up to a year. AP terms are allowed where the total value of the goods does not exceed US$10,000; goods must be received by the importer within 90 days of payment. Customs charges include seal charges at Rs 100 per container and container examination charges at Rs 400 for the first container and Rs 100 per additional container. According to the World Bank's 2015 Doing Business Report, seven documents are required to import in Sri Lanka. The time needed to complete an import operation is 136 hours and the cost to import is US$693 per container.[1]

3.6. With respect to disputes arising due to classification issues, exchange, and import control violations, the Customs Department Imports Division Secretariat ("D" Branch) and the Nomenclature Committee are the final authorities. Furthermore, duty waivers, concessions, and exemptions are also processed by the D Branch, which is responsible for the registration of Customs house agents, and for conducting investigations and inquiries on matters related to imports.

3.7. The Specialized Services Directorate also gives pre-import classification rulings on commodities. Importers who wish to obtain the HS classification of a commodity must apply to the Classification Unit; there is a fee of Rs 300 (around US$2.70). The ruling is binding for a period of

[1] According to the World Bank's 2015 Doing Business Report, import clearance takes 406 hours in India, 786 hours in Pakistan and 347 hours in Bangladesh, while costs incurred are US$1,254, US$2,048 and US$1,861 respectively.

six months, but Customs has the right to change the HS classification before the end of this period if new information becomes available. The new classification would be applicable to all imports made on the basis of the earlier opinion and, if required, customs duties would be adjusted.

3.8. No duties are levied on goods in transit or trans-shipped goods. Goods re-imported into Sri Lanka after two years are subject to the same duties, regulations, and restrictions as any normal import. Goods subject to any duty rebates or drawback at the time of exportation would be subject to the appropriate duties, if re-imported.

3.9. Sri Lanka has notified to the WTO that it has no regulations on pre-shipment inspection.[2] However, currently Pre-Shipment Inspection Certificates are demanded by Customs under *Gazette of the Democratic Socialist Republic of Sri Lanka* No. 1804/17 of 3 April 2013 for vehicle imports.

3.1.2 Customs valuation

3.10. With the coming into force of the Customs (Amendment) Act No. 2 of 2003, Sri Lanka started applying the WTO Customs Valuation Agreement on 7 January 2003.[3] Under the provisions of the Act, the primary method of valuation is transaction value. If this is not available, the following are used in order of precedence: transaction value of identical goods; transaction value of similar goods; deductive value; computed value; and lastly, a fall back value. The fall back value implies that when no other methods are suitable, Customs will determine the value by taking into account the above valuation methods and any other relevant information.

3.11. Additionally, Article 10 of Schedule "E" of the Customs (Amendment) Act No. 2 of 2003 grants the Minister (of Finance) – with the approval of the Cabinet of Ministers and in the interest of the national economy or for any other reason – the authority to apply minimum values for any goods and for a period to be specified in the Order implementing the measure. As such, Sri Lanka has established minimum values on certain products for customs purposes. Minimum values are used for motor vehicles under HS headings 87.02, 87.03, 87.04 and 87.11. The valuation method used is the transaction value method based on an invoice issued by the manufacturer. Vehicles older than three years cannot be imported. As of 27 May 2016, automobile imports are only subject to an excise tax, which ranges from 70% to 290% depending on engine type and size.[4]

3.12. Sri Lanka submitted its replies to the Checklist of Issues on Customs Valuation contained in WTO document G/VAL/5 and notified the WTO on 11 May 2015.[5]

3.1.3 Rules of origin

3.13. Sri Lanka does not employ non-preferential rules of origin; however, it has not notified the WTO to this effect. Sri Lanka does apply preferential rules of origin under bilateral and regional trade agreements (Table 3.1). The criterion to confer origin is generally a change in tariff heading at the four- or six-digit level, and a percentage of local value added, which ranges between 30% and 60% according to the agreement and trading partner. Goods that undergo no transformation must be fully originating in the preferential trading partner. Accumulation is allowed under the various agreements.

3.14. Separate origin certificates need to be submitted to Customs by importers to be eligible for preferential rates under different trade agreements. Certificates need to be submitted through the Commerce Ministry of the respective party. Certificates issued by China, India and Korea can be verified online. Non-preferential certificates of origin are issued by chambers of commerce.

[2] WTO documents G/VAL/W/41/Add.1, 3 March 2000; and G/PSI/N/1/Add.10, 19 July 2004.
[3] WTO document G/VAL/N/1/LKA/1, 11 May 2015.
[4] Sri Lanka Customs online information. Viewed at: http://www.customs.gov.lk/tariff/xid160527.pdf.
[5] WTO document G/VAL/N/2/LKA/1, 11 May 2015.

Table 3.1 Rules of origin

Agreement	Rules of origin
Asia-Pacific Trade Agreement (APTA)	Foreign content must not exceed 55% of f.o.b. value (65% for LDCs). Cumulative rules of origin: products that comply with origin requirements and are used by a participating State as input for a finished product eligible for preferential treatment by another participating State are considered as a product originating in the territory of the participating State where working or processing of the finished product has taken place, provided that the aggregate content originating in the territory of the participating States is not less than 60% of its f.o.b. value (50% for LDCs)
South Asia Preferential Trading Agreement (SAPTA)	Foreign content should not exceed 60% of the f.o.b. value of the finished good if produced in a single country (70% for LDCs); and 50% if several members are involved (40% for LDCs). Cumulative rules of origin: products that comply with origin requirements and are used by a contracting State as input for a finished product eligible for preferential treatment by another contracting State are considered as a product originating in the territory of the contracting State where working or processing of the finished product has taken place provided that the aggregate content originating in the territory of the contracting States is not less than 60% of its f.o.b. value (50% for LDCs)
South Asian Free Trade Area (SAFTA) Agreement	Change in tariff heading at the HS 4-digit level. Foreign content should not exceed 60% of the f.o.b. value of the finished good if produced in a single country (70% for LDCs); and 50% if several members are involved (40% for LDCs). Regional accumulation allowed if the aggregate content (value of inputs plus domestic value added in further manufacture) is not less than 50% of the f.o.b. value; and the domestic value content (value of inputs originating in the exporting contracting State plus domestic value added in further manufacture in the exporting contracting State), is not less than 20% of the f.o.b. value; and there is change of tariff heading
Indo–Sri Lanka Free Trade Agreement	Change in tariff heading at the HS 4-digit level. Minimum national content 35% of the f.o.b. value; foreign content should not exceed 65% of the f.o.b. value of the product.
Pakistan–Sri Lanka Free Trade Agreement (PSFTA)	The domestic value added (DVA) in the exporting country must not be less than 35% of the f.o.b. value of the finished product and HS codes of the imported raw materials and the finished products should be different at the 6-digit level (change of tariff heading criteria)
Global System of Trade Preferences (GSTP)	No less than 50% of the f.o.b. value of the final good if it originates from a single member State (60% for LDCs); 60% if several members are involved (50% for LDCs)

Source: WTO document G/RO/W/129, 28 September 2009; Sri Lanka Department of Commerce online information. Viewed at: http://www.doc.gov.lk/web/indusrilanka_freetrade.php and http://www.doc.gov.lk/web/pakissrilanka_freetrade.php; SAARC online information. Viewed at: http://www.saarc-sec.org; UNESCAP online information. Viewed at: http://www.unescap.org/tid/aptaro.pdf; and GSTP online information. Viewed at: http://www.unctadxi.org/Secured/GSTP/LegalInstruments/gstp_en.pdf.

3.1.4 Tariffs

3.1.4.1 Structure

3.15. In 2016, the applied MFN tariff in Sri Lanka consists of *ad valorem* rates, specific rates, and alternate rates. The tariff varies between 0% and 1,225% (including *ad valorem* equivalents of non-*ad valorem* rates). Over 96% of the tariff is applied on an *ad valorem* basis, with 3.6% of lines subject to specific rates (compared with 3.9% in 2010). The 2016 tariff, which is based on the HS2012 nomenclature, comprises 6,965 lines at the eight-digit level, an increase from 6,592 lines in 2010, which was based on the HS2007 nomenclature (Table 3.2).

Table 3.2 Sri Lanka's tariff structure, 2010 and 2016

(% unless otherwise indicated)

	MFN applied rate			Final bound[c]
	2010[a]	2016[a]	2016[b]	
Bound tariff lines (% of all tariff lines)	36.4	37.5	37.5	37.5
Simple average rate	11.5	10.3	10.9	34.0
WTO agricultural products	25.6	25.3	28.6	50.3
WTO non-agricultural products	9.2	7.8	7.8	22.8
Duty-free tariff lines (% of all tariff lines)	44.4	56.3	56.3	0.8
Simple average rate of dutiable lines only	20.8	23.9	25.1	34.0
Tariff quotas (% of all tariff lines)	0.0	0.0	0.0	0.0
Non-*ad valorem* tariffs (% of all tariff lines)	3.9	3.6	3.6	1.9
Domestic tariff "peaks" (% of all tariff lines)	0.3	0.3	0.6	0.0
International tariff "peaks" (% of all tariff lines)[d]	23.9	23.1	23.7	71.5
Overall standard deviation of tariff rates	14.7	15.3	22.8	20.1
Nuisance applied rates (% of all tariff lines)[e]	0.0	0.0	0.1	0.0
Total number of tariff lines	6,592	6,965	6,965	2,613[f]
Ad valorem rates	3,413	2,790	2,790	2,543
Duty free	2,923	3,922	3,922	20
Specific rates	54	67	67	0
Alternate rates	202	186	186	50

a Including the *ad valorem* component of alternate rates and excluding specific tariff lines.
b Including the *ad valorem* part of alternate rates and AVEs, for specific lines, as available, provided by the authorities. Out of 67 specific rates 56 AVEs are calculated.
c Final bound rates are based on the 2016 tariff schedule. Calculations are based on bound (including partially bound) tariff lines only.
d International tariff peaks are defined as those exceeding 15%.
e Nuisance rates are those greater than zero, but less than or equal to 2%.
f Bound lines only.

Note: 2010 tariff is based on HS07 nomenclature, 2016 tariff is based on HS12. Calculations for averages are based on national tariff line level (8-digit).

Source: WTO Secretariat calculations, based on data provided by the authorities.

3.1.4.2 Tariff bindings

3.16. Sri Lanka has bound 37.5% of its tariff lines at the HS eight-digit level. All agricultural lines (WTO definition), except whale oil (HS15043010), sperm oil (HS15043020) and other (HS15043090), are bound compared with 26.3% of non-agricultural lines. Most bound rates are *ad valorem*; there are 50 alternate bound tariff rates. Bound rates range from 0% to 75%. Nearly half of all bound tariffs are bound at 50%. The average bound tariff is 34%. The average bound tariff for agricultural products (WTO definition) is 50.3%, while the average bound rate for non-agricultural products (WTO definition) is 22.8%.

3.17. The applied MFN rate exceeded the bound rate for 132 lines in 2016, up from 103 lines in 2010 (Table A3.1). The products affected include, *inter alia*: tobacco products, alcoholic beverages, textiles, carpets and switches. The authorities stated that the increase was due to the reduction in the number of tariff bands from four to three in November 2015, and corrective measures would be undertaken.

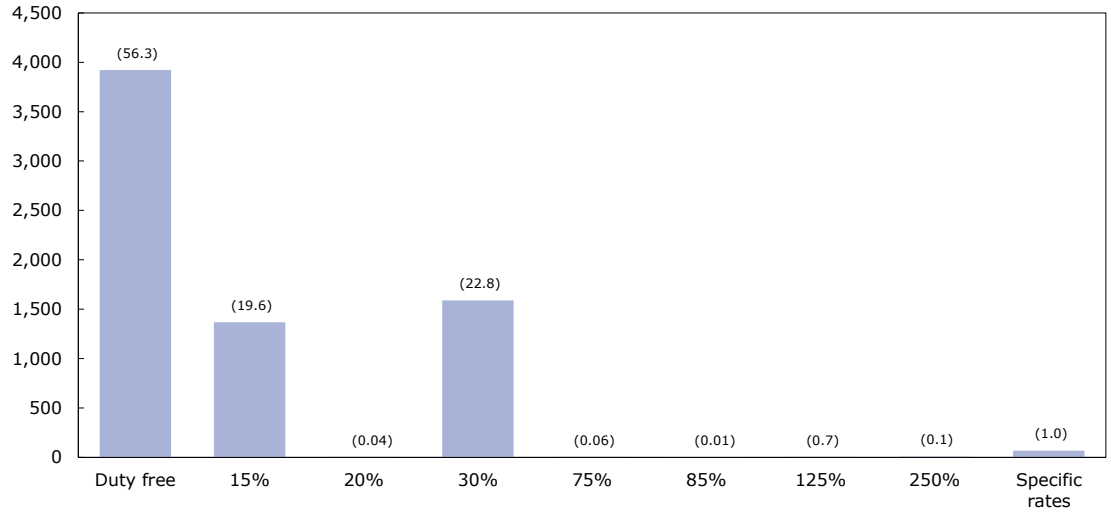
3.1.4.3 Applied tariff

3.18. The simple average applied MFN tariff (including the *ad valorem* component of alternate rates and excluding specific tariff lines) in 2016 was 10.3%, down from 11.5% in 2010**.** The difference (nearly 24%) between the simple average applied MFN tariff and the average bound rate, and the fact that less than 38% of tariff lines are bound, gives the authorities considerable scope to raise tariffs; this adds to the unpredictability of the import regime.

3.19. Nearly 76% of applied tariffs range from 0%-15%, while the modal or most common rate is zero; over 56% of tariff lines are duty free (Chart 3.1).

Chart 3.1 Distribution of MFN applied tariff rates, 2016

(Number of tariff lines)



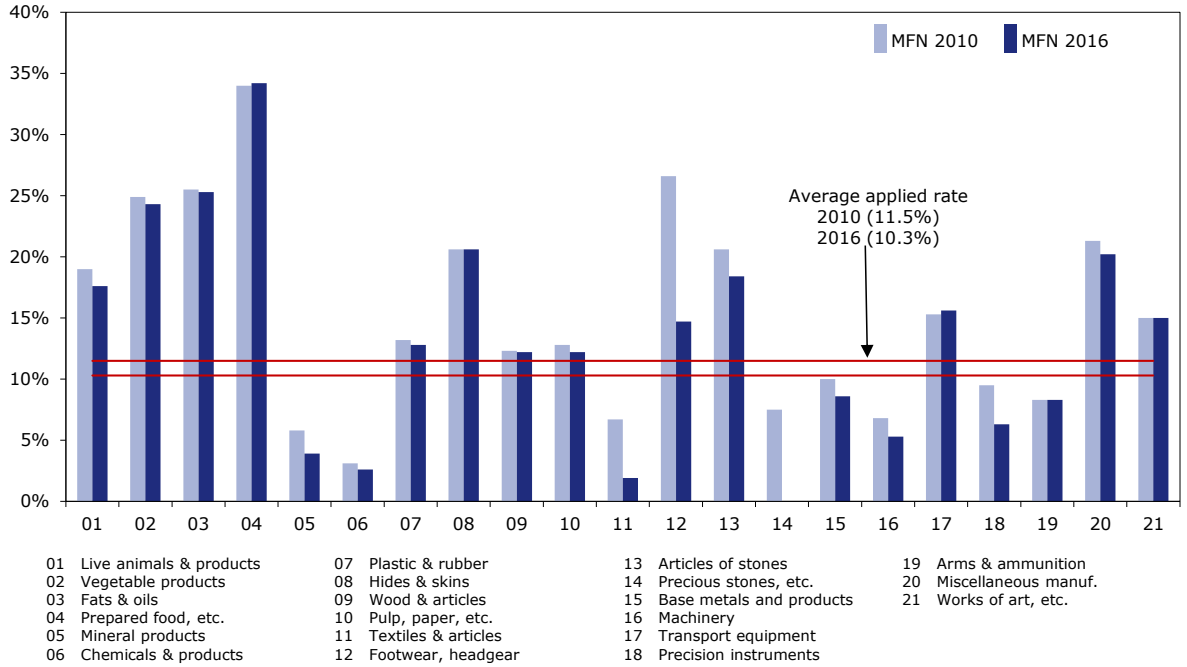
Note: Figures in parentheses denote the percentage share of total lines. Calculations include the *ad valorem* component of alternative rates.

Source: WTO Secretariat calculations, based on data provided by the authorities.

3.20. As per WTO sectoral definitions, average tariffs on agricultural products are higher than those for non-agricultural products. During the period under review, the average applied MFN tariff on agricultural products declined slightly from 25.6% in 2010 to 25.3% in 2016. The average applied MFN tariff on non-agricultural products declined from 9.2% to 7.8% over the same period (Chart 3.2).

3.21. Duty-free rates apply to nearly 15% of agricultural tariff lines and about 64% of non-agricultural tariff lines (Table 3.3). The highest *ad valorem* rates apply to tobacco products with three lines being subject to a rate of 75%, one line to 85% and five lines to 125%. The highest alternate rates of 250% or Rs 1,600/kg also apply to tobacco products. Specific rates are charged on 67 tariff lines; AVEs of over 100% apply to rice, alcoholic beverages and tobacco (Table 3.3). According to the ISIC classification, Sri Lanka's tariff displays mixed escalation, with the tariff rate on raw materials (first stage of processing) being nearly 16%, while the tariff on intermediate goods is approximately 4% and rising again to about 14% for finished goods. Furthermore, with regard to sectors, food, beverages and tobacco, textiles and leather, and chemicals show positive escalation, while wood and furniture and total manufacturing display mixed escalation (Chart 3.3).

Chart 3.2 Average applied MFN tariff rates, by HS section, 2010 and 2016



Note: Calculations exclude specific rates and include the *ad valorem* component of alternate rates. 2010 averages are based on HS07 nomenclature, 2016 averages on HS12.

Source: WTO Secretariat calculations, based on data provided by the authorities.

Table 3.3 Sri Lanka's MFN applied tariff summary, 2016

	Number of lines	Average (%)	Range (%)	Standard deviation	Duty-free lines (%)
Total	6,965	10.3 (10.9)	0-250 (0-1,225.2)	15.3 (22.7)	56.3
HS 01-24	1,229	24.4 (27.3)	0-250 (0-1,225.2)	22.6 (45.0)	10.1
HS 25-97	5,736	7.5	0-30	11.3	66.2
By WTO category:					
WTO agricultural products	1,064	25.3 (28.6)	0-250 (0-1,225.2)	24.5 (48.4)	14.8
Animals and products thereof	122	25.3 (25.4)	0-30 (0-38.9)	10.8	14.8
Dairy products	22	25.9	15-30	6.1	0.0
Fruit, vegetables, and plants	298	24.8 (24.6)	0-30 (0-55.3)	10.7 (11.1)	13.4
Coffee and tea	78	29.4	15-30	2.9	0.0
Cereals and preparations	127	21.5 (23.4)	0-30 (0-100.7)	11.5 (15.1)	15.7
Oilseeds, fats, oil and their products	100	23.0	0-30	9.1	6.0
Sugars and confectionary	29	20.6 (16.7)	0-30	9.0 (9.8)	3.4
Beverages, spirits and tobacco	69	82.6 (116.1)	30-250 (9.1-1,225.2)	81.7 (161)	0.0
Cotton	7	0.0	0-0	0.0	100.0
Other agricultural products, n.e.s.	212	15.9	0-30	12.3	31.1
WTO non-agricultural products	5,901	7.8	0-30	11.3	63.8
Fish and fishery products	251	15.2	0-30	5.6	6.4
Minerals and metals	1,067	8.7	0-30	11.2	57.5
Chemicals and photographic supplies	1,226	3.6	0-30	8.8	83.6
Wood, pulp, paper and furniture	374	14.1	0-30	12.9	40.1
Textiles	641	3.6	0-30	8.9	84.6
Clothing	224	0.0	0-0	0.0	100.0

	Number of lines	Average (%)	Range (%)	Standard deviation	Duty-free lines (%)
Leather, rubber, footwear and travel goods	199	15.2	0-30	10.7	24.6
Non-electric machinery	661	4.5	0-30	9.9	80.8
Electric machinery	336	7.5	0-30	10.0	59.2
Transport equipment	447	15.7	0-30	13.3	36.9
Non-agricultural products, n.e.s.	456	11.2	0-30	12.7	52.0
Petroleum	19	6.6 (7.7)	0-15 (0-28.2)	7.4 (8.6)	47.4
By ISIC (Rev.2) sector:					
Agriculture, hunting and fishing	553	20.6 (20.9)	0-75 (0-100.7)	12.3 (13.0)	17.9
Mining	112	4.8	0-30	7.6	69.6
Manufacturing	6,299	9.5 (10.2)	0-250 (0-1,225.2)	15.3 (23.4)	59.4
Manufacturing excluding food processing	5,552	7.4	0-30	11.3	66.5
Electrical energy	1	0.0	0-0	0.0	100.0
By stage of processing:					
First stage of processing	998	15.6 (15.9)	0-75 (0-100.7)	13.1 (13.7)	33.6
Semi-processed products	2,166	3.8 (3.9)	0-30	7.8 (7.9)	78.2
Fully processed products	3,801	12.7 (13.7)	0-250 (0-1,225.2)	17.6 (28.6)	49.8
By HS section:					
01 Live animals and products	385	17.6 (17.9)	0-30 (0-73.4)	9.2 (9.7)	11.4
02 Vegetable products	486	24.3 (24.5)	0-30 (0-100.7)	10.7 (11.8)	13.2
03 Fats and oils	61	25.3	15-30	6.9	0.0
04 Prepared food, beverages and tobacco	297	35.5 (44.4)	0-250 (0-1,225.2)	42.2 (87.1)	5.4
05 Mineral products	183	3.9 (4.1)	0-30	7.0 (7.2)	73.8
06 Chemicals and products thereof	1,109	2.6	0-30	7.5	88.5
07 Plastics, rubber, and articles thereof	316	12.8	0-30	11.4	37.7
08 Raw hides and skins, leather, and its products	75	20.6	0-30	8.8	5.3
09 Wood and articles of wood	117	12.2	0-30	13.0	48.7
10 Pulp of wood, paper and paperboard	206	12.2	0-30	11.8	42.2
11 Textiles and textile articles	858	1.9	0-30	6.6	91.1
12 Footwear, headgear, etc.	58	14.7	0-30	13.2	39.7
13 Articles of stone, plaster, cement	185	18.4	0-30	11.6	21.1
14 Precious stones and metals, pearls	58	0.0	0-0	0.0	100.0
15 Base metals and articles thereof	656	8.6	0-30	10.9	56.9
16 Machinery, electrical equipment, etc.	1,005	5.3	0-30	9.7	74.2
17 Transport equipment	458	15.6	0-30	13.3	37.1
18 Precision equipment	232	6.3	0-30	11.2	74.1
19 Arms and ammunition	18	8.3	0-15	7.5	44.4
20 Miscellaneous manufactured articles	195	20.2	0-30	12.4	22.6
21 Works of art, etc.	7	15.0	15-15	0.0	0.0

Note: Calculations are based on national tariff line level (8-digit). Excluding specific rates and including the *ad valorem* component of alternate rates. Figures in parentheses include AVEs for specific rates, as available, provided by the authorities.

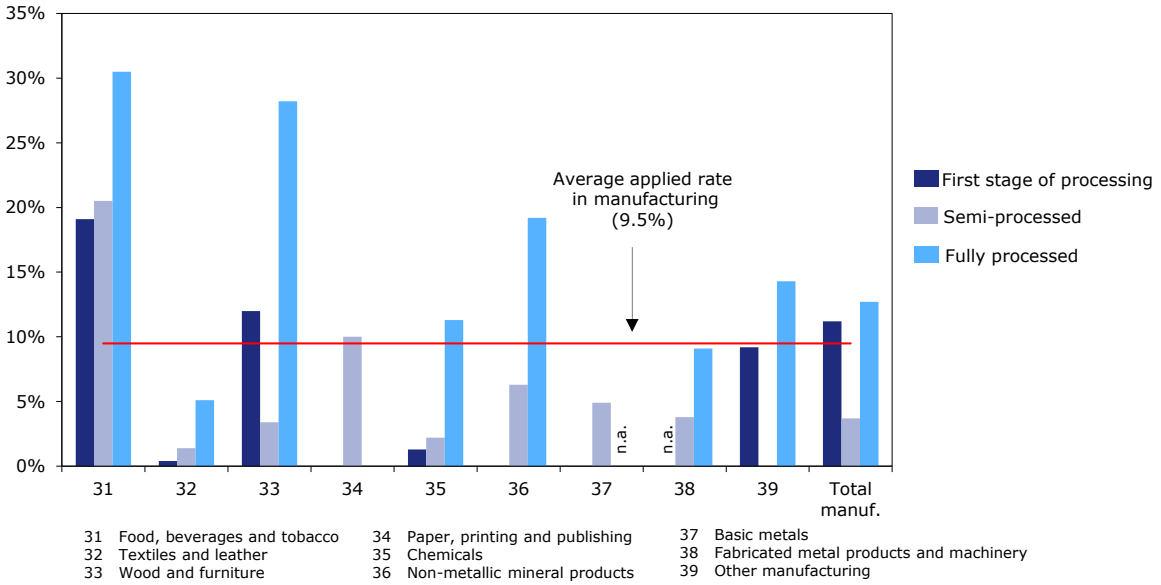
Source: WTO Secretariat calculations, based on data provided by the authorities.

3.1.4.4 Tariff dispersion

3.22. Apart from the overall level of the tariff, as reflected in the average applied MFN tariff rate, there are potential efficiency losses depending on the dispersion of these tariff rates across product lines. The greater the differentials in tariff rates, especially within groups of similar and

thus substitutable products, the higher the chance that consumer and producer decisions are distorted by the tariff structure. Since 2010, the dispersion of tariff rates has decreased; the proportion of tariff lines involving domestic peaks has remained unchanged, while the proportion of those involving international peaks has declined slightly. The overall standard deviation of the tariff rates increased from 14.7 in 2010 to 15.3 in 2016 (Table 3.2).

Chart 3.3 Tariff escalation by 2-digit ISIC industry, 2016



n.a. Not applicable.

Note: Excluding specific rates, and including the *ad valorem* component of alternate rates.

Source: WTO Secretariat calculations based on data provided by the authorities.

3.1.4.5 Tariff preferences

3.23. Preferential rates are granted for certain articles under multilateral (GSTP), regional (SAFTA and APTA), and bilateral agreements (India–Sri Lanka FTA, and Pakistan–Sri Lanka FTA) (Section 2.3.2). Preferences are granted mainly to Bangladesh, Bhutan, India, Laos, Maldives, Nepal, and Pakistan; preferences under the GSTP are granted to only a few countries, and margins with respect to MFN rates are small. Only preferences under the ISFTA and the PSFTA, and to LDCs under SAFTA, are significantly lower than the simple average applied MFN of 10.9% (Table 3.4).

Table 3.4 Summary analysis of Sri Lanka's preferential tariffs, 2016

	Number of preferential lines[a]	Total		WTO agriculture		WTO non-agriculture	
		Average (%)	Duty-free rates(%)	Average (%)	Duty -free rates (%)	Average (%)	Duty-free rates (%)
MFN		**10.9**	**56.3**	**28.6**	**14.8**	**7.8**	**63.8**
GSTP	99	10.9	56.3	28.5	14.8	7.7	63.8
APTA[b]	298	10.8	56.3	28.5	14.8	7.6	63.8
LDCs under APTA[c]	17	10.9	56.3	28.5	14.8	7.8	63.8
SAFTA[d]	1,354	8.2	56.3	25.8	14.8	5.0	63.8
LDCs under SAFTA[e]	1,490	7.7	56.4	24.4	14.9	4.7	63.8
SAPTA[f]	6	10.9	56.3	28.5	14.8	7.8	63.8
Bangladesh preferentials	10	10.9	56.3	28.5	14.8	7.8	63.8

	Number of preferential lines[a]	Total		WTO agriculture		WTO non-agriculture	
		Average (%)	Duty-free rates(%)	Average (%)	Duty -free rates (%)	Average (%)	Duty-free rates (%)
Indo–Sri Lanka FTA (ISFTA)	1,095	7.8	72.0	26.1	26.7	4.5	80.2
Pakistan FTA (PSFTA)	1,814	5.3	82.4	13.1	72.7	3.9	84.2

a The number of preferential lines includes only lines on which the rates are lower than the corresponding MFN applied rate. The 2016 MFN tariff consists of 6,965 tariff lines out of which 3,922 lines bear a duty-free rate.
b Applicable to Bangladesh, China, India, Laos, and the Republic of Korea.
c Applicable to Bangladesh and Laos.
d Applicable to Bangladesh, Bhutan, India, Nepal, Pakistan, and the Maldives.
e Applicable to Bangladesh, Bhutan, India, Nepal, and the Maldives.
f Applicable to Bangladesh, Bhutan, India, Nepal, Pakistan, and the Maldives.

Source: WTO Secretariat calculations, based on information provided by the authorities.

3.1.5 Other charges affecting imports

3.24. In addition to the tariff, Sri Lanka applies a number of additional levies and charges. These include the Export Development Board Levy (Cess), Excise Duty, Value Added Tax (VAT), Ports and Airport Development Levy, Nation Building Tax, port handling charges and the Special Commodity Levy. Cumulatively, these significantly increase the cost of importing and, in some cases, can exceed 100% of the c.i.f. value. Furthermore, these additional taxes and levies are prone to change, which adds to the unpredictability of the import regime.

3.1.5.1 Concessional entry and exemptions

3.25. Imported goods may be stored in a bonded warehouse exempt from customs duties for up to two years. If goods are taken out of the warehouse for domestic consumption, they are subject to the duties.

3.26. The Minister of Finance may issue a revenue protection order to modify customs duties at any time.[6] Under Revenue Protection Order (RPO) No. 01/2008, a number of imported inputs and capital goods were eligible for a concessional duty rate of 2.5%; RPO No. 01/2010 reduced this to zero as of 1 June 2010. Under the terms and conditions approved by the Secretary of Treasury, export-oriented industries may import goods under concessional terms, contingent upon the quantity exported. Import duty and tax exemptions may be granted on a provisional basis, under Section 19(A) of the Customs Ordinance and the Excise (Special Provisions) Act.

3.27. According to the authorities, duty waivers have been granted for selected products on various grounds, including national defence and religious purposes, as authorized by the designated agencies. The authorities stated that it is difficult to ascertain the list of products benefiting from the tariff concessions. Duty concessions are also provided to certain essential commodities, so as to minimize the impact of global market price fluctuations of these commodities on the domestic prices (Table 3.5).

Table 3.5 Revenue forgone from products benefitting from tariff concessions, 2010-2014

(Rs million)

	2010	2011	2012	2013	2014
Milk powder	7,863	10,500	5,488	1,167	4,816
Petrol	10,630	11,785	11,267	16,496	14,903
Diesel	2,871	14,934	14,049	23,134	18,103
Maize	35	17	Not granted	Not granted	Not granted
Palm oil	1,857	5,867	Not granted	Not granted	Not granted

[6] WTO (2010), *Trade Policy Review: Sri Lanka*, Chapter 2.

	2010	2011	2012	2013	2014
Wheat grain	9,400	Not granted	Not granted	Not granted	Not granted
Coconut oil	Not granted	102	Not granted	Not granted	Not granted
Cashew nuts	Not granted	Not granted	4	Not granted	Not granted

Source: Information provided by the authorities.

3.1.5.2 Tariff quotas

3.28. Sri Lanka does not apply tariff quotas.

3.1.5.3 Variable levies and seasonal tariffs

3.29. Sri Lanka does not apply variable levies or seasonal tariffs. However, agricultural tariffs and Special Commodity Levy rates are modified (or waived) by the Minister of Finance in certain instances according to domestic market conditions; these tariff changes could have the same results as a seasonal tariff.

3.1.5.4 Export Development Board Levy (Cess)

3.30. Since 2004, the Sri Lankan Government has been charging a cess on a range of imports, including fruits, vegetables, processed and unprocessed food, shoes, bags, rubber and plastic products, textile products, consumer items such as toiletries and perfumes, ceramic ware, glassware and pens. The Cess is applied to over 3,500 tariff lines at the HS eight-digit level. The Cess is applied on the c.i.f. value and ranges from 1% to 35%. Most of the items are subject to either an *ad valorem* or specific duty, and the rate with the higher tax incidence is applied when calculating the tax. In some cases, such as biscuits, chocolates and soap, the tax is not charged on the import price, but on 65% of the maximum retail price. The authorities state that the Cess is imposed for revenue generation reasons. In 2015, the Cess accounted for over 3.4% of total tax revenue in Sri Lanka.

3.1.5.5 Excise Duty

3.31. Tobacco products, oil products, aerated water, liquor, beer, motor vehicles and certain household electrical items are subject to an excise duty in Sri Lanka. The duty is applied to both imported products and domestically produced goods. However, with regard to imported products, the duty applied is based on a price that includes a 15% profit margin in addition to all other taxes and fees. Since October 2014, the excise duty is imposed on automobile imports; it has replaced several other taxes (including import tariffs) and is a composite tax. The excise duty accounted for nearly 37% of tax revenue in 2015.

3.1.5.6 Value Added Tax (VAT)

3.32. VAT is applicable on sales by manufacturers, importers and service providers. VAT was introduced in August 2002; it replaced the Goods and Services Tax and the National Security Levy. Until May 2016, VAT was charged at a flat rate of 11%. Since May 2016, the rate of VAT has been increased to 15.0%. The VAT registration threshold has been lowered to Rs 12 million per annum from Rs 15 million per annum. Import or supply of telecommunication equipment or machinery, or high-tech equipment including copper cables for the telecom industry, and the issue of licences to local telecom operators by the Telecommunications Regulatory Commission of Sri Lanka (TRCSL) are now subject to the increased VAT. Additionally, the supply of goods or services to any specified project, other than housing projects approved on or after 5 May 2016, will be taxed. Wholesale and retail trade (other than by a manufacturer or importer), as well as healthcare services, will also be liable for VAT.

3.1.5.7 Ports and Airports Development Levy (PAL)

3.33. As per the Ports and Airports Development Levy Act No. 18 of 2011, imports were previously subject to a levy of 5% of the c.i.f. value of the imports, while inputs used solely for processing and re-export purposes were charged 0.5%. Since January 2016, the rate of PAL has been increased to 7.5%. At the same time, to encourage spending by tourists, PAL has been

reduced from 5% to 2.5% on certain electronic and electrical items, while PAL on certain machinery has been abolished.[7]

3.1.5.8 Nation Building Tax

3.34. Nation Building Tax (NBT) is governed by the NBT Act No. 9 of 7 January 2009 and its subsequent amendments. The NBT is payable on a self-assessment basis by importers, manufacturers, and service providers, including in wholesale and retail trade. The threshold for the NBT was Rs 3.75 million per quarter (Rs 3 million prior to 1 January 2015), or Rs 15 million per annum (Rs 12 million prior to 1 January 2015). As of January 2016, the NBT rate was 2%, while the threshold was reduced to Rs 3 million per quarter.

3.35. Manufacturers and service providers need to be registered with the Nation Building Tax (NBT) Unit of the Inland Revenue Department of the Ministry of Finance. Importers are not required to register, since the NBT is charged at the border and is payable to the Customs Department.

3.36. Exports and imported parts and inputs to be used in the manufacture of articles for export are exempt from the NBT (Table 3.6). The NBT on imports is applied on the customs value calculated in rupees plus a 10% margin, and including all other taxes applied on imports, except VAT.

Table 3.6 Nation Building Tax exceptions

Any product exported by the manufacturer of such article
Products, other than plants, machinery or fixtures imported exclusively for use in the manufacture of any article for export
Products sold to any exporter showing a letter of credit opened in any bank in Sri Lanka in respect of the export of that product or other documentary evidence that such article has in fact been exported from Sri Lanka
Products imported for: display at an exhibition; temporary use in Sri Lanka in any article to be produced in Sri Lanka; for the purposes of repairs to be carried out in Sri Lanka; or to be re-shipped, within a one year of the date of importation
Products imported, which prior to their importation, were taken out of Sri Lanka for repairs, if proved to satisfaction
Cinematographic or television films produced in Sri Lanka for further processing or printing
Spare parts imported by airlines or shipping companies
Articles sold to the United Nations or any specialized agency or diplomatic mission
Fertilizers; petroleum and petroleum products; LP gas; pharmaceuticals; tea supplied by the manufacturers
Imports made considering the economic benefit to the country
Temporary imports for the use of projects on the condition of re-export
Articles imported for use in pharmaceutical manufacturing in Sri Lanka and packing material not manufactured in Sri Lanka
Banking and financing; medical services; supply of water; transport of goods or passengers; leasing of movable properties; construction services of contractors (buildings, roads, bridges, water supply, drainage or sewerage, harbour, airport or any infrastructure project in telecommunication or electricity); services provided to exporters of any article directly related to improving the quality and character of such article; services provided for exporters of sewing garments; services provided by a freight forwarder, shipping agent or courier in respect of the export of any article from Sri Lanka; services provided by a public corporation in respect of the export of any article from Sri Lanka; operating a hotel, guest house, restaurant or other similar business registered with the Sri Lanka Tourist Board; services provide by an auctioneer, broker, insurance agent or commission agent of any local produce; services provided by a travel agent in respect of inbound tours registered with the Sri Lanka Tourist Board; software developed for use wholly outside Sri Lanka for which the payment is received in foreign currency through a bank; services provided over the internet, using software built by a person in Sri Lanka to a person abroad for payment in foreign currency; client support services provided over the internet or telephone by an enterprise for the payment in foreign currency; life insurance business; distribution or production and supply of any cinematographic films primarily for exhibition in cinemas; exhibiting films in a cinema; services provided to the United Nations or any specialized agency or diplomatic mission; any service rendered in or outside Sri Lanka for foreign currency and if remitted to Sri Lanka through a bank; services of any "General Sales Agent" registered under the Civil Aviation Authority of Sri Lanka; importation of aircrafts or ships on leases or outright purchases;

[7] For details see *Gazette of the Democratic Socialist Republic of Sri Lanka No. 1947/47*, 1 January 2016. Viewed at: http://www.treasury.gov.lk/images/depts/fpd/docs/gazetts/1947_47E.pdf.

services obtained from any foreign consultancy under any foreign funded project
Exemptions granted by the Cabinet of Ministers
Importation of any article for use exclusively in manufacturing pharmaceuticals in Sri Lanka and for packing material used exclusively for pharmaceuticals manufactured in Sri Lanka
Leases or outright purchases of aircraft and ships brought to Sri Lanka
Articles subject to the Special Commodity Levy as specified by the Special Commodity Levy Act No. 48 of 2007, when sold after any value added in Sri Lanka
Plant, machinery and equipment imported for the use of projects on temporary basis on the condition of re-export after the completion of work
Services obtained from foreign consultancies in respect of these projects
Importation of machinery and equipment by the Ceylon Electricity Board (CEB) or by any other agency that entered into an agreement with the CEB for electricity generating projects implemented to supply electricity to the national grid
Importation of gold

Source: Sri Lanka Department of Fiscal Policy and Sri Lanka Customs. Viewed at: http://www.customs.gov.lk/news/nbtexcempt.pdf.

3.1.5.9 Special Commodity Levy

3.37. With a view to controlling price increases in essential food commodities such as milk powder, dhal, sugar, potatoes, and onion, the Government introduced the Special Commodity Levy under the Special Commodity Levy Act No. 48 of 2007. The Levy is imposed at a rate specified by the Minister of Finance. Rates are adjusted periodically to reflect price and demand and supply development; adjustments may be general or limited to some products. Currently 39 commodities are subject to the Levy (Table A4.1); the revenue generated from the levy in 2015 was Rs 52.3 billion.

3.1.6 Import prohibitions, restrictions, and licensing

3.1.6.1 Import restrictions and prohibitions

3.38. On account of health, safety, security, environment, and moral reasons, Sri Lanka imposes import restrictions on a range of products. These include: appliances for discharging gas; crackers that contain explosives; firearms; toy pistols; counterfeited coins; fish, grain, and other articles unfit for human consumption; meat (fresh or frozen) derived from any warm-blooded animal, if it consists of offal, scraps, trimmings and other pieces in such condition as to afford insufficient means of identification with a definite part of a carcass, or from which certain glands have been removed; road vehicles; and agricultural and construction machinery, more than ten years old[8]; guns designed to be disguised; weapons, ammunition, explosives, vehicles and equipment capable of being used by the armed forces, except by licence from the Ministry of Defence; jewellery or articles made out of ivory; and some medicaments and chemicals.

3.39. Imports of articles and books that are deemed obscene or that may offend religious beliefs, and of narcotic drugs are prohibited.

3.40. The list of restricted imports may be amended by Parliament. The current list of controlled and prohibited imports is detailed in the *Gazette of the Democratic Socialist Republic of Sri Lanka No. 1813/14* of 5 June 2013.

3.1.6.2 Import licensing

3.41. The import and export licensing system in Sri Lanka is governed by the Imports and Exports (Control) Act No. 1 of 1969 and subsequent amendments and regulations published under the Act as Extraordinary Gazette Notifications. These have all been notified to the WTO.[9] The Extraordinary Gazette Notifications list the goods subject to import licensing.

[8] *Gazette No. 1813/14*, 5 June 2013.

[9] WTO documents G/LIC/N/1/LKA/1, 20 May 2003; G/LIC/N/3/LKA/1, 27 May 2003; G/LIC/N/3/LKA/2, 19 February 2014; G/LIC/N/1/LKA/2 19, February 2014; and G/LIC/N/2/LKA/1, 12 January 2015.

3.42. There is no automatic licensing in Sri Lanka. Non-automatic licensing is primarily for the purpose of safeguarding environmental, public security and public health interests. The system applies to goods originating and coming from all countries. Furthermore, there are no products under quantitative or value-based restrictions except for the chemical varieties detailed in Schedule I of the *Gazette of the Democratic Socialist Republic of Sri Lanka (Extraordinary) No. 1821/40* of 1 August 2013. The system is administered by the Import and Export Control Department.

3.43. Licences are issued in a week; requests for licences are considered on a "first come, first served" basis. Licences are usually granted a month prior to the importation. However, applications for a licence may be made up to a week before importation and licences may be obtained within a shorter time limit for goods arriving at the port without a licence. Certain licences, such as block licences with one-year validity for the import of drugs, require past performance (importers need to have imported drugs during the past three years). In some cases, licences may be issued on condition that the goods are exported and not sold in the domestic market. This situation is applicable only to imports made by companies approved by the Board of Investment of Sri Lanka as operating in export-oriented industries.

3.44. Under the provisions of the Imports and Exports (Control) Act (Schedule II of the *Gazette (Extraordinary)* No. 1739/3 of 2 January 2012), the following entities are eligible to apply for an import licence: any individual, or an individual trading, in his/her own name or under a business name; firm, partnership or other entity that is registered in Sri Lanka; public companies and private companies that are incorporated in Sri Lanka under the Companies Act No. 7 of 2007; and non-nationals that have a valid visa to reside in Sri Lanka. Licence fees vary depending on the product. There is no penalty for the non-use of a licence or a portion of it. Licences are not transferable between importers. The validity period of licences varies depending on the commodity. Blanket licences are also being issued for some selected commodities such as certain drugs and some petroleum products. The number of extensions will depend on the justification provided by importers. The validity period of the licences can be extended a maximum of three times and is subject to a maximum period of one year. Conditions of the licence also require that free trade samples should be limited to 10% of the trade stock. An analysis report from the manufacturer is specially requested for "Western drugs". This report should provide information on composition and ingredients, strength of packaging, date of manufacturing and expiry, side effects etc. Additionally special conditions may apply depending on the commodity; these include a letter of recommendation from the respective authorities.

3.45. In case of refusal, the applicant has a right of appeal under paragraph 11 of the Imports and Exports (Control) Act to the Minister concerned.

3.1.7 Contingency measures

3.46. Sri Lanka has no laws or regulations governing anti-dumping or countervailing actions. In 2009, Sri Lanka notified the WTO that it had not established an authority competent to initiate and conduct an investigation within the meaning of Article 16.5 of the Anti-Dumping Agreement and thus had not, to date, taken any anti-dumping actions within the meaning of Article 16.4.[10] Sri Lanka also stated that it did not anticipate taking any anti-dumping actions for the foreseeable future. Sri Lanka also made a similar notification regarding countervailing measures.[11]

3.47. With respect to safeguard measures, Sri Lanka currently has no laws or regulations to address these. According to the authorities, proposed trade defence bills on anti-dumping, countervailing and safeguard measures were submitted to the Cabinet in July 2014. The Cabinet required changes to the bills; the bills (with the required changes incorporated) have subsequently been resubmitted to the Cabinet for approval before being submitted to Parliament for approval. The authorities stated that these bills were part of the Trade Promotion Bill, which would be submitted to Parliament for approval.

[10] WTO documents G/ADP/N/193/LKA, 23 December 2009; and G/ADP/N/1/LKA/1 – G/SCM/N/1/LKA/1, 26 April 1995.

[11] WTO document G/SCM/N/202/LKA, 23 December 2009.

3.1.8 Standards and other technical requirements

3.1.8.1 Technical regulations

3.48. During the period under review, there have been no changes to the legislative or regulatory framework governing technical regulations and standards in Sri Lanka. The main piece of legislation governing standards continues to be the Sri Lanka Standards Institution Act No. 6 of 1984, which is administered by the Sri Lanka Standards Institution (SLSI). The SLSI, which is under the ambit of the Ministry of Science, Technology and Research, is the national authority for notifications and the national enquiry point.[12] The SLSI is a member of the International Organization for Standardization (ISO). Sri Lanka has accepted the WTO TBT Code of Good Practice.[13]

3.49. According to the notifications submitted to the WTO, 123 trade-related technical regulations are in place.[14] The authorities stated that new products were introduced under the Imports (Standardization and Quality Control) Regulations 2013, while others were removed from the list.[15]

3.50. Items on the list are subject to the Import Inspection Scheme (IIS), so as to ensure they are in conformity with the technical regulations specified in the relevant Sri Lanka standard (SLS). Consignments being imported are classified under five different categories. Categories 1 to 4 carry some kind of certificate of compliance with the stipulated standard, issued by a body recognized by the Sri Lanka Standards Institution (SLSI).[16] Samples of goods falling under these categories are checked randomly. Category 5 goods are sampled at the port and the consignment is not released until the test report is available, or where facilities are available, the goods may be released to a bonded warehouse, until clearance.

3.51. Furthermore, if the domestic and foreign standards are fully compatible with each other, a quality certificate need not be submitted. In cases where a particular requirement of the national standard deviates from the SLS, a test certificate is needed to certify that the particular requirement complies with the SLS.

3.52. SLS formulation takes into account the equivalent international standards including those established by international bodies such as the ISO, the IEC, and the Codex Alimentarius as well as those by other countries.

3.53. The categories of products specified in the gazetted list of technical regulations[17] include, *inter alia*: certain types of milk, milk powder, butter, certain vegetable oils, margarine, canned fish, brown sugar, biscuits, noodles, jams, fruit concentrates, some sauces, bottled water, turmeric, lozenges, salt, cement, some toiletries, safety matches, some polyvinyl pipes, motor cycle and bicycle tyres, some types of thread, some steel products, aluminium utensils, some electrical appliances, toothpaste, toothbrushes, soya sauce, lentils, batteries, LPG products, steel containers, fluorescent lamps, switches, plugs, cords, cables, umbrellas, tiles, and porcelain ware. The list has been expanded since the previous review, when it included 103 items. These have been notified to the WTO.[18]

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[12] WTO document G/TBT/ENQ/36, 5 February 2010.

[13] WTO document G/TBT/CS/N/76, 7 August 1997.

[14] WTO document G/TBT/N/LKA/33, 29 January 2014.

[15] For the full list of products please see *Gazette* (*Extraordinary) No. 1844/49*, 8 January 2014, and information provided by the authorities.

[16] Category 1 consignments are accompanied by a quality certificate from an accredited overseas laboratory or an inspection agency with which SLSI has signed a memorandum of understanding. Category 2 consignments are accompanied by a quality certificate from the national standards body of the exporting country. Consignments in Category 3 are imported from a manufacturer registered with the SLSI, and are accompanied by a quality certificate from the manufacturer. Consignments under Category 4 comprise products carrying the "certification mark" of the national standards body of the exporting country where the national standard of the exporting country is compatible with the corresponding Sri Lanka standard. Consignments that do not fall into Categories 1-4 are classified under Category 5.

[17] *Gazette* (*Extraordinary) No. 1844/49*, 8 January 2014, and information provided by authorities.

[18] WTO document G/TBT/N/LKA/33, 29 January 2014.

3.54. The national accreditation authority continues to be the Sri Lanka Accreditation Board for Conformity Assessment (SLAB), which is an autonomous body under the Ministry of Science, Technology and Research.[19] The SLAB was established under Act No. 32 of 2005.

3.55. Five accreditation schemes come under the purview of the SLAB. The accreditation scheme for testing and calibration laboratories is based on ISO/IEC 17025. All types of laboratories covering chemical testing, biological testing, physical and mechanical testing, and calibration are included under this scheme. The accreditation scheme for medical/clinical laboratories is based on ISO 15189, and covers clinical pathology, clinical biochemistry, haematology, microbiology and serology, histopathology, immunology, molecular biology, pharmacology and nuclear medicine. The accreditation scheme for inspection bodies, based on ISO/IEC 17020, provides formal recognition to organizations required to conduct various types of inspections for regulatory purposes. The accreditation scheme for certification bodies (CBs) covers systems, product and person certification, and is based on ISO/IEC 17021, and on ISO/IEC 17065 and ISO/IEC 17024. The certification provided by these CBs includes certification of quality management systems (QMS), environmental management systems (EMS), food safety management systems, certification of products (e.g. tea and textiles), certification of persons (e.g. non-destructive testing) and occupational health and safety management systems. Lastly the accreditation scheme for greenhouse gas validation and verification bodies (GHG V/VBs) covers GHG assertion of different technical sectors based on ISO/IEC 14065.

3.56. There are currently 34 domestic laboratories and institutions accredited for chemical testing[20], 17 for mechanical testing[21], three for electrical testing[22], 11 for biological testing[23], and six for calibration.[24] Additionally, 20 medical laboratories, three certification bodies and 2 GHG validation/verification bodies are also accredited.

3.57. Sri Lanka has not signed any mutual recognition agreements (MRAs) with third countries pertaining to technical regulations, standards, or conformity assessment procedures.

3.58. The SLAB is a full member of: the Asia Pacific Laboratory Accreditation Corporation (APLAC) and is a signatory to the APLAC's MRA; the International Laboratory Accreditation Cooperation (ILAC), and a signatory to ILAC's MRA; and, the Pacific Accreditation Council (PAC), an association of accreditation bodies whose objective is to facilitate trade and commerce among economies in the Asia Pacific region by promoting the international acceptance of the accreditations granted by its members. The SLAB is also a full member of the International Accreditation Forum (IAF) and a signatory to the Multilateral Arrangement (MLA) of the IAF. The SLAB was admitted as a signatory to the Multilateral Arrangement (MLA) of the IAF for management system certification (QMS, EMS) and product certification in March 2014 and for food safety and management systems (FSMS) in November 2015.

3.59. Technical regulations from trading partners are accepted as equivalent after evaluation of a declaration of conformity and a technical dossier. Pursuant to Cabinet Decision No. 16/0071/716/003 of 20 January 2016, accreditation is mandatory for all technical decisions pertaining to imports. As a result, certificates issued by accredited certification bodies that are signatories to the IAF MLA, as well as tests and inspection reports issued by accredited laboratories and inspection bodies that are signatories to the ILAC MRA, are accepted when taking technical decisions.

3.1.8.2 Standards and certification

3.60. The Sri Lanka Standards Institution (SLSI) continues to be responsible for formulating national standards. It also provides certification, inspection, testing and industrial calibration services.[25]

[19] SLAB online information. Viewed at: http://www.slab.lk/#-.
[20] For list see: http://slab.lk/AccOrgChemicalTesting.aspx.
[21] For list see: http://slab.lk/AccOrgMechanicalTesting.aspx.
[22] For list see: http://slab.lk/AccOrgElectricalTesting.aspx.
[23] For list see: http://slab.lk/AccOrgBialogicalTesting.aspx.
[24] For list see: http://slab.lk/AccOrgCalibrationTesting.aspx.
[25] SLSI online information. Viewed at: http://www.slsi.lk.

3.61. Standards development takes place in requisite committees and is a consultative process involving all stakeholders such as: interested parties representing consumers, producers, users, public institutions, and independent technical organizations. To the extent possible, international standards are followed; priority is given to standards that facilitate internal and external trade and enhance the international competitiveness of Sri Lankan products.[26]

3.62. There are over 1,400 standards relating to products, commodities, materials, processes and practices.[27] These standards are primarily voluntary; 41 out of some 1,400 standards (mainly on building materials, household electrical appliances, food and consumer products) are referred to as technical regulations.

3.63. The "SLS Marks Scheme", Sri Lanka's product certification scheme, enables the SLSI, under the provisions of the Sri Lanka Standards Institution Act, to grant permits to eligible local and foreign manufacturers to use the "SLS" mark on their products.[28] The SLS mark certifies that the product has been manufactured in accordance with the relevant Sri Lanka standard's specification and verified by regular inspections and tests by the SLSI. Permits are valid for three years and may be renewed; they may be revoked if production stops, if fees are not paid or if the product does not conform.

3.64. Furthermore, under the Sri Lanka Standards Institution Act No. 6 of 1984, the SLSI operates management systems certification schemes based on international standards such as ISO 9001 and ISO 22001. In addition to the SLSI, the Telecommunications Regulatory Commission of Sri Lanka (TRCSL) sets quality regulations and technical specifications for equipment and quality of service (QOS) standards in the telecommunications sector.

3.1.9 Sanitary and phytosanitary requirements

3.65. There have been no changes to the legislation or regulations governing SPS in Sri Lanka during the period under review. Food imports are regulated by the Food Act No. 26 of 1980, regulations under the Act and subsequent amendments.[29] The importation of any animal, animal product, veterinary drug or veterinary biological product, animal semen or embryo is governed by the Animal Diseases Act No. 59 of 1992, while plant imports are governed by the Plant Protection Act No. 35 of 1999. The Ministry of Healthcare and Nutrition is Sri Lanka's enquiry point and notification authority on SPS matters.[30] Sri Lanka is a member of the Codex Alimentarius Commission and the World Organisation for Animal Health (OIE), and a contracting party to the International Plant Protection Convention (IPPC).

3.66. Under the Sri Lanka Standards Institution Act No. 6 of 1984, the SLSI operates a generalized hazard analysis critical control point (HACCP) certification scheme to ensure food safety.[31] A certificate holder develops and maintains its food safety assurance programme based on the internationally accepted principles of ISO 22000.

3.67. Under the provisions of the Animal Diseases Act No. 59 of 1992, a special permit, issued by the Controller of Imports and Exports based on the recommendation of the Director General of the Department of Animal Production and Health (DAPH) in the Ministry of Rural Economic Affairs, is required for the import of any animal, animal product, veterinary drug or veterinary biological product, animal semen or embryo. A certificate from the Chief Veterinary Officer of the country of origin, stating that the product is free from any infective substance likely to cause disease in animals as well as zoonotic diseases is required for the issuance of a permit for the import of animal products. For live animals, a certificate is required from the Chief Veterinary Surgeon or an authorized veterinary surgeon of the country of origin. The certificate must set out: the country of origin of the animal; that the animal is and has been free from disease and has not been in contact with diseased animals for three months prior to its exportation; that the place of origin of the animal has been free from disease for 3-12 months (depending on the type of animal) prior to the

[26] SLSI online information. Viewed at: http://www.slsi.lk.
[27] SLSI online information. Viewed at: http://www.slsi.lk.
[28] SLSI online information. Viewed at: http://www.slsi.lk.
[29] The Act was amended in 2014 and published in the *Gazette (Extraordinary) No. 1867/8* dated 17 June 2014.
[30] WTO documents G/SPS/ENQ/25, 15 October 2009; and G/SPS/NNA/15, 15 October 2009.
[31] SLSI online information. Viewed at: http://www.slsi.lk/systems-certification-haccp.php.

date of the departure of the vessel carrying the animal from the port of exit; and that the animal has been immunized against the specified diseases. Imports of meat or meat products must be accompanied by a certificate issued by a competent authority in the country of origin warranting that they are fit for human consumption and free from any infective substance likely to cause disease in animals. Animal products to be imported into Sri Lanka must be slaughtered and processed in establishments registered with the veterinary authority in the country of origin. Imports of live animals for human consumption are prohibited.

3.68. A safety certificate from the Chief Veterinary Officer (or a veterinary surgeon authorized by him/her) in the country of origin is required for the importation of veterinary drugs or veterinary biological products. Furthermore, animal imports are subject to a minimum quarantine requirement of 30 days.

3.69. Plant imports are covered by the Plant Protection Act No. 35 of 1999 and its regulations in relation to plant quarantine activities. The Act is administered by the National Plant Quarantine Service in the Department of Agriculture. Plant imports need to be accompanied by a permit, issued by the Director General of Agriculture or the Additional Director of the National Plant Quarantine Service. Permits are issued immediately for vegetable seeds that are included in an approved list, which is published in newspapers periodically. In addition, consignments must also be accompanied by: a phytosanitary certificate issued within 14 days prior to shipment; an International Safe Transit Association (ISTA) certificate; a declaration stating that the consignment is free of soil, certain pests and seed treatment; and a certificate of origin. Imports of fresh fruits and vegetables for human consumption must be accompanied by a certificate from the plant protection authority of the country of origin stating that the fruit has been in cold storage for more than two weeks. Certificates from countries having an incidence of fruit flies are not accepted. The consignment is subject to inspection by a Plant Quarantine Officer.

3.70. The importation of certain plants is prohibited, except for research.[32] Imports of soil and living modified organisms (LMOs) are also prohibited. Imports of animals and animal products are only permitted from countries officially declared as "HPAI Provisional Free Status" by the OIE.

3.71. Imports of GM foods require prior approval from the Chief Food Authority in the Ministry of Healthcare and Nutrition.

3.72. Since January 2010, Sri Lanka has made 19 notifications to the Committee on Sanitary and Phytosanitary Measures, covering *inter alia*: measures on foodstuffs covered by SLSI standards; shelf life of imported foods; food packaging materials and articles; meat and meat products; milk and milk products; plants, plant products, organisms, soil, and other culture media; food colouring substances; tea; coffee; rice flour; carbonated and caffeinated beverages; bottled or packaged drinking water; iodized salt; and genetically modified food.

3.2 Measures Directly Affecting Exports

3.2.1 Export procedures and requirements

3.73. During the period under review, there have been no major changes to the export procedures, except the establishment of the Single Window in January 2016 (Section 3.1.1); the authorities stated that the One-Stop-Shop and the Export Facilitation Centre were fully operational. Exports continue to be governed primarily by the Customs Ordinance. Other sector- and issue-specific legislation also affects exports.[33]

3.74. Documents required for exporting include: a goods declaration, which includes a customs declaration (CUSDEC) in four copies; licences and permits if required; a shipping note (containing details of the cargo) or airway bill; an invoice; a packing list; and other supporting documents, as and when necessary. The goods declaration must specify the quantity, quality, and value of the

[32] An import licence is needed for the import of plants for research.

[33] These include the Revenue Protection Act, the Export and Exchange Controls Act, the Rubber Control Act, the Tea Board Act, the Coconut Development Authority Act, the Fauna and Flora Protection Act, the Animal Diseases Act, the Antiquities Act, the Forest Act, the Wildlife Act, the Firearms Act, the Opium and Dangerous Drugs Act, the Export Development Board Act, the Sri Lanka Standards Institution Act, the Textiles Act, the Minerals and Mineral Sands Act, the Excise Act, and the Fisheries and Aquatic Resources Act.

goods. Additionally, export control permits are required for some items. Exported cargo may be put in the green or red channel. The Superintendent of Exports (Customs) decides the type of examination required for cargo placed in the red channel. Registration with Customs is mandatory for exporters. If required by the importer, quarantine or veterinary certificates, issued by the Department of Agriculture or the Department of Animal Production and Health are provided, for plants and animals, respectively. All consignments of animals and animal products exported from Sri Lanka are subject to quarantine inspection. The authorities stated that approximately 5% of the consignments are inspected.

3.2.2 Export taxes, charges, and levies

3.75. With a view to ensuring the availability of raw materials, promoting further processing of local materials, financing export promotion activities, protecting national security, and protecting the environment, Sri Lanka applies both export duties and a cess on certain goods. Export duties are applied under the Customs Ordinance, while an export cess is applied under the Export Development Board (EDB) Act No. 40 of 1979. Customs export duties are currently levied on cashew nuts (fresh and in shells), raw vein quartz and semi-finished products of iron or non-alloy steel. Cesses are levied on a number of products including, *inter alia*: tea, rubber, coconuts, pepper, vanilla, cinnamon, rice, maize, granite, graphite, quartz, wood and metal scrap. The rates of cess vary according to the product.[34]

3.2.3 Export prohibitions, restrictions, and licensing

3.76. The export of certain goods is prohibited on grounds of public health, and the protection of endangered species and the environment. Some export restrictions are maintained in accordance with UN sanctions or international conventions (e.g. CITES). According to the authorities, currently there are no export bans under the Imports and Exports (Control) Act.

3.77. The export of explosives is prohibited under the Explosives Ordinance (Chap. 633). Exports of drugs are forbidden under the Poisons, Opium and Dangerous Drugs Ordinance (Chap. 549). Exports of flora and fauna listed in Appendix I of the CITES are banned and exports of Cinchona bark, in any form, are prohibited under Schedule "B" of the Customs Ordinance.

3.78. There are 13 products that require licences, permits or certificates for export. These are issued by various ministries and departments.[35] In addition, as per the *Extraordinary Gazette* Notification No. 1627/02 dated 9 November 2009, there are four items under licence control, which require an export licence issued by the Controller of Imports and Exports prior to export. These are metal waste, scraps, dusts, ingots, scales, etc.; wood and articles of woods; motor vehicles registered before 1 January 1948; and ivory and ivory products.

3.2.4 Export incentives

3.79. Sri Lanka offers a number of incentives to exporters. Fiscal incentives include income tax concessions, concessions under the Nation Building Tax and the Ports and Airports Development Levy, VAT exemptions, deferment and zero rating (Table 3.7). In addition, Sri Lanka customs operates a duty drawback scheme, a Temporary Importation for Export Processing (TIEP) Scheme and a manufacture in bond scheme. Sri Lanka graduated from Annex VIIb of the SCM Agreement on 31 December 2015. As such, no new export incentives will be provided to investors. According to the authorities, a new incentive scheme, which is expected to be neutral and horizontal in application, is being formulated. Under the scheme, the authorities plan to apply a reduced rate of 17.5% to all target sectors. The new legislation is yet to be passed.

[34] For complete list of products and the rates at which cess is levied please see: http://www.srilankabusiness.com/pdf/cesses_new.pdf and *Gazette No. 1941/32*, 20 November 2015.

[35] For list of products requiring licences, permits or certificates for export, and the relevant ministry or department please see: http://www.srilankabusiness.com/pdf/export-procedure-21-10-2014.pdf.

Table 3.7 Export incentives prior to May 2016

Incentive	
Income Tax	• Profits from export of non-traditional products are taxed at a concessionary rate of 12%. • Profits from deemed exports of non-traditional products are taxed at a concessionary rate of 12%. • Profits from export of gold, gems and jewellery are exempted from income tax. • Profits from local sales of gems and jewellery for payment in foreign currency are exempted from income tax. • Profits from cutting and polishing of gems which are brought to Sri Lanka and exported after such cutting and polishing are exempted from income tax. • Three-year tax holiday for Export Production Village companies. • Profits from services provided to exporters for value addition are taxed at a concessionary rate of 12%. • Profits from entrepôt trade are taxed at a concessionary rate of 10%. • Profits from providing facilities for storage of goods involved in entrepôt trade are taxed at 10%. • Profits from manufacture and supply of textiles, leather products, footwear and bags to be exported through a trading house are exempted from income tax. • Profits from professional services provided for construction projects outside Sri Lanka for payment in foreign currency are exempted from income tax. • Profits from export of professional services are exempted from income tax. • Royalties received in foreign currency are exempted from income tax. • Any export development rebate paid by the Export Development Board is exempted from income tax. • Concessionary income tax rate of 12% is applicable for joint ventures to manufacture and export tea in value-added form. • Concessionary income tax rate of 10% is applicable for export of high-value-added products (over 65%) having Sri Lanka brand names with patent rights reserved in Sri Lanka. • Income tax holidays ranging from 6 years to 12 years for investments over Rs 300 Mn for manufacture of goods for export.
Nation Building Tax	• Turnover from direct export of articles or export of articles through a trading house is exempted from NBT. • Any article except plant, machinery or fixtures imported for exclusive use in manufacturing of articles for export is exempted from NBT. • Turnover from deemed export of articles are exempted from NBT. • Services provided to any exporter for improving quality and character of articles exported are exempted from NBT. • The services of sewing garments provided to an exporter of garments are exempted from NBT. • Payments received for any service rendered outside Sri Lanka for payment in foreign currency are exempted from NBT. • Imports of gold and yarn are exempted from NBT. • Services provided by an enterprise over the internet for payment in foreign currency are exempted from NBT. • Services of a computer software developer for software to be used outside Sri Lanka for which payment is received in foreign currency are exempted from NBT. • Gems imported subject to a special service fee are exempted from NBT. • Articles other than plant, machinery, or fixtures imported for use in the manufacture of articles for export are exempted from NBT.
Ports and Airports Development Levy	• No levy is charged on exports. • Articles imported into Sri Lanka for processing and export or to be used for manufacture of goods for export are exempted from PAL.
VAT exemption	• Goods that enter into a customs bonded area. • Fabric or accessories imported by a person registered under the Simplified Value Added Tax (SVAT) scheme, to manufacture garments for export. • Supply or import of agricultural machinery, machinery used for production of rubber or plastic products, and semi-conductor devices. • Supply of research and development services. • Sum paid out of the Export Development Fund as an export development rebate. • Services supplied to improve quality, character or value of fabric or garments. • Import of greenhouses. • Supply of locally manufactured desiccated coconut, rubber, leather, tea, rice flour, and liquid milk.

Incentive	
VAT deferment	Deferment by the Commissioner General of Inland Revenue • Supply of goods or services by a person registered under the SVAT scheme to; • Any exporter or provider of zero-rated services, • Any manufacturer who supplies goods manufactured in Sri Lanka to any exporter, and • Any supplier who provides value-added services to an exporter which result in the improvement of quality etc. of goods manufactured for export. Deferment by the Director General of Customs • Goods imported or received from a bonded area by a person for manufacture of goods for export. • Any plant or machinery imported or received from a bounded area where such plant or machinery is used for manufacture of goods for export. • Goods imported or received from a bonded area by a person registered with the SVAT scheme for manufacture of goods or provision of services to a manufacturer of goods for export. • Any plant or machinery imported or received from a bonded area by a person registered with the SVAT scheme for the purpose of manufacture of goods or provision of services for a manufacturer of goods for export. • Goods temporarily imported to Sri Lanka as exhibition material or for technical demonstrations.
VAT zero rated	• Exports of goods are zero rated • Exports of services are zero rated • Services related to development of computer software for exports are zero rated • Client support services provided over the internet for payment in foreign currency are zero rated • Payments received in foreign currency by a garment buying office for provision of services to overseas buyers are zero rated
VAT refund	• Input tax refund on exports will be made within 45 days

Source: Information provided by the authorities.

3.80. To avail themselves of the duty drawback scheme, exporters need to register with the Duty Rebate Unit of the Sri Lanka Customs Export Division. Registration is required for each export shipment, and must be accompanied by an export invoice, receipt/airway bill, and party's' copy of the export shipment. Exporters need to submit a claim to the commercial bank that received the remittance for the exported products, along with relevant export documents. The rate of rebate, a percentage of the f.o.b. value, is determined by the Director General of Customs, based on the cost statements submitted and approved by the Deputy Secretary to the Treasury. Exporters can appeal the decision within 30 days. The rebate must be claimed within six months of the date of export.

3.81. The Temporary Importation for Export Processing (TIEP) Scheme allows direct and indirect exporters to import inputs without payment of fiscal levies. The TIEP scheme has two sub-schemes: TIEP1 and TIEP4. TIEP1 allows for the importation of raw materials, components, parts and packaging materials, exempt of duties. Exporters need to be approved by the Director General of Customs to operate under the scheme. Exporters availing themselves of TIEP1 cannot operate under any other scheme that provides duty-free import of inputs.

3.82. The TIEP4 scheme covers the importation of capital goods, appliances, spare parts, intermediate materials (excluding raw materials), transport and handling equipment, and breeding stock (for agricultural projects), which are eligible for whole or partial exemption of customs duties, import surcharge, EDB Cess, and excise tax. The amount of the duty and tax exemption granted depends upon the amount exported: 100% for exporters who export 50% or more of their output, and indirect exporters who supply 50% or more of their output to direct exporters; and 50% for exporters who export between 25% and 50% of their output, and indirect exporters who supply 25% to 50% of their output to direct exporters.

3.83. Any manufacturer that exports may apply to the Customs Department for approval to establish a manufacturing-in-bond warehouse. Through this scheme, these manufacturers are exempt from paying import duties and taxes. All kinds of production processes, including mixing and assembling, are permitted in such warehouses. Imported goods may be stored for up to six months without payment of duties and taxes, extendable for up to two years. Further extension is

possible, under exceptional circumstances. The manufacturer must furnish a bank guarantee equal to the full value of the duty and taxes payable. The manufacturer must also obtain an annual licence for the bonded warehouse.

3.84. Sri Lanka has 13 free-trade zones (called export processing zones), administered by the Board of Investment (BOI) (Section 2.4.5). There are some 267 enterprises operating in the EPZs, employing over 132,000 persons.[36] The estimated value of exports from the EPZs was some Rs 336 billion (US$2.5 billion) in 2015.[37] The largest EPZ, Katunayake, is mainly devoted to the production of garments. It employs over 40,000 people, has Sri Lanka, United States, United Kingdom, and Hong Kong, China investment, and exported over Rs 200 billion (US$1.5 billion) in 2015. Other important EPZs are Biyagama (surgical gloves, knitted fabrics, electronic circuits, tobacco processing, garments, and tyres; with investors from Australia, Sri Lanka, the United Kingdom, the United States, the Netherlands, Germany, and Hong Kong, China), and Horana (confectionery and polymers; with mostly domestic investment).

3.85. According to the authorities, enterprises located in an EPZ were not entitled to any special tax concessions, but were treated the same as enterprises established in any part of the country.

3.2.5 Export finance, insurance, and guarantees

3.86. To mitigate the impact of the global financial crisis, the Government introduced an Export Development Reward Scheme (EDRS) for tea, rubber, cinnamon, garment, and leather exporters. Furthermore, a Simplified Value Added Tax Scheme (SVAT) was also initiated to help direct and indirect exporters overcome cash flow difficulties (Section 3.2.4).[38] The authorities also took a decision to establish an Exim Bank so as to provide financial assistance to exporters and importers, and to promote international trade in goods, services, and capital. The proposed Exim Bank is expected to take on a product-oriented approach during the formative years which will gradually evolve into a more customer-oriented approach. The bank would also help exporters to develop export markets and to expand export production capacity through a variety of short-term financing products. The Exim Bank is still not operational.

3.87. The Sri Lanka Export Credit Insurance Corporation (SLECIC), incorporated under Act No. 15 of 1978, is the accredited export credit agency of the Government of Sri Lanka; it is a part of the Ministry of Finance. The SLECIC insures exporters of goods and services against non-receipt or delayed receipt of payments resulting from commercial and non-commercial risks. It also issues guarantees to banks and other financial institutions to facilitate the granting of pre-shipment and post-shipment finance. The SLECIC also offers pre-shipment credit guarantees and export performance guarantees. The authorities pointed out that the SLECIC does not provide any form of export financing including loans or grants.

3.88. The Sri Lanka Export Development Board (EDB) is the state body responsible for the promotion and development of exports. The EDB was established under Sri Lanka Export Development Board Act No. 40 of 1979, and is a part of the Ministry of Industry and Commerce. The EDB is financed mainly by public funds, but also by the Export Development Board Levy (Cess). The EDB's main function is to assist producers and exporters of goods and services to identify and access new markets, to make their products more competitive, as well as to develop goods and services that will meet market demands. The EDB also offers export marketing support through market research identifying marketing opportunities as well as advice on international marketing and trade negotiations.

[36] Information provided by the authorities; and BOI online information. Viewed at: http://www.boi.lk/2009/free_trade_zones_industrial_parks.asp.

[37] Information provided by the authorities.

[38] Eligible companies, which include exporters, indirect exporters and value-added service providers, are allowed to procure any local input on a suspended VAT basis. These companies need to prove to the Commissioner General of Inland Revenue, that they are exporting, directly or indirectly, more than 51% of their turnover. Furthermore, any supplier supplying to any such eligible entity is required to register with the Inland Revenue Department as an eligible supplier.

3.3 Measures Affecting Production and Trade

3.3.1 Incentives

3.89. In addition to incentives offered to exporters (Section 3.2.4), Sri Lanka also previously provided incentives under the BOI Act, which provided for fiscal incentives based on the size of the investment, the type of enterprise and the sector in which it operated (Table 2.3 and Box 2.2). However, the Inland Revenue Amendment Act No. 8 of 2014, discontinued all tax holidays as of 31 October 2014 (Section 2.4.4).

3.3.2 Competition policy and price controls

3.90. There is no single comprehensive competition law in Sri Lanka. The Consumer Affairs Authority Act No. 9 of 2003 is the main law regulating competition policy, price regulation, and consumer protection in Sri Lanka. The Act is administered by the Consumer Affairs Authority (CAA), which is under the Ministry of Industry and Commerce. The Act applies to all undertakings dealing with goods and services, and the supply and sale of public utilities (electricity, water, gas, and telecommunications).

3.91. The CAA comprises an investigative authority and an adjudicative body, the Consumer Affairs Council (CAC). The CAA is mandated to protect consumers against unfair trade practices and against the marketing of goods or the provision of services that are hazardous to the life and property of consumers. The CAA is also mandated to protect consumers' interest, and to ensure that, wherever possible, consumers have adequate access to goods and services at competitive prices. The CAA's functions include controlling or eliminating: restrictive trade agreements among enterprises, price collusion, abuse of a dominant position, or any other restraint of competition adversely affecting domestic or international trade or economic development. The CAA has investigative powers into anti-competitive practices and abuse of a dominant position.[39] It hears and determines all applications made under the law, and may issue orders to, *inter alia*, cease the anti-competitive practice, which is operating against the "public interest". Although the CAA may investigate the effects of anti-competitive practices, neither the CAA nor the CAC have the power to initiate investigations into the existence of monopolies or to examine mergers or acquisitions. However, the CAA may carry out investigations with regard to the prevalence of any anti-competitive practices that prevent, restrict or distort competition, in the sale of goods or provision of any services. In this regard, it has the judicial powers of a district court. The authorities stated that they receive approximately 20 complaints a year; the majority of these are settled. Currently, the CAC has issued two orders. At the time of Sri Lanka's last review, draft competition legislation was being analysed and it was to enhance the powers of the competition authority (CAA) and introduce rules to make pre-merger notification analysis mandatory. Furthermore, the authorities have stated that amendments to the Consumer Affairs Authority Act No. 9 of 2003 concerning provisions on mergers and monopolies have been finalized and are expected to come into force by the end of the year.

3.92. The Public Utilities Commission of Sri Lanka Act No. 35 of 2002, which applies only to regulated industries (electricity, petroleum, and water), grants the Public Utilities Commission competition enforcement powers, as well as power to authorize mergers of entities within its jurisdiction and to conduct merger investigations.

3.3.2.1 Price regulation

3.93. Under the provisions of the CAA Act, any item of goods or services may be "specified" as an essential commodity by the Minister of Industry and Commerce in consultation with the Consumer Affairs Authority. Any increase in the price of a “specified” essential commodity requires the CAA's prior written approval.

3.94. Products currently subject to price regulation include: chicken and chicken meat, rice, milk, wheat flour, white sugar, dried chillies, some types of onions, dhal, dried sprats, gram, green moong, canned fish, cement, liquefied petroleum gas (LPG) and all drugs registered with the

[39] Consumer Affairs online information. Viewed at: http://www.consumeraffairs.gov.lk/aboutus.php.

National Medicines Regulatory Authority (Table 3.8).[40] These products are subject to price regulation indefinitely.

Table 3.8 Products subject to price regulation, May 2016

Product description	Maximum retail price (Rs)
Chicken meat, frozen; broiler chicken meat with skin 1 kg	380.00
Broiler chicken meat with skin 1 kg (without skin)	480.00
Ordinary portland cement SLS 107	870.00
Portland limestone cement SLS 1253	870.00
Masonry cement SLS 515	870.00
Full cream milk powder 400 g	325.00
Full cream milk powder 1 kg	810.00
Local milk powder 400 g	295.00
Samba rice, cleared (excluding Keeri Samba and Suduru Samba) 1 kg	77.00
Nadu red rice 1 kg	66.00
Nadu white rice 1 kg	68.00
Red and white raw rice 1 kg	66.00
White sugar (unpacked) 1 kg	87.00
Full cream milk powder 400 g	325.00
Full cream milk powder 810 g	810.00
Sustagen 400g	1,500.00
Wheat flour (unpacked) 1 kg	87.00
Green gram (unpacked) 1 kg	265.00
Canned fish (imported) 425 g	140.00
Canned fish (imported) 155 g	70.00
Seeds of coriander (unpacked) 1 kg	350.00
Black gram (unpacked) 1 kg	300.00
Maldive fish (unpacked) 1 kg	1,740.00
Turmeric – crushed or ground (unpacked) 1 kg	800.00
Chillies – crushed or ground (unpacked) 1 kg	400.00
White sugar (packed) 1 kg	95.00
Sprats 1 kg	410.00
Dahal 1 kg	169.00
Dried fish "katta" 1 kg	1,100.00
Dried fish "salaya" 1 kg	425.00
Chickpea 1 kg	169.00

Source: Consumer Affairs Authority online information. Viewed at: http://www.caa.gov.lk/web/index.php?option=com_content&view=article&id=74&Itemid=495&lang=en.

3.3.3 State trading, state-owned enterprises, and privatization

3.95. Sri Lanka has not notified any state trading enterprises within the context of Article XVII of the GATT 1994 to the WTO.

3.96. At the time of the last review, government policy was to restructure state-owned enterprises (SOEs) and improve their performance, and not to privatize them. To this end, the Government invited private sector investment to rehabilitate non-functional SOEs. However, the Government retained majority ownership of these SOEs.

3.97. SOEs are monitored by the Department of Public Enterprises, which is part of the Ministry of Finance. All SOEs are expected to be solvent and not rely on the Government for funding; as such they are required to enter into performance contracts with the treasury. Currently, there are 245 state-owned enterprises[41] in Sri Lanka, of which 55 are state-owned business enterprises

[40] The National Medicines Regulatory Authority was created in 2015 under the National Medicines Regulatory Authority Act No. 5 of 2015; it replaced the Cosmetics, Devices and Drug Act No. 27 of 1980.

[41] State-owned enterprises are those incorporated under an Act of Parliament or the Companies Act. They could be classified as commercial, regulatory or promotional entities.

(SOBEs).[42] These represent a substantial share of the country's economic activity. Although some SOEs are profitable and performing well, collectively they represent a risk to public finances. The authorities have calculated that the outstanding obligations of the central government and SOEs total Rs 1.36 trillion (12.2% of GDP).

3.98. The authorities recognize the need for reform. In this regard, as an initial step, the Ministry of Public Enterprise Development was established in 2015, so as to facilitate the introduction of appropriate reforms aimed at strengthening the legal framework for the governance and oversight of SOEs, including through the establishment of coherent financial regulations for SOEs on governance, accountability, and funds management, which will result in commercially viable SOBEs. In this regard, the Ministry is expected to focus on restructuring the management model of SOBEs, introducing market-based pricing mechanisms in public utilities on a selective basis, rationalizing recruitment while adopting measures to improve productivity of the existing workforce and exploring ways to improve the efficiency of SOBEs through various mechanisms including public–private partnership (PPP). Furthermore, the Government intends to bring all SOEs under a government-owned holding company, whose shares will be passed onto a Public Wealth Trust. A new Public Enterprise Act is to be enacted to provide the necessary legal framework to this effect.

3.3.4 Government procurement

3.99. Government procurement in Sri Lanka is fragmented, as this is done by decentralized agencies. The value of government expenditure on goods, services, works and public investment represented some 6.3% of GDP in 2014. Expenditure on goods and services was Rs 187 billion, or 1.9% of GDP, and on public investment and infrastructure works it was Rs 429 billion, or 4.4% of GDP.[43]

3.100. Government procurement in Sri Lanka continues to be an important instrument of economic policy, to promote domestic suppliers and products. Since 2003, Sri Lanka has participated in the WTO Plurilateral Agreement on Government Procurement (GPA) as an observer.

3.101. The Department of Public Finance in the Ministry of Finance continues to be the principal authority for formulating and amending the procurement guidelines, and for issuing manuals, evaluation methodologies, standard contracts, and specifications. The Department of Public Finance is also the reference point for providing procurement information, technical expertise, and training to streamline and improve procurement procedures, and is in charge of monitoring the tendering process. According to the authorities, the Department is a facilitating body and not a central procurement agency. Responsibility for procurement lies with the Secretaries and Heads of Departments of the respective line ministries, who act as their Chief Accounting Officers/Accounting Officers. The Department of Public Finance appoints technical evaluation committees (TECs), as well as Cabinet-level procurement committees (PCs); other committees are appointed by the line ministries. These different committees are responsible for the procurement process.

3.102. The main regulations on the procurement process are contained in the Procurement Guidelines and the Procurement Manual, which must be followed by ministries and departments, as well as by state-owned enterprises, statutory boards, and all other government institutions and agencies, including provincial councils and local authorities.[44] Procurement guidelines for goods and works issued in 2006 (as amended) continue to be used.

3.103. The guidelines contain provisions to ensure confidentiality, prevent corruption and deal with situations where there may be conflicts of interest. They explicitly mandate: (a) maximizing economy, timeliness and quality, resulting in lowest cost together with high quality; (b) adhering to prescribed standards, specifications, rules, regulations, and good governance; (c) providing fair,

[42] State-owned business enterprises are those entities incorporated as commercial entities under an Act of Parliament or the Companies Act.

[43] Information provided by the authorities.

[44] Procurement Guidelines 2006. Viewed at: http://www.treasury.gov.lk/documents/57687/174939/ProcurementGuidelines2006_amded12June.pdf/4417f549-2a8d-45d1-b3a6-0560db79a87f; and Procurement Manual. Viewed at: http://www.treasury.gov.lk/documents/57687/174939/ProcurementManual2006_20060817_with_Sup8.pdf/5d0563ed-05b1-4629-9937-db8e160aac29.

equal, and maximum opportunity for eligible interested parties to participate in procurement; (d) the expeditious execution of works and delivery of goods and services; (e) compliance with local laws and regulations and international obligations; (f) ensuring transparency and consistency in the evaluation and selection procedure; and (g) retaining confidentiality of information provided by bidders. The guidelines are applicable to all procurement, irrespective of the source of funding. However, in the case of a foreign-funded project, if the funding agency mandates the use of its own procurement guidelines, these will prevail over the national guidelines to the extent applicable.

3.104. Procurement committees and TECs take the procurement decisions, with respect to review, and choice and approval of bids. Procurement committees may be appointed at the project (PPC), department (DPC) or ministry (MPC) level, according to the value of the procurement.[45] In the case of high-value procurement, a procurement committee may be appointed by the Cabinet. Furthermore, in the case of high-value procurement that needs expeditious action, a standing procurement committee may be appointed by the Cabinet.[46] Subsequently, the TEC examines the bid and prepares a bid evaluation report and submits it to the relevant procurement committee. The procurement committee recommends the lowest evaluated bid. Awards are published on the Department of Public Finance's website.

3.105. As per the procurement guidelines, Sri Lanka grants price preferences to locally manufactured goods. In the case of works and contracts, the margin of preference is 7.5% for contracts funded by the World Bank and the Asian Development Bank, and 10% for contracts funded by the Government of Sri Lanka. The margins of preference apply to: (a) Sri Lankan individuals/sole proprietors; (b) partnerships where more than 50% of the members are Sri Lankans; and (c) individual firms registered in Sri Lanka that have more than 50% ownership by Sri Lankans and do not sub-contract more than 10% of the contract price. Additionally, preferences for locally manufactured goods are granted at 15% for contracts funded by the World Bank and the Asian Development Bank, and 20% for contracts funded by the Government. To benefit from the preferential margin, the bidder must satisfy the PC that labour, raw materials, and components from within Sri Lanka account for 30% of the ex-works price of the product offered, and that their production facility has been manufacturing/assembling such goods at least since the time of bid submission.

3.106. Calls for tenders must be published in an abridged form in local newspapers and at least once in the *Gazette*. In the case of international tenders, the procuring entity (PE) is required to advertise in one widely circulated national newspaper and relevant websites where possible, as well as in international procurement gateways.

3.107. According to the procurement guidelines, 13 different procurement methods (including open competitive bidding) have been specified.[47] These are dependent on the threshold and the type of good/service or work to be procured. Works, services, and supplies must, as far as possible, be procured through the open competitive procedure. However, exceptions from this procedure may occur under specific circumstances. Exceptions, as specified in the procurement methods, include: entrusting contracts to "approved societies"; emergency purchases; or procurement below certain thresholds.

3.108. In accordance with the procurement guidelines, the basic principle for selection is to maximize value for money. However, bids may be evaluated on the basis of other factors, which must be specified in the bid documentation. These include: technical factors such as the efficiency and reliability of the equipment; the construction method to be used; the time of completion or delivery; and the availability of after-sales service and spare parts. The operating cost may also be taken into account. Procurement procedures leave some room for discretion.

[45] Supplement 28 to the Procurement Manual, 4 July 2014. Viewed at: http://www.treasury.gov.lk/documents/57687/174433/ProcuManSupple28E%281%29.pdf/49f052ae-e7eb-4cd8-9ab5-f0d5af41afe6.

[46] According to the guidelines, the use of a standing cabinet-appointed procurement committee (SCAPC) may be justified where: (a) expeditious processing of procurement is necessary; (b) extraordinary speedy decisions have to be taken; (c) supplies are immediately required to avoid acute shortages in the market; (d) bids have a very short validity period; (e) the prices of goods fluctuate frequently; (f) items need to be purchased very frequently without significant changes in specifications; (g) security consideration warrants; and (h) a project contains a large number of bid packages over a long time span.

[47] For details please see WTO document WT/TPR/S/237/Rev.1, 30 November 2010.

3.109. Complaints with regard to procurement need to be lodged with the Procurement Appeal Board (PAB). The PAB is mandated to review complaints regarding awards recommended by the PCs. The Secretary of the line ministry must inform the unsuccessful bidders in writing within one week of being informed of the recommendation of the cabinet-appointed procurement committee (CAPC). These bidders may then, within one week, appeal against the decision of the CAPC to the PAB. The unsuccessful bidders are requested to deposit a non-refundable fee of Rs 50,000 in a deposit account maintained at the Presidential Secretariat with their appeal.[48] The PAB conducts an investigation and submits its report to the Cabinet of Ministers. The decision of the Cabinet of Ministers is final.

3.110. The authorities have indicated that the Government Procurement Guidelines 2006 are in the process of being updated and would reflect policy decisions of the Cabinet and circular instructions on procurement issued by the Department of Public Finance. The revised guidelines are expected to be issued in 2017 and would contain: guidelines on procurement of works, goods and services; guidelines on selection and employment of consultancy services; guidelines on procurement of pharmaceuticals and medical devices; and guidelines on projects financed by private investors including PPP. Additionally, the Government envisages the establishment of a Central Procurement Agency, as proposed in the 2016 Budget.

3.111. In 2010, the Government started implementing a system for electronic tendering (e-procurement). Certain aspects of the procurement process were being carried out online, such as the general advertising process, the publication of procurement invitations, and the inspection of pre-qualification applications and bidding documents. However, the electronic submission of bids was not allowed. The Government recognizes the usefulness and importance of the implementation of an electronic government procurement (e-GP) system, which could help to increase transparency, provide easier access to information, increase competition and lower costs. The World Bank, ADB and USAID are willing to provide technical assistance to implement e-GP in Sri Lanka.

3.112. Under the 19th Amendment to the Constitution in 2015, an independent National Procurement Commission was created. The functions of the commission are to: monitor and report to the appropriate authorities whether the procurement of goods and services, works, consultancy services and information systems by government institutions are in accordance with previously approved action plans; monitor and report to the appropriate authorities if all qualified bidders are afforded an equal opportunity to participate in the bidding process; monitor and report to the appropriate authorities whether the procedures for the selection of contractors, and the awarding of contracts are fair and transparent; report on whether members of procurement committees and technical evaluation committees relating to the procurements, appointed by government institutions are suitably qualified; and investigate reports of procurements made by government institutions outside established procedures and guidelines, and to report the officers responsible for such procurements to the relevant authorities for necessary action.

3.3.5 Intellectual property rights

3.113. During the period under review, there have been no changes to the intellectual property legislation in Sri Lanka. The Intellectual Property Act No. 36 of 2003 and the Intellectual Property Regulations No. 1 of 2006 continue to be the main legislation governing the sector. The Act covers copyright and related rights, industrial designs, patents, marks and trade names, layout designs of integrated circuits, unfair competition and undisclosed information, and geographical indications. At the time of Sri Lanka's last review, legislation on plant varieties was in the process of being drafted. Such legislation has not yet been adopted. Sri Lanka is a party to the Convention Establishing the World Intellectual Property Organization (WIPO) and to other international conventions on intellectual property.[49] It has not acceded to the WIPO Performances and Phonograms Treaty (WPPT); the WIPO Copyright Treaty (WCT); or the Information Technology

[48] Supplement 24 to the Procurement Manual, 21 March 2012. Viewed at: http://www.treasury.gov.lk/documents/57687/174433/ProcuManSupple24E.pdf/d9e0bfa0-b1f9-468e-81e4-a1b7ed221893.

[49] These include: the Patent Cooperation Treaty; the Berne Convention for the Protection of Literary and Artistic Works; the Paris Convention for the Protection of Industrial Property; the Madrid Agreement for the Repression of False or Deceptive Indications of Source on Goods; the Nairobi Treaty; the Universal Copyright Convention; the Convention Establishing the World Intellectual Property Organization (WIPO); and the International Convention for the Protection of Performers (WIPO).

Agreement. In 1991, Sri Lanka signed a bilateral agreement with the United States to protect intellectual property rights. Furthermore, in conjunction with WIPO, Sri Lanka has initiated an IP action plan which, *inter alia*, seeks to: improve the efficiency of the National Intellectual Property Office (NIPO), establish a coherent IP strategy, establish an IP hub for education and development, build IP capacity, and increase awareness about IP issues and dissemination of information.

3.114. NIPO, which was established under the Intellectual Property Act No. 36 of 2003, administers the intellectual property system in Sri Lanka. NIPO's responsibilities include registration and post registration of intellectual property rights covered by the Act, collecting and disseminating information relating to intellectual property, ensuring Sri Lanka meets its international intellectual property obligations, promoting international and regional cooperation, proposing IP policies, and facilitating the enforcement of IP rights, such as dispute resolution in copyright and related rights. Enforcing intellectual property rights in Sri Lanka is the joint responsibility of NIPO, Customs, the police, and the Attorney General's Office.

3.3.5.1 Copyright and related rights

3.115. Under the provisions of the Intellectual Property Act and its regulations, copyright protection is provided for original literary, artistic, and scientific works. The owner of the copyright has exclusive rights with respect to the reproduction, translation, adaptation, public distribution (sale, rental, or export), importation, public display, broadcasting or public performance of the work. This right does not extend to works of architecture, databases or computer programs.[50] The expression of folklore is protected under a *sui generis* set of provisions.

3.116. The term of protection ranges from life of the author plus 50 years to life plus 70 years. In the case of works of applied art, the economic and moral rights are protected for 25 years from the date of the making of the work. The copyright owner may grant a licence to a physical person or legal entity to carry out all or any of the acts relating to his/her economic rights, or assign or transfer in whole or in part an economic right. The Act also contains provisions for the protection of related rights. Copyrights do not need to be registered to be protected. The authorities stated that amendments to the IP Act to introduce a voluntary registration system for copyrights are being prepared. Additionally, a draft amendment to the IP Act to introduce limitations and exceptions to the copyright provisions to facilitate access to printed materials by the visually impaired has been approved by the Intellectual Property Advisory Commission and a Cabinet Memorandum to this effect has been finalized. However, according to the authorities, the Government has not given its approval for this yet. Sri Lanka has not ratified the Marrakesh Treaty to Facilitate Access to Published Works for Persons Who Are Blind, Visually Impaired or Otherwise Print Disabled.

3.3.5.2 Patents

3.117. Patents are granted if an invention is new, involves an inventive step and is industrially applicable. Inventions may be or may relate to a product or a process. Patent applications must be accompanied by a novelty search report. Certain inventions are not patentable in Sri Lanka. The patent owner has the exclusive right to exploit the invention, assign or transmit the patent, and conclude licence contracts. Patents need to be registered and are published in the *Gazette* once the Director General of NIPO considers that the necessary conditions have been met.

3.118. Patents are valid for 20 years from the date of application and are not renewable. However, annual fee needs to be paid to keep the patent valid. In the case of non-payment of the annual fee, a grace period of six months is given after which the patent expires. In the case of a dispute or if the conditions of granting a patent have not been met, an application to invalidate or revoke a patent can be made in court.

[50] The Act allows the reproduction in a single copy or the adaptation of a computer program by the lawful owner of a copy of that computer program without the authorization of the owner of copyright, provided that the copy or adaptation is necessary: (i) for use of the computer program for the purpose and extent for which the computer program has been obtained; (ii) for archival purposes and for replacement of the lawfully owned copy of the computer program in the event that the said copy of the computer program is lost, destroyed or rendered unusable.

3.119. The law also allows the Government to grant compulsory licences to manufacture certain patented products in situations such as a national emergency. A compulsory licence may also be granted in case of lack of commercial exploitation of the patent. Applications must be made to the Director General of NIPO with evidence that the applicant has made efforts to obtain approval from the right holder on reasonable commercial terms and conditions, and that such efforts have not been successful within a reasonable period of time. The issuance of a licence is non-exclusive and subject to the payment of adequate remuneration to the owner of the patent taking into consideration the economic value as determined by NIPO and, where applicable, the need to correct anti-competitive practices. Licences may also be granted voluntarily, through contracts, which must be recorded in the Register.

3.120. If the use of a patent licence is considered anti-competitive, the Director General may authorize any person, body of persons, government department or statutory body to exploit the patent without a licence from the owner of the patent.

3.121. Parallel imports of pharmaceutical products are permitted under the Act.

3.122. Patent applications take a few weeks to process. Between 2010 and 2015, 1,663 patents were granted (Table 3.9).

Table 3.9 Industrial property statistics, 2010-15

Year	Applications				Registrations		
	Resident	Non-resident	Total		Resident	Non-resident	Total
Marks							
2010	3,942	2,302	6,244		570	469	1,039
2011	4,732	2,925	7,657		394	985	1,379
2012	5,938	3,178	9,116		660	689	1,349
2013	5,481	3,344	8,825		1,485	559	2,044
2014	5,207	3,346	8,553		403	735	1,138
2015	5,995	3,420	9,415		882	1,390	2,272
Patents							
2010	225	235	460		220	284	504
2011	194	235	429		45	227	272
2012	242	297	539		37	89	126
2013	328	188	516		71	165	236
2014	314	222	536		43	220	263
2015	218	263	481		38	224	262
Industrial designs							
2010	233	51	284		228	37	265
2011	387	56	443		88	21	109
2012	365	29	394		60	28	88
2013	260	99	359		100	30	130
2014	245	47	292		471	58	529
2015	390	67	460		179	67	246

Source: NIPO online information. Viewed at: http://www.nipo.gov.lk/satistic.htm.

3.3.5.3 Industrial designs

3.123. With regard to industrial designs, protection is granted for a period of five years from the date of receipt of the application for registration; it is renewable for two consecutive five-year terms subject to payment of the prescribed fee.

3.124. To be protected, designs need to be registered. The registered owner of an industrial design has the exclusive rights to: (a) reproduce and embody such industrial design in making a product; (b) import, offer for sale, sell or use a product embodying such industrial design; (c) stock for the purpose of offering for sale, selling or using, a product embodying such industrial

design; (d) assign or transmit the registration of the industrial design; and (e) conclude licence contracts. Licences are not exclusive, unless so provided in the contract, and must be registered. There are no provisions for compulsory licensing. The Director General of NIPO, following consultation with the Governor of the Central Bank, may cancel the registration of a licence if he has cause to believe that any licence contract that involves the payment of royalties abroad is detrimental to the economic development of Sri Lanka.

3.125. Design applications are published before registration. Any person is entitled to apply to the relevant commercial high court to have the registration declared null and void on grounds specified in the Act.

3.3.5.4 Trademarks

3.126. Under the Act, marks, trade names, certification marks, collective marks and well-known international marks are protected through registration. To register a mark, the applicant needs to be the first to submit a valid application and make a valid claim of priority for the application. A mark may consist of, *inter alia*, designations, names, pseudonyms, geographical names, slogans, letters, numbers, emblems, and combinations or arrangements of colours, and shapes of goods or containers.

3.127. If the Registrar considers the application admissible for registration, it is published in the *Gazette* and the applicant is notified. Any person may oppose the registration within three months of its publication. If no such notice is received, the mark is registered. Registration is valid for ten years and can be renewed for consecutive periods of ten years each on payment of the prescribed fee. The owner of a mark has the exclusive right to use it, to assign or transmit the registration of the mark, and to conclude licence contracts.

3.128. A registration may be cancelled if the owner has failed to use the mark within Sri Lanka without valid grounds for five consecutive years, or has transformed the mark into a generic name so that in the eyes of the public the significance of the mark has been lost. The authorities stated that proposals were being prepared to access the Madrid Agreement Concerning the International Registration of Marks.

3.3.5.5 Geographical indications

3.129. Geographical indications (GIs) are protected under the Act. Any interested party may prevent the use of any means in the designation or presentation of goods that indicates or suggests that the goods, including an agricultural product, food, wine or spirit, originate in a geographical area other than the true place of origin in a manner that misleads the public as to the geographical origin of goods. The Act also prevents the use of a GI that constitutes an act of unfair competition, and the use of a GI misrepresenting the origin of the goods, even where the true origin of the goods is indicated or the GI is used in translation or accompanied by an expression such as kind, type, style, imitation, or the like. In the case of similar GIs, protection is accorded to each indication. The Act gives courts the power and jurisdiction to grant an injunction and any other relief deemed appropriate to prevent any inappropriate use of a GI. Sri Lanka is an advocate of extending the protection of geographical indications to products other than wines and spirits.[51] The authorities stated that draft amendments to the IP Act to introduce a registration system for GIs, namely Ceylon Tea and Ceylon Cinnamon, are being prepared.

3.3.5.6 Unfair competition and undisclosed information

3.130. Unfair competition and undisclosed information are also addressed under the Act. Unfair competition is defined as "any act or practice carried out or engaged in, in the course of industrial or commercial activities, that is contrary to honest practices, and/or causes, or is likely to cause, confusion with respect to another's enterprise or its activities or the products or services offered by such enterprise, or that may damage its reputation". Practices that mislead the public or discredit an enterprise or its activities or its products or services, such as false advertising, are also considered an unfair practice. Any act or practice that results in the disclosure, acquisition or use by others of undisclosed information without the consent of the person lawfully in control of that

[51] WTO document IP/C/W/353, 24 June 2002.

information is also forbidden under the Act. Under the Act, "undisclosed information" is defined as information that: is not, wholly or partly, generally known among, or readily accessible to, persons within the circles that normally deal with the kind of information in question; has actual or potential commercial value because it is secret; and has been subject to reasonable steps under the circumstances by the rightful holder to keep it secret. The use of such information is also considered to be an unfair practice and is thus forbidden.

3.131. Parties affected by unfair competition or undisclosed information may institute proceedings in court to prohibit the continuance of the act or practice and obtain damages for losses. The wilful disclosure of any undisclosed information without lawful authority is an offence under the Act, liable to a fine of up to Rs 500,000 and/or imprisonment for a term not exceeding six months.

3.3.5.7 Layout designs of integrated circuits

3.132. To be protected, a design must be original and registered. Protection of a layout design lasts for ten years and is non-renewable. Protection commences on the date of the first commercial exploitation or on the filing date accorded to the application. Any application for registration must be made within two years from the starting date of exploitation. Registrations are published in the *Gazette*. The right holder may grant a licence to another person or enterprise authorizing it to exploit the design; the licence contract must be registered to be valid. The owner of a design has the exclusive right to authorize its reproduction, importation, sale, and distribution. However, layout designs may be reproduced to be used for evaluations, analysis, research or teaching.

3.3.5.8 Enforcement

3.133. IPR infringement is punishable under both criminal and civil law. Penalties include prison of up to six months and fines of up to Rs 500,000. Penalties can be doubled for a second offence. Aggrieved parties may seek redress through the courts. Sri Lanka Customs is authorized to prohibit the exportation and importation of goods in violation of intellectual property rights. The Director General of NIPO conducts dispute resolution involving copyright and related rights. With regard to enforcement, the authorities stated that there was an anti-piracy unit in the Sri Lankan police and that Customs was also actively involved in anti-piracy and anti-counterfeit operations. Furthermore, the authorities also stated that two IPR-related cases were in court and being investigated.

4 TRADE POLICIES BY SECTOR

4.1 Agriculture and Fisheries

4.1.1 Agriculture

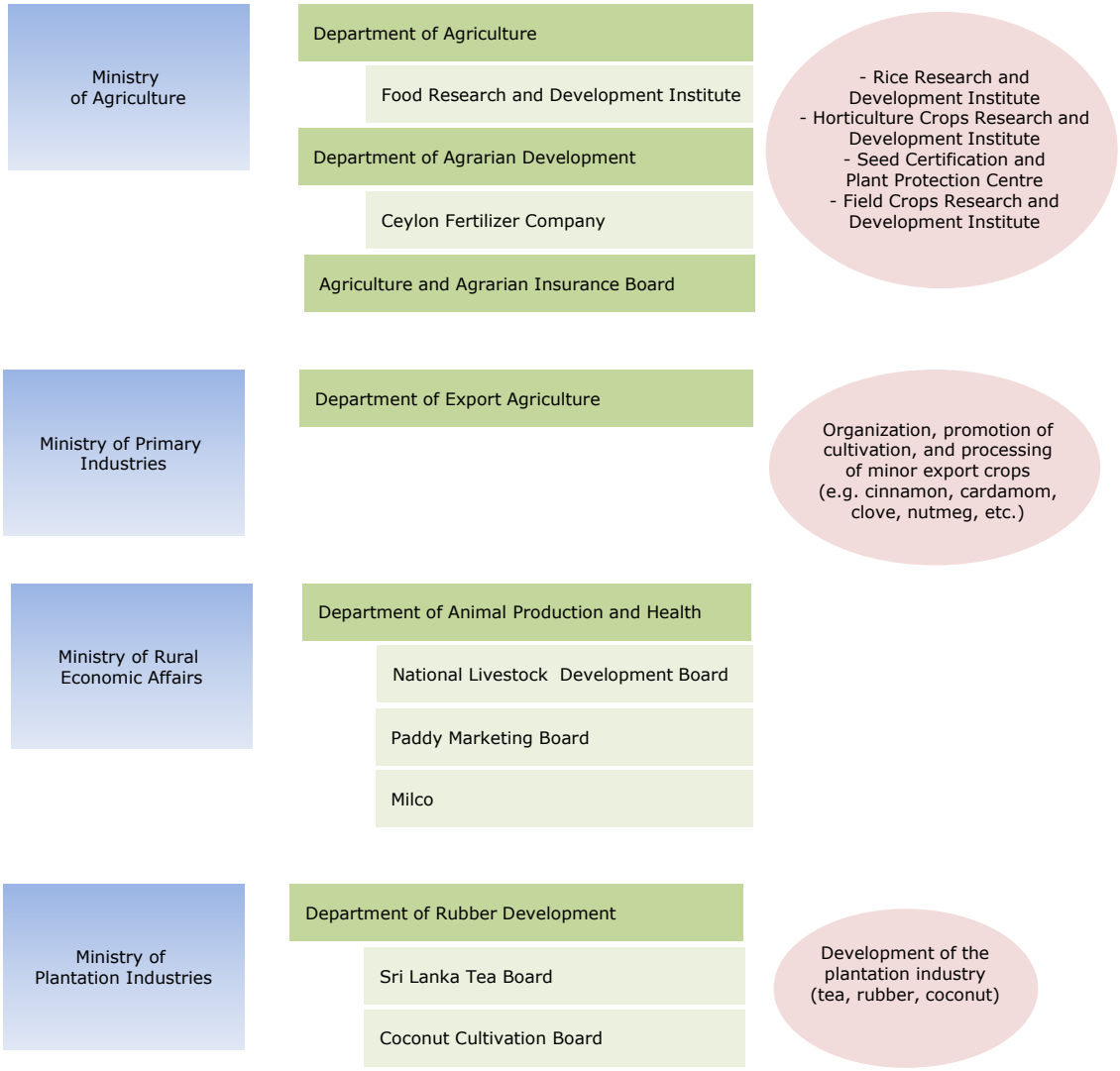
4.1. The Sri Lankan agricultural sector (including fishing and forestry) remains an important contributor to the economy; in 2015, it accounted for 8.7% of GDP[1] and about 28% of total employment.[2] The agricultural sector grew at a rate averaging 3.8% per year during the period 2010-13; growth declined to 0.3% in 2014 due to unfavourable weather conditions that negatively impacted many commodities.

4.2. A number of ministries and departments are responsible for policies concerning agriculture, although the scope of their responsibilities may not be clearly defined (Chart 4.1). There are four main ministries involved in various agricultural sectors, and several departments underneath them. The main entity in charge of agricultural policy is the Department of Agriculture under the Ministry of Agriculture. Different ministries are also involved in the oversight of several state owned enterprises that operate in the sector.

[1] Agriculture, forestry, and fishing (Table 1.1).

[2] Central Bank of Sri Lanka online information. Viewed at: http://www.cbsl.gov.lk/pics_n_docs/10_pub/_docs/efr/annual_report/AR2015/English/17_Appendix.pdf and http://www.cbsl.gov.lk/pics_n_docs/10_pub/_docs/statistics/other/econ_&_ss_2015_e.pdf.

Chart 4.1 Ministries responsible for policies on agriculture, 2016



Source: Compiled by the WTO Secretariat from various sources.

4.1.1.1 Policy and programmes

4.3. The Government has focused its attention on formulating a new agricultural policy. The policy aims to make the country self-sufficient in maize, soya beans, chillies, onions, and potatoes by 2018 through crop diversification and productivity improvements, and to move forward from subsistence farming to agribusiness with a view to accessing export markets by 2020.[3]

4.4. Sri Lanka's Ministry of Agriculture is developing a number of key strategies for the sector for the next ten years; the strategies are expected to be issued in 2017. The main focuses of the current strategies are increased production, food safety, environmental friendliness, and socio-economic aspects (Table 4.1). In addition, the Ministry had a number of development programmes for 2015 such as: Youth Agri Entrepreneurship Programme; Commercial Farm Programme; Supplementary Food Crop Production Programme; Establishment of Soil Conservation, Organic Fertilizer Production and Use Promotion programme; Agri Crop Production Forecasting Programme; Rice Exporting Programme; and the Skills Development Programme. There is also a National Food Production Programme, 2016-18, and Production of Food without Poison Programme of the Presidential Secretariat.

[3] The Nation online information. Viewed at: http://nation.lk/online/2015/11/20/summary-of-2016-budget-proposals.html.

Table 4.1 Key agricultural strategy areas identified by the Ministry of Agriculture, 2015

Increased production and productivity	
1. Production and productivity	• Appropriate (good) agricultural practices • Land productivity and land use planning • Crop zoning and diversification • Integration with other sectors (plantation crops, fisheries, animal husbandry, etc.) • Urban agriculture and home gardening
2. Input management	• Seed and planting material • Mechanization • Fertilizer (use efficiency) and pesticides • Energy
3. Technological advancement	• National and international collaborations • Research and development • Technology exchange and knowledge sharing • Cooperation and partnerships • Information management (e-based agriculture) • Adaptation of new technology
Ensured food safety	
4. Food safety	• Organic agriculture/natural agriculture • GAP (good agricultural practices) • Plant protection • Safe use of agrochemicals • White revolution
Environmental friendliness	
5. Natural resource management and climate change adaptation	• Soil conservation • Water management • Agriculture climate forecast • Disaster risk reduction
6. Affordability, marketability, and profitability	• Farmer's profit margin • Supply chain and value chain management • Post-harvest technology • Value addition • Planned cultivation • Market-oriented production • Agro-based employment opportunities • Strengthen linkages • Agro-based industries • Price fluctuation • Seasonality
7. Public–private partnership	• Growers • Input suppliers • Supply and value chain • Industry • Exporters
Socio-economic aspects	
8. Farmer empowerment and consumer health and satisfaction	• Social security/agricultural insurance/agricultural credits • Integration • Diversification • Dignity and self-respect • Farmer companies/bargaining power/SME divisional level
9. Youth and women in agriculture	• Entrepreneurs
Knowledge management	
10. Education, extension and capacity building	• Technology transfer
11. Traditional knowledge and practices	• Agricultural heritage systems • Agro-tourism
General statements	
12. Legal and regulatory framework (acts and orders/regulations/circulars)	

Source: Information provided by the authorities.

4.5. The Government imposes price controls on basic foods; each year it provides subsidies for price support on a number of basic food items with a view to controlling the cost of living and to

maintain food security for the poor.[4] The main items subject to price controls during the review period were wheat flour, sugar, sprats, lentils, potatoes, milk powder, chicken, rice, dried chilli, and canned fish. Reference prices are set based on the cost of imports plus marketing/processing costs, or cost of production plus marketing/processing costs.

4.1.1.2 Production

4.6. Agricultural production in Sri Lanka is dominated by the main plantation crops, with tea and rubber being the largest in value (Table 4.2). Production of most agricultural goods remained stable over the review period, and certain yearly fluctuations can be attributed to unfavourable weather conditions. There has been no significant trend in crop size or amount of cultivated land, but crop yields are gradually being improved with better farming techniques and fertilizers. Production of manioc and maize gradually increased during the period, but from a low base. Other minor crops include mostly spices, i.e. cinnamon, cocoa, ginger, pepper, cloves, etc.

Table 4.2 Agricultural production, 2009-15

	2009	2010	2011	2012	2013	2014	2015
Production of main agricultural products ('000 tonnes, unless otherwise indicated):							
Paddy/rice	3,651.7	4,300.6	3,894.9	3,845.9	4,620.7	3,380.8	4,819.0
Tea, processed	291.0	331.4	327.5	328.4	340.0	338.0	329.0
Rubber	136.9	153.0	158.2	152.0	130.4	98.6	88.6
Manioc	..	282.8	292.7	291.4	301.1	302.5	324.1
Maize	129.8	161.7	137.8	202.3	208.3	240.6	261.1
Coconuts (million)	2,762.0	2,317.0	2,808.0	2,940.0	2,513.0	2,870.0	3,056.0
Minor export crops	112.3	124.1	118.4	120.6	129.8	117.0	133.8
Gross production of main agricultural products (US$ million):							
Paddy/rice	1,075.1	1,132.5	1,030.9	909.5	1,125.3	..	..
Tea	15,285.9	19,424.5	21,234.8	18,552.5	20,217.6	..	..
Rubber	24,258.3	30,345.2	34,711.0	28,651.2	26,226.1	..	..
Cassava (manioc)	6,729.5	6,820.2	8,881.7	8,916.6	9,669.3	..	..
Maize	4,601.6	5,600.9	5,364.4	7,125.8	6,580.4	..	..
Coconuts	458.5	599.8	573.1	641.5	987.7	..	..
Minor export crops	622.6	700.9	833.9	775.5	814.2	840.2	1,096.8
Average monthly production of certain livestock:							
Milk (million litres)	19.4	20.6	21.5	24.9	27.4	27.8	31.2
Cow milk	15.3	16.0	17.0	19.8	22.1	22.7	25.4
Buffalo milk	4.1	4.6	4.6	5.1	5.3	5.1	5.8
Eggs (number in million)	95.2	95.0	98.8	121.4	136.4	143.4	158.2

.. Not available.

Source: Data provided by the authorities; Department of Census and Statistics Sri Lanka; and FAO online information.

4.1.1.3 Trade

4.7. Agriculture remains an important component of Sri Lanka's exports and imports; as it is a net exporter of agricultural products, and agriculture typically accounts for about one fourth of Sri Lanka's total exports. Its main export earner, accounting for more than half of all agricultural exports, is tea. Other main export items include cinnamon and pepper (Table 4.3). While the majority of exported agricultural products remained stable during the period 2010-15, there was significant growth in coconut oil exports, from US$2.2 million in 2010 to US$121 million in 2015.

[4] Central Bank of Sri Lanka online information. Viewed at: http://www.cbsl.gov.lk/pics_n_docs/10_pub/_docs/efr/annual_report/AR2015/English/13_PolicyBox.pdf.

4.8. In terms of imports, agricultural goods accounted for about 12% of Sri Lanka's total imports in 2015; its main agricultural imports comprise foods needed for domestic consumption purposes such as wheat, raw sugar, and milk products. Although Sri Lanka produces significant amounts of rice, it has been increasingly importing rice of different varieties, often used in hotels and restaurants for the tourist industry (Table 4.4).

Table 4.3 Exports of main agricultural products, 2010-15

(US$ million)

HS code		2010	2011	2012	2013	2014	2015
	Total exports	8,304.1	10,011.3	9,369.8	10,004.9	11,295.5	10,439.7
	Total agricultural exports[a]	2,103.8	2,439.9	2,270.9	2,471.0	2,720.0	2,514.3
	of which:						
0902	Tea	1,366.8	1,475.0	1,403.2	1,528.5	1,609.3	1,321.9
0801	Coconuts, brazil and cashew nuts, fresh or dried	60.9	135.3	76.8	69.8	151.6	103.7
0906	Cinnamon and cinnamon tree-flowers	82.8	121.1	130.5	133.1	132.2	132.0
0904	Pepper, fruit of the genus Capsicum/Pimenta	43.3	31.5	70.6	128.4	70.1	144.6
0802	Other nuts, fresh or dried	2.2	2.5	3.4	16.8	64.7	69.9
2008	Fruit, nuts and other edible parts of plants, otherwise prepared or preserved	26.1	41.8	39.3	45.5	60.4	70.5
1513	Coconut, palm kernel and babassu oil	7.3	7.7	10.0	17.2	58.4	120.6
0907	Cloves, whole fruit, cloves and stems	37.4	35.4	18.3	49.2	13.9	47.0
2403	Other manufactured tobacco and tobacco substitutes; tobacco extracts and essences	19.0	32.5	35.8	40.9	43.0	48.8
2309	Preparations of a kind used in animal feeding	44.1	36.3	46.6	38.7	41.8	53.1
2401	Unmanufactured tobacco; tobacco refuse	32.6	38.3	42.2	47.6	41.3	32.0
3301	Essential oils	9.8	18.1	17.4	23.3	26.1	33.8

a WTO definition.

Source: WTO calculations based on figures taken from the UNSD Comtrade database.

Table 4.4 Imports of main agricultural products, 2010-15

(US$ million)

HS code		2010	2011	2012	2013	2014	2015
	Total imports	12,353.7	19,696.5	17,884.9	17,930.8	19,244.5	18,967.2
	Total agricultural imports[a]	1,792.9	2,438.7	1,949.7	2,014.1	2,448.2	2,338.7
	of which:						
1001	Wheat and meslin	236.5	448.9	327.9	324.2	370.9	330.6
1701	Cane or beet sugar and chemically pure sucrose, in solid form	359.1	419.7	332.2	281.2	247.7	243.4
0402	Milk and cream concentrated/containing sugar	247.4	329.9	290.8	277.2	324.7	234.0
0713	Dried leguminous vegetables, shelled	179.9	184.0	126.4	155.6	176.9	231.0
1006	Rice	59.7	18.4	24.2	17.8	281.8	131.9
0703	Onions, shallots, garlic, leeks, etc., fresh or chilled	95.8	85.5	51.5	99.7	65.3	122.1
1511	Palm oil and its fractions	68.1	160.6	67.2	81.3	123.0	110.7
2304	Oil cake and other solid residues resulting from the extraction of soybean oil	50.9	72.7	84.9	88.5	101.6	92.3

HS code		2010	2011	2012	2013	2014	2015
0904	Pepper, fruit of the genus *Capsicum/Pimenta*	44.4	82.6	38.3	49.4	62.2	78.0
2401	Unmanufactured tobacco; tobacco refuse	30.9	45.7	65.6	56.4	65.2	77.6

a WTO definition.

Source: WTO calculations based on figures taken from the UNSD Comtrade database.

4.1.1.4 Tariffs and special levies

4.9. In 2007, Sri Lanka introduced a Special Commodity Levy on certain agricultural products upon importation. The Special Commodity Levy Act was enacted to encourage local industries.[5]

4.10. The levy, when it is applied to a number of selected essential commodities, replaces all other import duties, taxes and levies on the commodities concerned. The Ministry of Finance has the authority to introduce, amend or remove the levy on particular commodities. In recent years, the list of commodities subject to the Levy has been revised from time to time based on demand and supply in the local market; the levy is typically applied on a selected group of agricultural commodities such as fish, potatoes, peas, oils, onions, and sugar, which are subject to the effect of seasonality (Table A4.1). The revenues increased substantially from Rs 10 billion in 2010 to Rs 52 billion in 2015 (Table 4.5). The increase in imported commodities has been the main reason for the increased revenue during the review period. However, as a percentage of government revenue, the revenue from the Special Commodity Levy has declined since 2014. The revenues collected from the levy are credited to the Consolidated Funds, which are used to finance part of the cost of purchasing agriculture products for distribution among the poor in the country.

Table 4.5 Special Commodity Levy (SCL) revenues, 2010-15

	2010	2011	2012	2013	2014	2015
Tax revenue (Rs million)	10,173	15,622	33,666	46,705	47,953	52,276
Tax revenue as a % of GDP	0.2%	0.2%	0.4%	0.5%	0.5%	0.47%
As a % of government revenues	..	..	3.7%	5%	4.5%	3.6%
Number of commodities subject to the SCL (at end of year)	15	30	31	36	37	39

.. Not available.

Source: Ministry of Finance of Sri Lanka online information. Viewed at: http://www.treasury.gov.lk/images/depts/fpd/docs/reports/annualreport/2013/chapters/Chapter5.pdf, http://www.treasury.gov.lk/reports/annualreport/2012/5-FiscalDevelopments.pdf, and http://www.treasury.gov.lk/images/depts/fpd/docs/reports/annualreport/2014/full/annualReport-2014E.pdf; and information provided by the authorities.

4.11. During the review period, Sri Lanka occasionally waived the import duties on certain agricultural products with a view to maintaining the cost of living. These include milk powder, wheat grains, cashew nuts, meat, fish, maize, malt extract, and milk.[6]

4.12. In 2016, applied tariffs on agricultural products (WTO definition) average about 25.3% with the highest tariffs on HS section 4, prepared foods (Section 3.1.4). Many agricultural products have specific duties or combined duties, e.g. tobacco products, resulting in very high *ad valorem* equivalents. For a number of agricultural products, applied MFN rates exceed the corresponding bound rates, the highest applied MFN rate being 1,225% (*ad valorem* equivalent of a specific duty) on cigars (Table A3.1).

4.13. Sri Lanka applies an export cess on its major export-earning crops, i.e. tea, rubber, and coconut; and also on a number of other products pursuant to the Export Development Board

[5] Special Commodity Levy Act No. 48 of 2007. Viewed at: http://www.documents.gov.lk/Acts/2007/Special%20 Commodity%20Levy%20-%20Act%20No.%2048/Act%2048E.pdf.

[6] For milk powder, 23 July 2015, http://www.customs.gov.lk/tariff/wai150723.pdf; wheat grain, 30 January 2015, http://www.customs.gov.lk/tariff/wheat2015i.pdf; milk powder, 3 February 2014, http://www.customs.gov.lk/tariff/milk140203.pdf; and information provided by the authorities.

(EDB) Act (Section 3.2.2). The amount of revenues from the cess is proportional to the value of exports; thus tea generates the highest export cess revenues (Table 4.6). The export cess is refunded by the EDB in certain circumstances and channelled back to the industry.

Table 4.6 Export cess revenue, by major crop, 2010-15

(Rs million)

	2010	2011	2012	2013	2014	2015[a]
Tea – under Tea (Tax and Control of Export) Act, and Sri Lanka Tea Board Act	1,194	690	737	747	700	640
Rubber – under Rubber Replanting Subsidy Act	215	58	30	50	33	12
Coconut – under Coconut Development Act	180	119	119	100	121	127
EDB Cess – under Sri Lanka Export Development Board Act	141	1,918	2,254	2,175	2,230	1,934
Total export cess	1,730	2,785	3,140	3,087	3,085	2,713

a Provisional.

Source: Ministry of Finance online information. Viewed at: http://www.treasury.gov.lk/images/depts/fpd/docs/reports/annualreport/2014/full/annualReport-2014E.pdf, and http://www.treasury.gov.lk/documents/10181/12870/2011/cb78179a-fa8f-4ef6-89ef-4cbcfb95125f?version=1.1; and information provided by the authorities.

4.14. Sri Lanka does not have any tariff-rate quotas (TRQs) bound in its WTO schedule of concessions, nor does it apply any global TRQs. However, it maintains TRQs on rice under the Pakistan–Sri Lanka FTA.

4.1.1.5 Legal and institutional framework

4.15. There are a number of laws that form the basic legal framework for the agricultural sector (Table 4.7). These have not undergone any major revision during the review period.

Table 4.7 Main agricultural laws, 2016

Law	Reference	Overview	Viewed at:
Soil Conservation Act	Act No. 24 of 1996	For the enhancement and productive capacity of the soil and to prevent erosion and damage from floods Action has been initiated to repeal the Act and bring forward a new act to remove existing deficiencies; a draft of the new act has been submitted to the Ministry of Agriculture for obtaining cabinet approval	Department of Agriculture. Viewed at: http://www.doa.gov.lk/images/stories/site/PDF/Acts/soil%20conservation%20act%20no.24%20of%201996.pdf
Plant Protection Act	Act No. 35 of 1999	To make provisions against the introduction and the spreading of any organism harmful to or destructive of plants, and for the sanitation of plants Action has been taken to update and implement a new set of regulations under the Act. At present, the Department of Agriculture is preparing a list of quarantine pests of concern to Sri Lanka to be declared under the Act	FAOLEX. Viewed at: http://faolex.fao.org/docs/pdf/srl37310.pdf
Seed Act	Act No. 22 of 2003	To regulate the quality of seed and planting materials	Department of Agriculture. Viewed at: http://www.doa.gov.lk/images/stories/site/PDF/Acts/seed%20act.pdf

Law	Reference	Overview	Viewed at:
Control of Pesticides Act	Act No. 33 of 1980, Act No. 6 of 1994	To regulate the import, packing, labelling, storage, transport, sale and use of pesticides	Department of Agriculture. Viewed at: http://www.doa.gov.lk/images/stories/site/PDF/Acts/control%20of%20pesticides%20act%20no.%2033%20of%201980.pdf
Fertilizer Act	Act No. 68 of 1988	To regulate the importation, formulation and distribution of fertilizer	FAOLEX. Viewed at: http://faolex.fao.org/cgi-bin/faolex.exe?database=faolex&search_type=query&table=result&query=LEX-FAOC028846&format_name=@ERALL&lang=eng
Export Agriculture Development Act	Act No. 46 of 1992	Registration of persons engaged in the processing, sale and transport of agricultural crops	FAOLEX. Viewed at: http://faolex.fao.org/cgi-bin/faolex.exe?rec_id=023080&database=faolex&search_type=link&table=result&lang=eng&format_name=@ERALL
Agrarian Development Act	Act No. 46 of 2000	For matters relating to landlords and tenant cultivators of paddy lands, for the utilization of agricultural lands in accordance with agricultural policies, and for the establishment of agrarian development councils	Department of Government Printing. Viewed at: http://documents.gov.lk/actspg/act2011-2.html

Source: Compiled by the WTO Secretariat from the laws indicated.

4.1.1.6 Domestic support

4.16. Sri Lanka has numerous domestic support programmes for agriculture, including subsidies on main export crops. The main support programme remains the fertilizer subsidy programme, which benefits all crop subsectors (Table 4.8). There are also a number of specific domestic support programmes accorded to specific products (Table 4.9). Other programmes that provide support to the agricultural sector include the New Comprehensive Rural Credit Scheme (NCRCS), the Supplementary Food Crop Promotion Programme, and the Commercial Farm Programme.

Table 4.8 Agricultural subsidies, 2010-15

(Rs million)

	2010	2011	2012	2013	2014	2015
Subsidies for agriculture						
Fertilizer subsidy	23,028	29,802	36,456	19,706	31,858	49,570
Interest subsidy for agricultural loans	683	750	172	282	178	..
Paddy purchasing	1,805	1,629	1,440	1,789	228	..
Subsidy for commercial crops development:						
Tea	190	171	182	272	331	7,224
Rubber	370	484	435	587	763	2,871
Coconut	269	293	353	403	485	471
Cashew	24	28	27	49	40	35
Minor crops (cinnamon, cocoa, coffee, pepper, etc.)	180	220	184	254	254	318

.. Not available.

Source: Ministry of Finance online information. Viewed at: http://www.treasury.gov.lk/images/depts/fpd/docs/reports/annualreport/2014/full/annualReport-2014E.pdf; and information provided by the authorities.

4.17. Sri Lanka made two notifications on domestic support to the WTO Committee on Agriculture during the review period.[7] Both notifications classify research expenditures and training services as

[7] WTO documents G/AG/N/LKA/3, G/AG/N/LKA/4, and G/AG/N/LKA/4/Corr.1.

"green box" measures, and investment subsidies and the fertilizer subsidy as special and differential treatment "development programmes".

4.1.1.6.1 Fertilizer subsidy

4.18. Sri Lanka has had subsidized fertilizer for its farmers for more than four decades through the National Fertilizer Subsidy Scheme; the subsidy has been one of the country's key agricultural policies. The fertilizer subsidy has grown, as has its share of the federal budget and GDP, representing 2% of total government recurrent expenditures in 2014.[8]

4.19. The fertilizer subsidy has traditionally been provided to paddy farmers in order to improve agricultural sector growth, reach self-sufficiency, reduce the costs of production, and obtain the desired level of soil conservation. Since 2005, the three main fertilizers used in paddy production (urea, TSP, and MOP) have been made available at a subsidized price of Rs 350 per 50 kg bag, in straight form. In 2011, the Government made the fertilizer subsidy available to all crops.

4.20. The two state-owned fertilizer companies, Ceylon Fertilizer Company and Colombo Commercial Fertilizer Company, play an important role in the fertilizer subsidy scheme as importers, blenders, and distributors of fertilizer (Section 4.1.1.10.5). Nonetheless, during the period 2011-13, the two state-owned fertilizer companies accounted for around 10% of the total sales in the domestic fertilizer market, as the private sector was the major supplier. In 2014, the Government decided to increase the market share of the state companies to 40% in the provision of fertilizer for "other crops".[9] The state-owned Lanka Phosphate Limited (LPL) also has a role in the excavating, processing, and supply of phosphates used as inputs for fertilizers.

4.21. The fertilizer subsidy generally rose during the period 2010-15, although there was a significantly lower level in 2013 and a large increase in 2015 (Table 4.8). The authorities attribute it to the changes in the way the subsidy has been provided to farmers.

Table 4.9 Specific domestic support programmes, 2015

Crop	Support	Ministry	Overall spending 2015	Reference
Tea	Rs 400,000 for new tea planting (per hectare)	Ministry of Plantation Industries	Rs 127.42 million	1, 4
Tea	Rs 500,000 for tea re-planting (per hectare)	Ministry of Plantation Industries	Rs 16 million (2014)	1, 3, 4
Rubber	Rs 150,000 for new rubber planting (per hectare)	Ministry of Plantation Industries	Rs 2.79 million	1
Rubber	Rs 175,000 for rubber re-planting (per hectare)	Ministry of Plantation Industries	Rs 7.82 million	1, 3
Tea	Rs 25 per tea plant for infilling	Ministry of Plantation Industries	..	1
Tea	Rs 5,000 per acre for soil and water conservation for productivity improvement of tea small holdings	Ministry of Plantation Industries	Rs 325 million	1, 3
Tea	Subsidy for guaranteed prices, Rs 80 per kg of green leaves	Sri Lanka Tea Board	Rs 6,674 million	2
Rubber	Subsidy for guaranteed prices, Rs 300-350 per kg	Department of Rubber Development	Rs 2,049 million	2, 4
Paddy	Guaranteed prices for paddy purchasing, Rs 45-50 per kg	Paddy Marketing Board	Rs 9.9 billion[a]	2, 4
Tea	Modernization of tea factories	Tea Shakthi Fund	Rs 100 million	3
Tea	50 kg sack of mixed fertilizer is Rs 1,300 and a 50 kg sack of unmixed fertilizer is Rs 1,200 under the National Fertilizer Subsidy Programme	..	Rs 5 billion	1, 3

[8] Ministry of Finance of Sri Lanka online information. Viewed at: http://www.treasury.gov.lk/documents/10181/12870/2014/23cd697c-85b6-4ad6-8ba3-2a007be8b56e?version=1.0.

[9] Ceylon Fertilizer Company (2014).

Crop	Support	Ministry	Overall spending 2015	Reference
Rubber	50 kg sack of mixed fertilizer is Rs 1,300 and a 50 kg sack of unmixed fertilizer is Rs 1,200 under the National Fertilizer Subsidy Programme	..	Rs 5 billion	3
EAC (export agricultural crops)[b]	New planting and replanting of EAC. Cash grant ranging from Rs 5,000 to Rs 40,000 per hectare after 2-3 years successful completion and certified planting material provided free of charge	Department of Export Agriculture	Rs 252.7 million	5
EAC (cinnamon, pepper, coffee, cocoa, cardamom, clove, nutmeg)	Productivity improvement programme provides planting material free of charge and fertilizer or a financial reward ranging from Rs 6,000 to Rs 15,000 per hectare	Department of Export Agriculture	Rs 53.97 million	6
EAC	Post-harvest assistance scheme provides three schemes depending on the type of processing centre establishment. Provides cash grants, free loans, or investment costs for processing equipment. Cash grants vary significantly depending on the crop processed and type of equipment	Department of Export Agriculture	Rs 11.3 million	7

.. Not available.

a Budgeted amount.
b Includes: cinnamon, pepper, coffee, cocoa, cardamom, clove, nutmeg, vanilla, lemongrass and citronella.

1 Ministry of Plantation Industries online information. Viewed at: http://www.plantationindustries.gov.lk/web/images/pdf/publications/part_1_english_progress_report.pdf.
2 Ministry of Plantation Industries online information. Viewed at: http://www.plantationindustries.gov.lk/web/images/pdf/publications/part_1_english_progress_report.pdf.
3 Ministry of Plantation Industries online information. Viewed at: http://www.plantationindustries.gov.lk/web/images/pdf/publication/part_2_english_progress_report.pdf.
4 Ministry of Finance online information. Viewed at: http://www.treasury.gov.lk/images/depts/fpd/docs/reports/annualreport/2014/full/annualReport-2014E.pdf.
5 Department of Export Agriculture online information. Viewed at: http://www.exportagridept.gov.lk/web/index.php?option=com_content&view=article&id=91&Itemid=132&lang=en.
6 Department of Export Agriculture online information. Viewed at: http://www.exportagridept.gov.lk/web/index.php?option=com_content&view=article&id=92&Itemid133&lang=en.
7 Department of Export Agriculture online information. Viewed at: http://www.exportagridept.gov.lk/web/index.php?option=com_content&view=article&id=93&Itemid=134&lang=en.

Source: Compiled from various sources listed in the reference column.

4.1.1.7 Financing

4.22. Sri Lanka has two main agricultural insurance schemes: the Farmers' Trust Fund and the Agricultural and Agrarian Insurance Board (AIB). The AIB, operating pursuant to the Agricultural Insurance Act No. 27 of 1973, is mainly involved in issuing insurance schemes to reduce the risks

for local agriculture; these include crop insurance, livestock insurance, and agricultural equipment insurance. Crop insurance takes three forms: crop insurance under the fertilizer subsidy, loans by the Government and commercial banks, and cultivation carried out under direct investment.[10] Underwriting activities and computation and payment of compensation are the major functions of the Insurance Board. Taking out insurance is a pre-condition for obtaining loans; this allows banks to take on riskier agricultural investments. If the agricultural investment fails due to a risk, the AIB pays compensation to the bank and reduces the investors' liability. Agricultural loans enjoy preferential rates, and there is condition for banks under the Central Bank to complete a compulsory quota of lending to agricultural entities. In addition to crop insurance, the Insurance Board implements a social insurance and a pension scheme for farmers. In some years, the Government provides a grant to cover operating expenses.

4.23. The Farmers' Trust Fund, established in 1994 to empower small-scale farmers, is particularly aimed at: agricultural development and the welfare of small-scale farmers through access to credit facilities; input supply; providing relief from farm indebtedness; granting credit to improve marketing facilities; improving technological awareness through communication projects; assisting in agro-processing; and launching special agricultural projects. The main income for this fund comes from the National Lottery Board; about 10% of the lottery income is diverted to this fund through the state consolidated fund/treasury. In addition to that, the Farmers' Trust Fund has fixed deposits, treasury bills, and interest gained against credit facilities granted to small farmers. Farmers have to submit project proposals through agricultural authorities to the Secretary to the Ministry of Agriculture for evaluation and approval.

4.1.1.8 Export subsidies

4.24. In 2015, Sri Lanka notified the WTO Committee on Agriculture that it did not grant or maintain any export subsidies within the meaning of the WTO Agreement on Agriculture for the period 1998-2014.[11]

4.1.1.9 Key subsectors

4.1.1.9.1 Tea

4.25. Sri Lanka is one of the world's leading exporters of tea, which has been the backbone of the Sri Lankan economy for decades as it contributes to foreign exchange earnings, employment, and prosperity for the country. Most tea grown in Sri Lanka is black tea; it is grown on both large plantations and small-holder estates. The majority of tea is grown by the private sector since privatization of the plantations in the 1990s.

4.26. The tea sector generally grew over the review period, with growth in production and exports. The industry experienced an impressive year in 2014 with the highest ever earnings from tea exports, at US$1.63 billion, though there was a marginal decline in production recorded at 338,000 kg. In 2015, the sector faced many challenges in major markets such as the Middle East, the Russian Federation, and Ukraine. The revenue generated in 2015 declined to US$1.43 billion. Total exports of 307,000 kg in 2015 showed a decrease from the previous year.

4.27. The Sri Lanka Tea Board was established on 1 January 1976, under the Sri Lanka Tea Board Act No. 14 of 1975; the Act has been amended by Acts No. 17 of 1985, No. 44 of 1990, No. 29 of 2003, and No. 44 of 2006. The objectives of the Board are development of the tea industry in Sri Lanka and promotion of Sri Lanka Tea (Ceylon Tea) globally. It is the authority responsible for regulating the activities of the tea industry, including production, cultivating new areas and replanting, rehabilitating old gardens, and the establishment of factories and their operation. It also regulates the conduct of auctions, monitors quality standards and regulates sales, engages in export brokerage, and directs and controls institutions and organizations in the management of tea estates, warehousing and shipping of tea.

[10] AIB online information. Viewed at: www.aib.gov.lk.
[11] WTO document G/AG/N/LKA/5.

4.1.1.10 State agricultural entities and agricultural marketing boards

4.28. As a part of the Government, or as state-owned companies, a number of agricultural entities or marketing boards exist in many agricultural subsectors. A number of such entities or boards are involved in distribution or marketing of agricultural products, both domestically and internationally. In addition to the entities and boards specified in this section, there are the Sri Lanka Tea Board (Section 4.1.1.9.1), Sri Lanka Poultry Development Company, Galoya Plantation Co. Ltd., Sugarcane Research Institute, Food Promotion Board, Colombo Commercial Fertilizer Company, and Hingurana Sugar Co. Ltd.

4.1.1.10.1 National Livestock Development Board (NLDB)

4.29. Established in 1973, pursuant to the State Agricultural Corporation Act No. 11 of 1972, the National Livestock Development Board is mainly concerned with producing quality breeding stocks and livestock and agricultural products (mainly coconut), to improve socio-economic standards.[12] The NLDB is the largest government organization in Sri Lanka, which aims to provide quality breeding materials, mainly dairy cattle, goat, sheep, swine and day-old chicks to local farmers at affordable prices with the objective of making the country self-sufficient in livestock and dairy products. For this purpose, the Board maintains pure breeding stocks that are imported from other countries in order to maintain certain production outputs. The NLDB maintains around 10,400 acres of coconut plantations and produces 20 million nuts annually.

4.1.1.10.2 Milco

4.30. Milco, originally established in 1956 as the National Milk Board, under the Ministry of Agriculture, was transformed into a state-owned company in 2000.[13] It aims to strengthen the local dairy industry by helping it reach certain targets for the production of fresh milk. It is involved in the production, distribution, and marketing of milk and milk products. Milco collects about 35% of milk collected by all processors. It holds a 40% share of the yoghurt market, 15% of the ice cream market, 70% of the bottled sterilized milk market, 30% of the liquid milk market, and 8% of the powdered milk market. Milco does not import dairy products; it exports them occasionally.

4.1.1.10.3 Paddy Marketing Board

4.31. The Paddy Marketing Board (PMB), under the Ministry of Rural Economic Affairs and established pursuant to the PMB Act No. 14 of 1971, is involved in the purchasing, processing, selling, supplying, and distribution of paddy and rice.[14] It purchases paddy from farmers at guaranteed prices to maintain a higher market price for paddy during the harvesting season with the aim of enhancing the livelihood of farmers. In addition, it sells stored paddy to rice millers during the off-season to maintain a reasonable price for rice in the market for consumers. Further, the Paddy Marketing Board processes rice and sells it to consumers through Lanka Sathosa sales outlets at reasonable prices. It also maintains a buffer stock for food security reasons. The security stock is replaced with newly harvested paddy every season. The guaranteed price and the quantity purchased during the review period fluctuated significantly. Guaranteed prices ranged from Rs 28 to Rs 50/kg, and purchase quantities ranged from 3,479 to 175,267 mt. In 2015 and the first half of 2016, the highest prices were paid and the largest quantities were purchased.

4.1.1.10.4 Sri Lanka Cashew Corporation

4.32. The Sri Lanka Cashew Corporation was established in 1973, pursuant to the State Agricultural Corporation Act No. 11 of 1972, to undertake the activities pertaining to cashew cultivation, processing, value addition, and marketing, as well as research on cashew and cashew products. It provides many services to the sector, such as implementing a subsidy scheme for growers introducing new varieties, assisting in pest and disease control, introducing fertilizer mixtures and other agronomic techniques for growers, processing technology and machinery development, by-product processing development, providing import and export facilities for processors, and entrepreneurship development training for exporters.

[12] NLDB online information. Viewed at: http://www.nldb.gov.lk/service.html.
[13] Milco online information. Viewed at: www.milco.lk.
[14] PMB online information. Viewed at: www.pmb.gov.lk.

4.33. The Cashew Corporation has its own plantations and seed gardens to provide high quality planting material to growers. It operates cashew processing centres to produce high-quality value-added products to market at its own sales outlets and franchise shops. The Cashew Corporation provides opportunities for processors and exporters to import raw cashews for processing, value addition, and re-export.

4.1.1.10.5 Ceylon Fertilizer Company

4.34. The Ceylon Fertilizer Company operates under the Ministry of Agriculture as a state-owned company for the importation, mixing, marketing, and distribution of fertilizer in Sri Lanka.[15] The company has a well distributed dealer network across the country and its stores are available at district level. Prices for fertilizer are set by the Government (Section 4.1.1.6.1). While it has an established network, there are 13 other fertilizer companies operating in importation, storage, processing and distribution.

4.1.1.11 Lanka Sugar Company Limited

4.35. Following the nationalization of the sugar industry in 2014, pursuant to the Underperforming Enterprises and Underutilized Assets Act No. 43 of 2011, the Government created the Lanka Sugar Company Limited under the Ministry of Plantation Industries to expand the sugar sector towards self-sufficiency.[16] The mission of the company involves achieving certain targets of production, employment, profitability, foreign exchange, and support to farmers.[17] In 2015, a 12% concessionary income tax rate was granted to the sugar industry by the Government.[18]

4.1.2 Fisheries

4.36. The fishing sector is considered important to the economy and well-being of Sri Lanka as it provides a livelihood for many coastal communities and is a major source of animal protein for much of its population. Sri Lanka's fish sector can be divided into two subsectors: marine (both coastal and offshore) and inland freshwater (including aquaculture) fishing. The sector is dominated by small-scale fishermen operating small motorized craft. Coastal fishing dominates as the main type of fishing, as offshore and inland fishing have remained relatively static in recent years.

4.1.2.1 Production and trade

4.37. Sri Lanka saw significant growth in the fishing sector during the review period, with the annual growth rate averaging 10%. It maintained a positive trade balance in fish until 2015, when exports declined and imports increased, thus leading to the negative trade balance for the year (Table 4.10).

Table 4.10 Fish production and trade, 2010-15

	2010	2011	2012	2013	2014	2015
Total fish production (metric tons)	384,670	444,830	486,170	512,840	535,050	520,190
Annual growth rate (%)	13.2	15.6	9.3	5.5	4.3	-2.8
	(of total production)					
Total marine	86.4	86.6	85.8	87.0	85.8	87.1
Offshore/deep sea	33.8	36.6	32.8	34.7	33.7	35.3
Coastal	52.6	50.0	53.0	52.3	52.1	51.7
Inland and aquaculture	13.6	13.4	14.2	13.0	14.2	12.9
Inland capture	11.5	11.3	12.1	10.7	12.9	11.0

[15] Ceylon Fertilizer Company online information. Viewed at: http://www.lakpohora.lk/web/.

[16] IHS online information. Viewed at: https://www.ihs.com/country-industry-forecasting.html?ID=1065989237.

[17] Lanka Sugar Company Limited online information. Viewed at: http://www.lankasugar.lk/index.php/about-us/our-objectives.

[18] Central Bank of Sri Lanka online information. Viewed at: http://www.cbsl.gov.lk/pics_n_docs/10_pub/_docs/efr/annual_report/AR2015/English/13_PolicyBox.pdf.

	2010	2011	2012	2013	2014	2015
Inland culture	1.2	1.2	1.4	1.5	0.3	0.6
Shrimp farms	0.9	0.9	0.7	0.9	1.0	1.4
Memorandum:						
Total fish exports (US$ million)[a]	175.4	197.9	206.6	246.3	266.5	181.9
Total fish imports (US$ million)[a]	125.3	146.9	136.4	163.6	144.5	226.2

a WTO definition.

Source: WTO calculations based on data provided by authorities and UNSD Comtrade database.

4.1.2.2 Legal and regulatory framework

4.38. There have been two main developments in the legal framework for the fish sector during the review period; these include the Fisheries and Aquatic Resources (Amendment) Act No. 35 of 2013 and the Fisheries and Aquatic Resources (Amendment) Act No. 2 of 2015. The first was introduced to incorporate international obligations and the second to increase the sanctions under the Act.

4.39. The Ministry of Fisheries and Aquatic Resources Development is the main regulator for the sector; it produced a "Fisheries Sector Development Strategy" for the period 2010-13 that focused on the following elements: fish production enhancement; fisheries social community development; fishery inputs; training and extension; research, development and capacity building; infrastructure development; fish marketing; trade and investment; resources conservation; and fisheries development in the Northern Province.[19] The authorities expect that a new policy for the sector will be published in 2017.

4.40. In the event of the introduction of new technologies in large-scale fisheries for the high seas, it is expected that they will be given financial and technical assistance.

4.1.2.3 Structure

4.41. There are 15 fisheries harbours in operation around Sri Lanka's coastline. In addition to marine resources, it has extensive freshwater and brackish water resources to sustain fishing.

4.42. There are a number of government entities involved in the sector (Table 4.11).

Table 4.11 Government entities in the fish sector, 2016

Entity	Role
Ceylon Fisheries Corporation (CFC)	Purchasing and sale of fish, price stabilization, distribution, provision and maintenance of cold storage facilities, and production and sale of fishery by-products
Ceylon Fishery Harbours Corporation (CFHC)	Maintaining fisheries infrastructure facilities such as landing facilities, and maintenance and management of harbours and anchorages
National Aquatic Resources Research and Development Agency (NARA)	Conducting research and conservation activities on all living and non-living aquatic resources in Sri Lanka
National Aquaculture Development Authority (NAQDA)	Development and management of all freshwater aquatic resources including aquaculture and sea farming
Department of Fisheries and Aquatic Resources (DFAR)	Management, regulation, conservation and development of fisheries and aquatic resources

[19] Ministry of Fisheries and Aquatic Resources Development online information. Viewed at: http://www.fisheries.gov.lk/doc_files/130625062842.pdf.

Entity	Role
Cey-Nor Foundation Limited	Building, manufacturing and selling of fishing crafts, engines, and gear

Source: Ministry of Fisheries and Aquatic Resources Development online information. Viewed at: www.fisheries.gov.lk.

4.2 Mining and energy

4.2.1 Mining

4.43. Sri Lanka has a variety of mineral resources including its high purity graphite and mineral sands; many of them are exported. Mineral resources produced in Sri Lanka include both industrial and precious minerals, e.g. calcite, clay, dolomite, feldspar, gems, graphite, ilmenite, kaolin, limestone, mica, mineral sands (ilmenite, rutile, and zircon), phosphate rock, quartzite, and salt.[20] The Government has a significant role in the sector as producer through SOEs, licensor of mines and mining, and in the control of exports.

4.44. The gemstone mining subsector (e.g. sapphires, spinel, garnet, tourmaline, topaz, beryl, and chrysoberyl) has been a traditional industry in Sri Lanka, and is an important contributor to the economy through exports in particular. There are about 12,500 gem mines in operation, and about 40,000 gem miners employed in the industry. Over 6,500 gem mining licences were issued in 2015.[21] Gem mining has been centred around the Ratnapura District in Sabaragamuwa Province for several decades, mainly as small-scale mines. According to the authorities, the Government policy for the sector discourages mechanical mining and encourages traditional mining to sustain better prices, resulting in higher quality gemstones and relatively lesser output.

4.2.1.1 Developments

4.45. The mining sector did not undergo any significant changes in its legal framework during the review period. However, there have been a number of developments impacting the sector. The Government introduced a temporary ban on the export of scrap metal in 2010 with the objective of ensuring a sufficient supply for its own small industries, as the country does not produce these metals.[22] The ban impacted aluminium, brass, bronze, copper, cast iron, special iron, and lead. In 2013, the Government prohibited new foreign investment in steelmaking and cement manufacturing, including their retail trade.[23]

4.46. In 2015, Sri Lanka prohibited foreign firms from mining gems in the country.[24] As a result, the licences of 16 foreign firms operating in the gem mining sector were cancelled.[25] The ban applies to foreign companies, companies with foreign partnerships, companies with foreign investment, and foreign individuals. In addition, for raw mineral sands, the Government decided not to issue export licences so as to utilize the products in downstream industries in Sri Lanka, thus encouraging value addition.

4.47. Also in 2015, the Ministry of Mahaweli Development and Environment and the Geological Survey and Mines Bureau (GSMB) issued a circular to prevent illegal soil mining and the misuse of licences. Thus, pursuant to Environment Circular 02/2015, licences for non-commercial purposes would be issued for only up to 35 cubes of soil and gravel mining. For mining of more than

[20] Sri Lanka Export Development Board online information. Viewed at: http://www.srilankabusiness.com/ceramic-and-porcelain/industrial-minerals-in-sri-lanka.html; and USGS, *2013 Minerals Yearbook: The Mineral Industry of Sri Lanka*.

[21] Sri Lanka Export Development Board online information. Viewed at: http://www.srilankabusiness.com/blog/gem_industry.html.

[22] USGS, *2010 Minerals Yearbook*: *The Mineral Industry of Sri Lanka*.

[23] *The Straits Times*, "Sri Lanka bans foreign investments in steel, cement", 13 June 2013. Viewed at: http://www.straitstimes.com/business/sri-lanka-bans-foreign-investments-in-steel-cement.

[24] President of Sri Lanka online information. Viewed at: http://www.president.gov.lk/news/will-not-allow-foreign-companies-to-enter-into-gem-mining-industry-in-sri-lanka-president/.

[25] Sri Lanka Export Development Board online information. Viewed at: http://www.srilankabusiness.com/blog/gem_industry.html.

35 cubes, further decisions on issuing the licence would need to be taken by a number of other authorities.[26]

4.48. Also during the review period, there was the introduction of welfare schemes and insurance policies by the National Gem and Jewellery Authority (NGJA). Compensation in times of accidental death was also introduced.

4.2.1.2 Legal and regulatory framework

4.49. Mining in Sri Lanka is governed by the Mines and Minerals Act No. 33 of 1992, which provides the main framework for mining and establishes the GSMB; it however specifically excludes gems and petroleum mining. The GSMB is responsible for issuing mining licences as well as for geological mapping and mineral exploration, mining titles and mining regulation, mineral resource surveys, laboratory services, geophysical and drilling contracts, and geo-science information. Pursuant to the Mines and Minerals Act, there are four main types of licence for mining and related issues: exploration, mining, trading, and transport. The GSMB also issues licences to export the resulting minerals. Mining licences come in three forms: artisanal, for mining in small areas and without machinery; industrial, for larger areas whereby certain machinery and methods are authorized; and reserved, requiring special authority from the Minister. Trading licences are also issued in three forms depending on the type of trading, i.e. for export, for local consumption, or for bricks and lime produced manually.

4.50. Based on the statistics of mining licences issued by the GSMB, there is a general increase in mining activity in Sri Lanka. There are generally more artisanal mining licences issued each year, reflecting the preference for small-scale manual mining. In recent years there has been a general decline in the issuance of trading licences, in part to encourage value addition in Sri Lanka. There are large volumes of transport licences issued each year as all exploration, mining, and trading licences require transport licences to transport mineral-bearing substances or minerals. For trading licences, the vast majority are issued for local trading and only about 10-20 per year are to trade in minerals for export (Table 4.12).

Table 4.12 Mining licences issued, 2010-15

	2010	2011	2012	2013	2014	2015
GSMB licences						
Exploration licences	9	21	18	..	..	..
Artisanal mining licences	3,766	4,339	4,781	..	..	..
Industrial mining licences	2,570	2,941	3,091	..	..	..
Trading licences	944	881	763	..	..	..
Transport licences	279,214	374,039	370,466	..	..	..
Export licences	601	582	492	..	..	..
NGJA licences						
Gem mining licences	4,061	4,687	5,956	6,565	5,928	5,151
Gem dealer licences	4,195	4,422	4,382	4,429	4,714	4,619
Gem lapidary licences	168	179	177	192	199	204
Gem auction licences	262	277	365	624	578	543

.. Not available.

Source: GSMB, *Annual Report 2012*. Viewed at: https://www.parliament.lk/uploads/documents/paperspresented/annual_report_geological_survey_and_mines_bureau_2012.pdf; and GSMB, *Annual Report 2011*. Viewed at: https://www.parliament.lk/uploads/documents/paperspresented/annual_report_geological_survey_and_mines_bureau_2011.pdf.

4.51. The National Gem and Jewellery Authority Act No. 50 of 1993 created the NGJA to develop, regulate, and promote the Sri Lankan gem and jewellery industry. Its regulatory role stems from Section 15 of the Act where it is vested with the power to issue gem mining licences and has overall responsibility for the gem subsector. It issues licences to mine as well as for dealers who wish to export gems; and operates a gem testing laboratory and a jewellery testing laboratory.

[26] Ministry of Mahaweli Development and Environment online information. Viewed at: http://www.environmentmin.gov.lk/web/index.php?option=com_content&view=article&id=248&Itemid=326&lang=en.

It also has a role in the import of rough diamond stock, for which an official licence is necessary in order to import or re-export. This is in accordance with the Kimberley Process, as the NGJA is the nominated authorized body in Sri Lanka.

4.52. The State also participates in the sector through a number of state-owned enterprises for the production of minerals, e.g. Lanka Mineral Sands Co. Ltd., Lanka Phosphate Co. Ltd., Sri Lanka Cement Corp. (SLCC) and its subsidiary Lanka Cement Plc., Kahatagaha Graphite Lanka Ltd., and Lanka Salt Ltd. For these operations, the Government has exclusive rights to mine these minerals.

4.2.1.3 Incentives

4.53. Sri Lanka's gem industry includes downstream cutting, polishing and processing of gems before turning them into finished goods, i.e. jewellery for export. For industrial minerals, there is the processing of clay, quartz, silica, and feldspar in the ceramics and glassware industries. The Government aims to encourage value added in the sector by the use of measures on exports; these include regulating the exportation of minerals by imposing floor prices, imposing an export tax, and entering into investment agreements.[27]

4.54. The Government considers exportable minerals to be non-renewable resources, and has adopted various fiscal measures, which have been revised from time to time. At present, there is a 7% royalty on mineral exports, a 20% export tax, as well as a floor price.

4.55. Import processes and regulations were modified in order to reduce the prohibitive import duties on rough minerals, thus allowing Sri Lankan traders and craftsmen to remain competitive and obtain raw materials anywhere in the world.[28] For the gemstone sector, there was the removal of export taxation previously applied, an export service fee waiver encouraging exhibition participation, and the provision allowing the import of any carat of rough gemstone for a payment of US$200.[29]

4.2.1.4 Production and trade

4.56. Most sectors of the mining industry showed gradual growth in output during the period 2010-15. The most significant sector in terms of production and contribution to the economy is the gemstone sector. In terms of exports, the largest mineral export is the re-export of diamonds; there is no production in Sri Lanka, thus exports are re-exports of diamonds that have been further cut or processed in Sri Lanka. The gemstone sector is the next largest, and its exports more than doubled during the review period (Table 4.13). In recent years, the main export markets for Sri Lankan gems were the United States, Thailand, and Hong Kong, China; these altogether accounted for over 60% of exports.

Table 4.13 Mining production and trade, 2010-15

	2010	2011	2012	2013	2014	2015
Production (1,000 mt)						
Cement	2,600	2,400	2,200	3,000	..	..
Clays:						
Ball clay	47,826	50,000	52,000	54,000	..	..
For cement manufacture	1,000	1,100	1,200	1,200	..	..
Kaolin	8,207	8,000	8,500	10,000	..	..
Feldspar	75,405	53,000	55,000	57,000	..	..
Gemstones:						
Precious and semi-precious (US$ thousand)	150,000	180,000	220,000	260,000	..	..
Cat's eye (carats)	54,000	55,000	56,000	57,000	..	..
Ruby (carats)	31,336	35,000	38,000	41,000	..	..
Sapphire (carats)	1,491,698	1,600,000	1,500,000	1,500,000	..	..
Other (carats)	2,500,000	2,400,000	2,500,000	2,500,000	..	..
Graphite	3,437	3,357	4,071	4,200	..	..
Mica	2,095	2,100	2,142	2,200	..	..
Phosphate rock	49,680	50,674	52,000	53,000	..	..

[27] Information provided by the authorities.
[28] GIA online information. Viewed at: http://www.gia.edu/gia-news-research-sri-lanka-mining-part1.
[29] Information provided by the authorities.

	2010	2011	2012	2013	2014	2015
Salt	10,400	11,000	12,000	13,000	..	..
Stone:						
Limestone	1,192	1,200	1,300	1,400	..	..
Quartzite	34,437	36,600	37,000	38,000	..	..
Zirconium	9,200	30,000	35,000	30,000	..	..
Ilmenite	..	..	..	38	29	..
Exports (Rs million)						
Gems	7,489	10,028	14,245	14,245	18,652	18,530
Diamond re-exports	36,030	45,381	52,893	37,885	25,633	19,790
Natural graphite	..	479	561	569	615	531
Natural sands	..	157	28	9	3	..
Ilmenite	..	..	2,970	9	0	..
Quartz	..	477	1,075	1,235	1,361	1,173
Other	..	2,518	6,169	4,914	5,786	2,121

.. Not available.

Source: Central Bank of Sri Lanka online information. Viewed at: http://www.cbsl.gov.lk/pics_n_docs/10_pub/_docs/efr/annual_report/AR2015/English/17_Appendix.pdf; NGJA online information. Viewed at: http://www.ngja.gov.lk/en/statistics; USGS, *2013 Minerals Yearbook: The Mineral Industry of Sri Lanka*; Central Bank of Sri Lanka online information. Viewed at: http://www.cbsl.gov.lk/pics_n_docs/10_pub/_docs/efr/annual_report/AR2015/English/17_Appendix.pdf; Department of Census and Statistics, *National Accounts of Sri Lanka 2014*. Viewed at: http://www.statistics.gov.lk/national_accounts/Annual2014/Annual2014.pdf; and information provided by the authorities.

4.2.2 Energy

4.57. Sri Lanka has mainly relied on domestic indigenous biomass and hydro as the major sources of its energy needs – they account for approximately 55%, followed by imports of fossil fuels – and has been pursuing new alternative energy sources such as solar and wind. Since its last review, Sri Lanka has diversified its energy sources and commenced using coal, mostly for electricity generation. As a developing country with increasing infrastructure and development needs, Sri Lanka faces many development challenges including increasing energy demand. State-owned enterprises are substantially involved in the production or distribution of energy.

4.2.2.1 Production, consumption, and trade

4.58. Pursuant to Sri Lanka's energy policies, the country is emphasising more sources of renewable energy in lieu of fossil fuels. Slightly more than half of the country's primary energy demand was met by indigenous sources (e.g. biomass and hydro) in 2014. Imports of petroleum (including petroleum products) were significant and generally trended upward during the review period. Crude petroleum imports reached a peak in 2014. Sri Lanka also recently commenced using coal as an alternative energy source, mainly in electricity generation, and particularly since 2011 when infrastructure was adapted to its use. Thus, coal imports generally rose during the period 2011-15. New alternative sources of energy, mainly solar and wind have increased steadily, but only account for 10% of Sri Lanka's electricity generation. Biomass remains the most important source of energy, and is domestically sourced, accounting for 42% of Sri Lanka's primary energy demand in 2014 (Table 4.14). Sri Lanka mainly imports crude petroleum from the United Arab Emirates and petroleum products from Singapore and India.

Table 4.14 Energy statistics, 2010-15

	2010	2011	2012	2013	2014	2015
Primary energy (ktoe)						
Biomass	4,954.0	4,944.4	4,861.7	4,814.3	4,911.2	..
Petroleum	4,420.5	4,914.8	5,219.6	4,102.5	4,556.8	..
Coal	59.9	324.0	455.9	479.7	920.7	..
Hydro	1,197.2	964.2	654.4	1,442.4	875.9	..
New renewable	179.7	178.4	180.6	286.7	301.2	..
Total	10,811.4	11,325.8	11,372.2	11,126.7	11,565.8	..
Imports (value Rs million)						
Crude oil	120,180	183,056	157,758	182,064	187,760	100,578
Refined products	223,629	347,333	467,058	352,984	391,651	244,148
Coal	..	..	15,381	20,882	20,739	21,613
LP gas	16,049	20,296	27,939	26,915	25,876	22,326
Exports (value Rs million)	29,761	61,170	58,902	55,128	44,132	50,461

.. Not available.

Source: Sri Lanka Sustainable Energy Authority online information. Viewed at: http://www.info.energy.gov.lk/content/pdf3/2014%20Energy%20Balance.pdf; Central Bank of Sri Lanka online information. Viewed at: http://www.cbsl.gov.lk/pics_n_docs/10_pub/_docs/efr/annual_report/AR2015/English/content.htm.

4.2.2.2 Policy framework

4.59. In 2008, the National Energy Policy and Strategies of Sri Lanka was implemented to address the many challenges faced by the sector, in particular to ensure its ability to meet future demand and manage the balance between domestic and imported energy resources.[30] The Policy, which is currently in operation, contains twelve specific targets and milestones to be achieved when implementing the energy sector strategies: electrification of households; targeted subsidies; fuel diversity and security; non-conventional renewable energy (NRE)-based electricity in the grid; electricity pricing; petroleum subsector regulation and product pricing; oil and gas exploration; bunkering; supply-side energy efficiency; demand-side energy efficiency; national energy database and integrated national energy planning; and rural electrification.

4.60. In 2015, the "Energy Empowered Nation", a ten-year development plan for the sector, was launched with an emphasis on eight thrust areas with a direct impact on energy for the country.[31] It also contains 14 specific energy sector targets (Box 4.1).

Box 4.1 Energy sector targets in the Energy Empowered Nation development plan

To make Sri Lanka an energy self-sufficient nation by 2030
Increase the share of electricity generation from renewable energy sources from 50% in 2014 to 60% by 2020 and finally to meet the total demand from renewable and other indigenous energy resources by 2030
Increase the electricity generation capacity of the system from 4,050 MW to 6,400 MW by 2025
Generate a minimum 1,000 MW of electricity using indigenous gas resources discovered in Mannar basin by 2020
Increase generation capacity of low cost thermal power plants fired by natural gas and biomass to 2,000 MW to reduce the generation costs and to diversify generation mix by 2020
Provide affordable electricity coverage to 100% of the people of the country on a continuous basis before end-2015
Reduce the technical and commercial losses of the electricity transmission and distribution network from 11% to 8% by 2020
Reduce annual energy demand growth by 2% through conservation and efficient use
Reduce petroleum fuel use in the transport subsector by 5% by introducing alternative strategies such as efficient modes of transport and electrification of transport by 2020
Produce the total petroleum product demand of the country through its own refinery by 2025
Upgrade quality of gasoline and diesel to EURO IV and EURO III respectively by 2018

[30] *Gazette* No. 1553/10 of 10 June 2008.

[31] Ministry of Power and Renewable Energy online information. Viewed at: http://powermin.gov.lk/english/?p=3502.

Further enhance the quality and reliability of electricity and fuel supply
Broadening energy sector investment windows to include bonds, debentures, public–private partnerships and other such novel financial instruments
Reduce the carbon footprint of the energy sector by 5% by 2025

Source: Ministry of Power and Renewable Energy online information. Viewed at: http://powermin.gov.lk/english/?p=3502.

4.61. Sri Lanka's Sustainable Energy Authority (SEA), created pursuant to the Sri Lanka Sustainable Energy Authority Act No. 35 of 2007, established a target to reach 100% countrywide electrification by 2015; this has been achieved. At the same time, the mix of energy generation was to be altered to reduce energy generation from crude oil from 54% to 8% by 2015, while at the same time introducing coal and increasing non-conventional renewable energy to 10%.[32] This was also achieved.

4.62. The Ministry of Power and Renewable Energy has mandates with respect to the formulation of power and renewable energy policies, projects, and monitoring. It also has roles in overseeing rural electrification, development of renewable energy, and energy efficiency. Under its responsibility are the Lanka Coal Company, Sri Lanka Sustainable Energy Authority, Sri Lanka Atomic Energy Board, and the Sri Lanka Atomic Energy Regulatory Council.

4.63. The electricity supply industry is dominated by the State, with the Ceylon Electricity Board (CEB) and Lanka Electricity Company (LECO) providing the electric power distribution to the country. In terms of regulation, the Public Utilities Commission of Sri Lanka (PUCSL) is responsible for regulation of the electric subsectors and setting tariff rates.

4.64. For the fossil fuel sector, the Ministry of Petroleum Resources Development is responsible for programmes and policies for both down- and up-stream petroleum activities. The liquefied petroleum gas (LPG) sector is mainly owned and operated by the private sector, whereas petroleum is in the hands of the state-owned Ceylon Petroleum Corporation (CPC), which operates the petroleum refining sector, including importation, blending, distributing, and retailing activities for Sri Lanka. Although it is now partially open to competition, it has certain exclusive rights. Also under the Ministry are: Ceylon Petroleum Storage Terminals Limited (CPSTL), which is responsible for storing and distributing petroleum products; the Petroleum Resources Development Secretariat for matters relating to petroleum resources agreements; and Polypto, for making petrol from waste plastics.

4.2.2.3 Legal developments

4.65. Changes to the legal framework for the energy sector during the review period include the enactment of the Sri Lanka Atomic Energy Act No. 40 of 2014 for the promotion and encouragement of nuclear science for national development purposes.[33] The Act also establishes the Sri Lanka Atomic Energy Board and the Sri Lanka Atomic Energy Regulatory Council.

4.66. In addition, the Sri Lanka Electricity Act was amended by the Sri Lanka Electricity (Amendment) Act No. 31 of 2013, which introduced changes to: the delegation of powers, duties and functions of the Public Utilities Commission of Sri Lanka; the provision to exempt from licensing community-based electricity generating projects operating on a non-commercial basis; and use of mediators in disputes. The amendment also included new provisions regarding the approval of new generation plants or expansions of existing generation plants.[34]

4.2.2.4 Electricity

4.67. Electricity in Sri Lanka is generated from a number of sources, but the majority is generated by thermal power plants and conventional hydro plants, accounting for about 72% and 33%,

[32] Sustainable Energy Authority online information. Viewed at: http://www.energy.gov.lk/sub_pgs/energy_renewable_intro_policy.html.

[33] Sri Lanka Atomic Energy Act No. 40 of 2014. Viewed at: http://documents.gov.lk/Acts/2014/Act%20No.%2040/Act%20No.%2040E.pdf.

[34] PUCSL online information. Viewed at: http://www.pucsl.gov.lk/english/wp-content/uploads/2013/09/Act-31E.pdf.

respectively, of electricity generation in 2014. The remainder is comprised of small hydro plants, wind power plants, biomass power plants, and solar power plants, accounting for about 10% of electricity generation.[35] Sri Lanka has achieved a national electrification level of 100%, and the demand for electricity continues to grow at about 4-6% per year.[36]

4.68. The sector is mainly controlled by a state entity, the Ceylon Electricity Board (CEB), which is responsible for generating, transmitting, distributing, and marketing electrical energy in Sri Lanka. It is the only licensee for electricity transmission and also generates most of the power in the country. It was established pursuant to the Ceylon Electricity Board (CEB) Act No. 17 of 1969. In 1983, the Lanka Electricity Company (Private) Limited (LECO) was created under the CEB and Ministry of Power and Renewable Energy in order to acquire the assets of local authorities to create a comprehensive electricity distribution network. The sector is regulated by the Public Utilities Commission of Sri Lanka (PUCSL), which operates pursuant to the Public Utilities Commission of Sri Lanka Act No. 35 of 2002, and the Sri Lanka Electricity Act No. 20 of 2009 and its amendments. Its main role is performing licensing, regulatory and inspection functions for the sector, including regulating tariffs and mediating disputes. All these bodies operate under the State. The private sector is involved in the operation of some thermal (oil) power plants and the renewable sector.

4.69. The electricity sector is guided by the 2009 General Policy Guidelines on the Electricity Industry for the Public Utilities Commission of Sri Lanka. The guidelines give high priority to: improving access to electricity by households in rural areas; fuel diversity and security; electricity tariffs that are supplied to all categories of consumers at reasonable prices; ensuring adequate and effective generation, transmission, and distribution systems; and energy conservation and safety issues.[37]

4.70. Developments during the review period mainly involved establishing new power generation facilities pursuant to the CEB's Long-Term Generation Expansion Plan (2013–32). Competitive bidding was also introduced for the state enterprises in the sector.

4.71. In recent years, electricity tariffs, as set by the PUCSL, were often not sufficient to cover the cost of electricity production. However, this was influenced by the price of oil, and fluctuates accordingly. In 2014, there was an Rs 5 billion loss, whereas in 2015 there was a similar gain.

4.2.2.5 Petroleum

4.72. Sri Lanka does not have any commercial production of crude petroleum or natural gas, although exploration continues since natural gas was found in the Mannar basin after seismic studies by an Indian company in 2011. Consequent to an internal change of ownership and control coinciding with the industry downturn, the company relinquished all international acreage they held, exiting from Sri Lanka in 2015. In July 2015, the Government decided to proceed with an international competitive licensing round to take the discoveries to commercial production, as it was acknowledged that Sri Lanka did not possess the required technology and knowledge internally. Prior to this next licensing round, scheduled for early 2017, several essential initiatives such as additional data acquisition over both the Mannar and Cauvery basins, legal and fiscal reforms, and formulation of a natural gas policy are currently in progress. Thus, Sri Lanka is expected to resume its first exploration activities in more than 25 years.

4.73. As there is currently no production of fossil fuels, Sri Lanka is dependent on imported petroleum for part of its energy needs. Crude oil as well as refined products are the main products imported; imports are significant and mostly for the transport sector. There has been a gradual increase in fuel demand of about 5% per annum in the country in recent years. Thus, imports are significant and account for about 25% of total imports, having an important overall impact on the balance of trade and the economy.[38]

[35] Sri Lanka Energy Balance online information. Viewed at: http://www.info.energy.gov.lk/.

[36] Ministry of Power and Renewable Energy online information. Viewed at: http://powermin.gov.lk/sinhala/wp-content/uploads/2016/01/Performance_2015_and_Programmes_2016_english.pdf.

[37] Information provided by the authorities.

[38] Ministry of Petroleum Resources Development, *Progress Report – 2015 and Action Plan – 2016*.

4.74. The Petroleum Resources Act No. 26 of 2003 is the main legislation for petroleum exploration and development in Sri Lanka. The downstream petroleum sector has been partially liberalized for competition from state entities since 2002, and other companies were established in certain subsectors beyond the main state-owned enterprises: the Ceylon Petroleum Corporation (CPC) for importation, exportation, storage, distribution and refining; the Petroleum Storage Terminals Limited (CPSTL) for storage and distribution; and the Lanka Indian Oil Company (LIOC) for importation, exportation, storage, and distribution. The CPC and LIOC are the only importers of transportation petroleum fuel into Sri Lanka; thus state enterprises have a dominant or monopoly position in this subsector. However, the lubricant subsector is the area in which the private sector mainly participates, with 13 private firms operating, as this sector has been gradually liberalized since 1994, reaching full openness in 2006.[39]

4.75. Activities including importing, refining, blending, wholesaling, storing, distribution, transport, and retailing of petroleum and petroleum products require a licence. At present, the lubricant subsector is governed by the Ministry of Petroleum Resources Development for the issuance of operator licences. Since 2012, there has been a legal lacuna with respect to the regulation of the downstream petroleum industry, as the regulatory function is pursuant to the Petroleum Products (Special Provisions) Act No. 33 of 2002 and Ceylon Petroleum Corporation Act No. 28 of 1961. Thus, the CPC, while being a market participant also retains regulatory functions over itself. Consequently, in order to create an independent regulatory environment providing for non-discriminatory competition, the Government is working towards legal amendments that would give the PUCSL the authority to regulate the sector.[40] The upstream sector is governed by the Petroleum Resources Act No. 26 of 2003, giving the Petroleum Resources Development Secretariat (PRDS), Ministry of Petroleum Resources Development the authority to issue tenders and licensing for exploration and drilling activities.

4.76. The Treasury is the government entity that currently regulates prices of petroleum fuels. During the review period, prices of petroleum products were revised many times but often still lagged behind changes in world oil prices. Thus, the CPC was often put in a difficult financial situation and had to sell products at prices lower than the import price of crude oil.

4.77. Other developments during the period include the issuance of the "Sri Lanka Upstream Petroleum Local Content Guidelines" in 2013, which were necessitated after the oil and gas exploration activities recommenced. The objectives of the Guidelines provide for maximum employment opportunities for Sri Lankan nationals, improve local capacity building, and increase the competitiveness of the local business community in the sector.[41] Thus, the PRDS requires that every contractor, operator, sub-contractor, alliance partner and other foreign entity involved in oil or gas projects:

- Consider local content as an important element of their overall project development and management philosophy;
- Submit an annual Local Content Development (LCD) Plan, for review and approval by the Ministry of Petroleum Resources Development, outlining planned local goods and services sourcing, employment, education, training, and R&D opportunities earmarked for Sri Lankan nationals;
- Submit a verifiable Local Content Report outlining the progress in utilizing Sri Lankan resources during the preceding financial year; and
- Under specific terms of a Bid Inviting Document, develop and submit a conceptual Local Content Development Plan based on the Guidelines as part of the bid package.[42]

[39] PUCSL online information. Viewed at: http://www.pucsl.gov.lk/english/wp-content/themes/pucsl/pdfs/Lubricant_Ind-Regulation-present-future-Raja_Amaratunga.pdf.

[40] PUCSL online information. Viewed at: http://www.pucsl.gov.lk/english/industries/english-petroleum/.

[41] Ministry of Petroleum Resources Development, *Sri Lanka Upstream Petroleum Local Content Guidelines*. Viewed at: http://www.prds-srilanka.com/pdfs/Guidelines2014.pdf.

[42] PRDS, Ministry of Petroleum Resources Development, *Sri Lanka Upstream Petroleum Local Content Guidelines*. Viewed at: http://www.prds-srilanka.com/pdfs/Guidelines2014.pdf.

4.78. Polypto Lanka (Pvt) Ltd. was incorporated as a limited liability company under the Companies Act No. 7 of 2007 for the waste plastic into fuel conversion project. Initially a pilot project was started and successfully completed by the end of 2010. A plant was commissioned in September 2015 and it is expected to produce 2,000 litres of fuel per day.

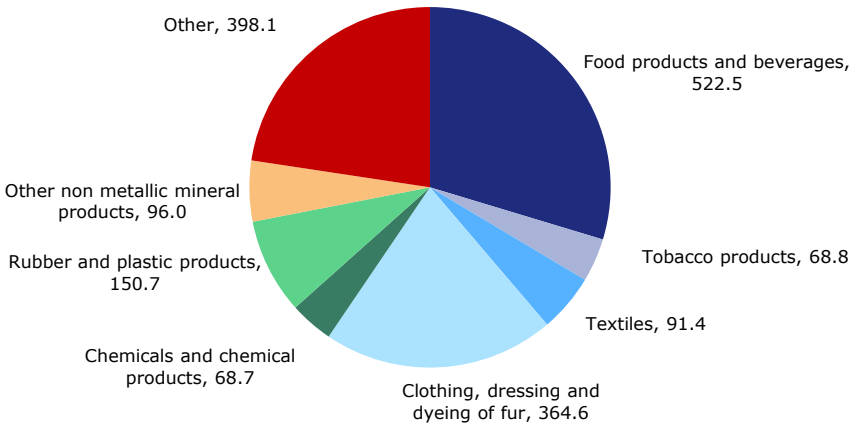
4.3 Manufacturing

4.79. Sri Lanka encourages development of its manufacturing sector, particularly as it has traditionally relied heavily on agricultural output for growth of its economy and trade. Moving to value-added goods, capitalizing on its relatively low labour costs, benefitting from its connectivity, and improving linkages through value chains have all played a part in developing its manufacturing sector. In 2012, the most recent year for which data were available, the manufacturing sector had 2,554 establishments.[43] In 2015, manufacturing accounted for about 18.3% of employment, 19.5% of GDP (Table 1.2), and 70.1% of exports.

4.80. The manufacturing sector is dominated by food products and beverages (accounting for Rs 522.5 billion of output in 2013), followed by the textiles and clothing, and dressing and dying of fur sector (Rs 456 billion), and the rubber and plastics products sector (Rs 150.7 billion) (Chart 4.2). According to the Factory Industry Production Index of major industries, the fastest growing sectors that have consistently exceeded the overall index in the last three years include wearing apparel and rubber and plastic products. The basic metal products sector has more recently exhibited high growth rates.[44] In terms of the number of establishments, of the 2,554 in manufacturing, the food and beverage product sector accounts for the largest share with 33.7%, followed by the textiles and clothing, and dressing and dying of fur sector, 25.5%, and the rubber and plastic products sector with 10%.[45]

Chart 4.2 Manufacturing output value, by ISIC sector, 2013

(Rs billion)



Source: Department of Census and Statistics, *Annual Survey of Industries, 2013*. Viewed at: http://www.statistics.gov.lk/industry/ASI%202013%20report.pdf.

4.81. There are many government bodies at the national or provincial levels involved in manufacturing policy or the actual manufacturing of goods in Sri Lanka. The Ministry of Industry and Commerce is the main ministry providing support for the manufacturing sector. It is responsible for promoting industrial development within the wider policy framework of the Government; its recent policy formation has put an emphasis on having a diversified high-value-added industrial base and promoting high economic growth and environmentally sustainable industrial development. The Industrial Development Board (IDB), which operates

[43] The figures do not include Sri Lanka's state-owned enterprises in the manufacturing sector.

[44] Central Bank of Sri Lanka, *Monthly Bulletin January 2016*. Viewed at: http://www.cbsl.gov.lk/pics_n_docs/10_pub/_docs/statistics/monthly_bulletin/Monthly_Bulletin_2016/bulletin_January_16e.pdf.

[45] Department of Census and Statistics, *Annual Survey of Industries, 2013*. Viewed at: http://www.statistics.gov.lk/industry/ASI%202013%20report.pdf; and Central Bank of Sri Lanka online information. Viewed at: http://www.cbsl.gov.lk/pics_n_docs/10_pub/_docs/efr/annual_report/AR2015/English/17_Appendix.pdf.

under the Ministry of Industry and Commerce, is tasked with encouraging and promoting the development of the industrial sector pursuant to the Industrial Development Act No. 36 of 1969.

4.82. Sri Lanka's Department of Government Factory, under the Ministry of Construction and Engineering Services, produces heavy and light metal fabrication works and products and carpentry products; it also provides maintenance, repair, and related services. The State Pharmaceuticals Manufacturing Corporation, established under the Industrial Corporation Act No. 49 of 1957, is the largest manufacturer of pharmaceuticals in Sri Lanka and produces essential medicines and drugs for the healthcare sector. Other significant state enterprises involved in the manufacturing sector include the National Paper Company, State Printing Corporation, Sri Lanka Ayurvedic Drugs Company, and State Timber Corporation.[46]

4.83. At the provincial level, the Provincial Ministry/Department of Industries is responsible for the development of the industrial sector in each province. Under some Provincial Ministries/ Departments of Industries an Industrial Development Authority has been established by the Provincial Council. For example, the Industrial Development Authority – Western Province provides for the promotion, development, expansion and encouragement of industries in the province pursuant to the Industrial Development Authority Statute No. 02 of 1994. In particular, it is involved in giving assistance to local and foreign investors by providing marketing information and organizing trade fairs, and with respect to financial assistance by preparing business plans for banks, providing funding for machinery and tools, and establishing the Industrial Development Fund for funding purposes.

4.84. As part of Sri Lanka's 2010 government development policy, "*Mahinda Chinthana* – Vision for the Future", the Government set priorities for the industrial sector in which it planned to promote diversification and encourage high-value-added production for the sector. However, due to financial and technological constraints, the progress has been too slow to make a significant change in the industrial structure of the country. Sri Lanka continues to promote value addition, diversification and shifting from resource-based to technology-based industries. An industrial policy was initiated by the Ministry of Industry and Commerce recently but has yet to come to fruition; however a separate policy for SME development was recently launched.

4.85. Programmes under the IDB during the period included development of leather and footwear industry competitiveness, a banana fibre extraction project, construction of an accredited laboratory, and training to adopt best practices in the processed food and beverage sector. The IDB provides training for SMEs in several areas (e.g. footwear and bags, foundry, and leather) and technology/machinery/R&D services, as well as information to the manufacturing sector. Sri Lanka's Ministry of Science, Technology and Research has been working on building a regulatory framework for nanotechnology development in the country with the aim of promoting nanotechnology research, development, and applications.

4.86. The simple average applied MFN tariff on manufacturing (ISIC) in 2016 is 10.2% (including *ad valorem* equivalents of non-*ad valorem* duties). In 2015, the Government introduced concessionary income tax rates for certain manufacturing enterprises.[47] New undertakings, with an investment of not less than US$2 million and engaged in the manufacture of products for export, were granted a frontloaded depreciation allowance and the dividend from the profits was exempt for a period of five years. For existing enterprises outside the Western Province and manufacturing products other than liquor or tobacco, the income and profit tax was reduced by 50% (not exceeding Rs 500 million) for a period of five years. All manufacturing enterprises with a committed investment in excess of Rs 500 million were entitled to a 50% reduction in the applicable tax rate for a period of seven years.

4.87. Sri Lanka's BOI has specifically targeted the manufacturing for export sector as one of its priorities for investment during the review period. The subsectors specifically targeted included: rubber, polyvinyl chloride (PVC) products, cement, minerals, metal, transport equipment, gems and jewellery, electrical and electronics, ceramics, paper, leather, chemicals, pharmaceuticals, boats, food, tea, wood, tyres and tubes, motor spare parts, furniture, glassware, cosmetic

[46] Central Bank of Sri Lanka online information. Viewed at: http://www.cbsl.gov.lk/pics_n_docs/10_pub/_docs/efr/annual_report/AR2015/English/17_Appendix.pdf.

[47] Central Bank of Sri Lanka online information. Viewed at: http://www.cbsl.gov.lk/pics_n_docs/10_pub/_docs/efr/annual_report/AR2015/English/13_PolicyBox.pdf.

products, construction materials, and coir.[48] Incentives specific to the manufacturing sector were dependent upon the size of the enterprise and amount invested (Table 4.15). The incentives were amended periodically during the review period but ceased to be offered to new investments as of 31 October 2014. However, those incentives in effect before that date remain active and in place (see Section 2.4.4 for an overview of investment incentives). Some of the incentives were dependent upon minimum export requirements. The manufacturing sector typically accounts for about one fourth of FDI into Sri Lanka, behind infrastructure projects, and sometimes surpassing the FDI of the services sector.[49]

Table 4.15 Investment incentives for manufacturing, 2010-31 October 2014

Type	Activity	Qualifying criteria		Tax exemption (number of years)
		Min. export requirement (% of output)	Amount of investment (Rs million)	
Medium-scale new enterprises	Manufacture of any article (including processing) other than liquor or tobacco products	n.a.	≥50 and <100	4
Large-scale new enterprises	Manufacture, production or processing of non-traditional goods for export, including deemed exports	90% (60% for apparel and ceramics)	>500 and ≤700	7
Large-scale new enterprises	Manufacturing for domestic and/or export market of boats, pharmaceuticals, tyres and tubes, motor spare parts, furniture, ceramics, glassware or other mineral-based products, rubber-based products, cosmetic products, edible products manufactured out of locally cultivated agricultural products, construction materials, and electrical/electronic items	None	>500 and ≤700	8
Strategic import replacement new enterprises	Manufacture of: Fabric Pharmaceuticals Milk powder Cement	n.a.	 5 10 30 50	5-year tax holiday followed by a concessionary tax rate of 12% thereafter
Expansions by small-, medium- and large-scale enterprises	Any existing enterprise	As applicable to the original enterprise	50	Not exceeding 25% of such investment in that year of assessment and the 75% balance to be apportioned in equal amounts over 3 year-period immediately succeeding that year of assessment

[48] BOI online information. Viewed at: http://www.investsrilanka.com/key_sector/manufacturing/manufacturing_sub_sectors and http://www.investsrilanka.com/key_sector/manufacturing/manufacturing_overview.

[49] Central Bank of Sri Lanka online information. Viewed at: http://www.cbsl.gov.lk/pics_n_docs/10_pub/_docs/statistics/other/econ_&_ss_2015_e.pdf.

Type	Activity	Qualifying criteria		Tax exemption (number of years)
		Min. export requirement (% of output)	Amount of investment (Rs million)	
Expansions by strategic import replacement enterprises	Manufacture of: Fabric Pharmaceuticals Milk powder Cement	n.a.	5 10 30 50	Concessionary tax rate (12%) for 5 years; coupled with qualifying payment relief of the investment made subject to not exceeding 25% of such investment in that year of assessment and the 75% balance to be apportioned in equal amounts over 3-year period immediately succeeding that year of assessment
All	Manufacturing	n.a.	n.a.	Reduced corporate income tax rates – Export-oriented: 12% Other: Taxable income ≤ Rs 5 Mn: 12% Taxable income > Rs 5 Mn: 28%

n.a. Not applicable.

Source: BOI online information. Viewed at: http://www.investsrilanka.com/setting_up_in/tax_incentives.

4.3.1 Key subsectors

4.3.1.1 Processed food

4.88. The processed food industry is the largest manufacturing subsector in terms of manufacturing output, value addition, and number of establishments.

4.89. The Government has identified certain processed food categories such as vegetables and fruits, concentrates and juices, semi-cooked food, confectionery and bakery products, ready-to-serve food, rice and cereals, non-alcoholic beverages, and animal feed, as subsectors to concentrate on for development and export promotion. The sector, including manufacture, distribution, and export, is dominated by a few large-scale companies with established brand names. On the other hand, there are many SMEs involved in the sector, although they tend to produce more for the local market.

4.90. In terms of trade, exports of the sector had some fluctuations over the period 2010-14, in particular during 2012-13 for rice and cereals and the animal feed sub-categories. The sector exported the largest amount in 2011 (Table 4.16). Major markets differ by subsector, but the majority are exported to developed countries.

Table 4.16 Processed food exports, 2010-14

(US$ million)

	2010	2011	2012	2013	2014
Rice and cereals	80	157	104	47	51
Processed food	67	95	73	67	90
Animal feed	67	58	82	59	56
Confectionary and bakery products	35	45	39	33	32

	2010	2011	2012	2013	2014
Processed vegetables, fruits and juices	6	6	9	13	17
Total	**255**	**361**	**307**	**219**	**246**

Source: Export Development Board, *Industry Capability Report: Food & Beverage Sector*. Viewed at: http://www.srilankabusiness.com/pdf/industry_capability_reports/food_and__beverages.pdf.

4.91. The Ministry of Industry and Commerce has a Processed Food Industry Development Programme in order to promote the sector, in particular as regards trade and investment.[50] The processed food sector has been identified as one of the thrust areas for development. Credit facilities are offered under the "SMILE III Loan Scheme" of the Ministry to several industrial sectors including the food sector. Additionally, the annual "Profood Propack" exhibition is supported by the Ministry through cost sharing. Under the Ministry's food safety and hygiene certification programme, the Ministry covers the cost of obtaining certification in order to encourage upgrading of the standards to export quality.[51]

4.92. In terms of other government support, the sector also benefits from the investment schemes of the BOI, R&D facilities at research institutions, technical assistance to SMEs, and government training programmes for updating the skills of technical staff.

4.3.1.2 Clothing and garments

4.93. The clothing and garment sector is among the most important industrial sectors for Sri Lanka, as it ranks second in terms of foreign exchange earnings, after worker remittances. It is the largest sector contributing to exports, accounting for 46% of total exports in 2015, and accounts for approximately 50% of Sri Lanka's manufacturing employment. Sri Lanka is not a larger exporter of clothing and garments than China, Bangladesh, or Viet Nam. However, regarding a per capita level of apparel exports, it ranks second behind Cambodia in Asia.[52] The early growth and success of the sector took place against the background of BOI incentives for the sector, which encouraged foreign firms to set up operation pursuant to the Garment Factory Programme, and the textile quota regime, in which Sri Lanka benefited from preferential access conditions, offered by the United States and the EU in particular.

4.94. The sector has three major sub-categories: apparel companies that manufacture for export; textile mills and finishing plants that supply apparel exporters or export directly; and companies engaged in accessory manufacture for the export apparel industry. However, it does not have an extensive industrial base for producing textile raw materials for the sewing operations, and thus it imports textile fabrics and other raw materials from many sources; the main suppliers are China and India.

4.95. Despite its continued growth and positive contributions to the economy, there are nevertheless a number of concerns or challenges that have been identified:

- Lack of diversification in export destinations;
- Lack of product diversification;
- Heavy reliance on imported raw materials;
- Highly concentrated around a few large producers; and
- Competitor countries have become an important challenge.[53]

4.96. The Government has taken a number of steps to address these issues. The Export Development Board and the Department of Commerce have conducted research/studies on diversification of the export market for garments; the studies explored new markets such as BRIC countries, Eastern Europe, South East Asia and East Asia, the Middle East, and African countries.

[50] Ministry of Industry and Commerce online information. Viewed at: http://www.industry.gov.lk/web/index.php?option=com_content&view=article&id=79&Itemid=178&lang=en.

[51] 2013 Republic of Korea Knowledge Sharing Program with Sri Lanka online information. Viewed at: http://www.ksp.go.kr/publication/policy.jsp.

[52] HKTDC Research online information. Viewed at: http://economists-pick-research.hktdc.com/business-news/article/Research-Articles/Sri-Lanka-s-Apparel-Sector-Hong-Kong-Opportunities/rp/en/1/1X000000/1X0A28DZ.htm.

[53] Central Bank of Sri Lanka, *News Survey*, Volume 34, No. 4, October-December 2014.

However, significant progress in diversification has not been achieved, except for an increase in exports to China. With regard to reliance on imported materials, the large manufacturers have moved upstream into textile and ancillary inputs manufacturing, and it is estimated that about 60% of the fabric used in apparel production and the majority of the ancillary inputs[54] are produced domestically. Several measures have been taken by the Government and industry, to maintain a competitive edge over the increasing competition. Sri Lanka has focused on "value" rather than "volume" production, and it has moved towards innovative technologies such as wearable electronics and eco-friendly fabric treatment to remain competitive. By catering to a niche market for ethical products, Sri Lanka has maintained its competitiveness and ensured higher returns.

4.97. In addition to the Ministry of Industry and Commerce, which supports all industries including clothing, and the BOI, which maintains many incentive programmes (see manufacturing above and Section 2.4.4), the Government maintains the Sri Lanka Institute of Textile and Apparel (SLITA) to train and educate persons in the sector. The SLITA also maintains a testing laboratory for accreditation and services for the sector, and conducts market surveys and feasibility studies. A Textile Quota Board (TQB) has existed for many years to control the exports to certain markets. The liquidation process of the TQB commenced in 2012, and concluded in 2015. As such, export quotas or licences are not required for the exportation of clothing, except for those subject to TRQs under the India and Pakistan FTAs. The TQB issued Tariff Rate Quota Certificates under the FTAs until it was liquidated, and these functions have now been taken over by other institutions. The Government had undertaken initiatives to establish textile processing zones, but these have not been established. The Ministry of Industry and Commerce has several initiatives to support the sector such as the apparel-based cottage industry programme that imparts skills or training to the apparel sector; provision of infrastructure facilities for textile weaving centres and handloom villages; and promotional activities such as the annual handloom exhibition.

4.98. In terms of trade, the sector had a significant growth in exports during the review period, and thus captured a higher share of Sri Lanka's total exports, i.e. 46% in 2015, up from 42% in 2010. Imports grew over the period as well but are very minimal, accounting for about 1% of total imports on average. Exports of clothing are very concentrated and benefit significantly from preferential trade schemes. The majority of exports are destined for the United States and the EU, which accounted for about 88% of 2015 exports. Exports to the EU continued to grow over the period despite the fact that Sri Lanka lost GSP+ provisions in 2010 (Table 4.17).

Table 4.17 Clothing trade and production, 2010-15

(Rs million)

	2010	2011	2012	2013	2014	2015
Production	346.2	361.9	364.6	..	..	..
Total exports	8,304.1	10,011.3	9,369.8	10,004.9	11,295.5	10,439.7
Clothing: HS Chapters 61-63	3,360.0	4,037.0	3,828.2	4,322.0	4,739.3	4,614.1
% of total exports	40.5	40.3	40.9	43.2	2.0	44.2
61 Articles of apparel and clothing accessories, knitted or crocheted	1,700.2	2,110.5	1,968.6	2,366.7	2,624.3	2,562.4
62 Articles of apparel and clothing accessories, not knitted or crocheted	1,612.1	1,873.7	1,812.2	1,904.1	2,057.1	1,985.3
63 Other made up textile articles; sets; worn clothing and worn textile articles; rags	47.7	52.8	47.5	51.2	57.8	66.5
Total imports	12,353.7	19,696.5	17,884.9	17,930.8	19,244.5	18,967.2
Clothing: HS Chapters 61-63	94.5	138.9	144.2	159.6	233.7	311.7
% of total imports	0.8	0.7	0.8	0.9	1.2	1.6
61 Articles of apparel and clothing accessories, knitted or crocheted	40.6	49.5	53.3	42.5	55.2	79.9

[54] Embroidery, hangers, labels, buttons, etc.

	2010	2011	2012	2013	2014	2015
62 Articles of apparel and clothing accessories, not knitted or crocheted	47.8	74.1	81.7	107.3	159.7	205.6
63 Other made up textile articles; sets; worn clothing and worn textile articles; rags	6.2	15.2	9.3	9.8	18.	26.2

.. Not available.

Source: WTO calculations based on figures taken from the UNSD Comtrade database.

4.4 Services

4.4.1 Tourism services

4.4.1.1 Overview

4.99. Sri Lanka's tourism sector is an important contributor to the economy and a major foreign exchange earner for the country. In 2015, tourism ("travel" in the balance of payments data) contributed to 12.4% of the foreign exchange earned, and ranked third overall, after workers' remittances and exports of textiles and garments. The growth of the sector has been impressive, with tourist arrivals reaching a 14.2% compound average growth rate since the end of the domestic conflict, although achieving the government target of 2.5 million arrivals by 2016 will likely fall short.[55] According to the World Economic Forum's Travel & Tourism Competitiveness Index, Sri Lanka ranked 63rd in 2015, a rise from 74th in 2013, and 81st in 2011.[56] The strong points noted in the most recent ranking were with respect to safety and security, health and hygiene, and prioritization of travel and tourism; while the weaknesses were identified as cultural resources and business travel, air transport infrastructure, and international openness.[57] According to the authorities, it was unclear why Sri Lanka ranked low for cultural resources, as many tourists came for cultural reasons and there were many such tourist attractions.

4.4.1.2 Statistical overview

4.100. Tourism indicators showed significant increases in growth of the sector during the review period. Tourist arrivals more than doubled during the period and, since 2013, have surpassed Sri Lankan nationals' departures. There was a 130% increase in tourist nights and an improvement in the occupancy rate to 74%, while at the same time an increase in the accommodation capacity. Furthermore, tourism receipts increased almost five fold, and direct employment in tourism more than doubled[58] (Table 4.18). According to the authorities, the significant increase in receipts and employment in 2013 is likely the result of the completion of new accommodation infrastructure.

4.101. Sri Lanka attracts tourists from all over the world, but main sources are Western Europe, South Asia, and North-East Asia. Among these markets, India, the United Kingdom, China, Germany, and the Maldives were the top five markets in 2014 for tourist arrivals. In recent years, Sri Lanka has maintained growth from traditional markets, such as Western Europe, but has seen significant growth from new markets such as China and certain Middle East countries. As an island, nearly all tourist arrivals are by air (98.3%) and very little are by ship (1.7%).[59] The national carrier, Sri Lankan Airlines, has a dominant position in providing air travel to tourists, in part due to charter flights and bundled tourist packages (Section 4.4.4.4).

[55] TKS, *Sri Lanka Tourism Industry; In Perspective*, August 2013.

[56] World Economic Forum online information. Viewed at: http://reports.weforum.org/travel-and-tourism-competitiveness-report-2015/economy-rankings/.

[57] World Economic Forum online information. Viewed at: http://reports.weforum.org/travel-and-tourism-competitiveness-report-2015/economies/#economy=LKA.

[58] Sri Lanka Tourism Development Authority online information. Viewed at: http://www.sltda.lk/sites/default/files/Annual_Statistical_Report-2014.pdf.

[59] Sri Lanka Tourism Development Authority online information. Viewed at: http://www.sltda.lk/sites/default/files/Annual_Statistical_Report-2014.pdf.

Table 4.18 Tourism indicators, 2010-15

	2010	2011	2012	2013	2014	2015
Tourist arrivals	654,476	855,975	1,005,605	1,274,593	1,527,153	1,798,380
Sri Lankan nationals' departures	1,122,212	1,239,290	1,268,792	1,261,711	1,311,063	1,356,411
Average duration of stay	10.0	10.0	10.0	8.6	9.9	10.1
Tourist nights (1,000)	6,548	8,560	10,056	10,909	15,119	18,163
Accommodation capacity (rooms)	14,714	14,653	15,510	16,655	18,510	18,954
Occupancy rate	70.1%	77.1%	71.2%	71.7%	74.3%	74.5%
Tourism receipts (Rs million)	65,018	91,926	132,427	221,147	317,502	405,063
Direct employment in tourism	55,023	57,786	67,862	112,550	129,790	135,930
Foreign visitors visiting museums	22,061	31,096	37,305	44,751	57,604	56,387

Source: Sri Lanka Tourism Development Authority, *Annual Statistical Report 2014*, http://www.sltda.lk/sites/default/files/Annual_Statistical_Report-2014.pdf; and information provided by the authorities.

4.4.1.3 Framework

4.102. Sri Lanka's Ministry of Tourism Development and Christian Religious Affairs is involved in the formulation of policies, programmes and projects, and monitoring and evaluation in regard to the subjects of tourism development. Established by the Tourism Act (2005)[60], the Sri Lanka Tourism Development Authority (SLTDA) is the main tourist body responsible for the overall development of tourism in Sri Lanka. Other bodies also established by the Tourism Act include the Sri Lanka Institute of Tourism and Hotel Management for training of persons for the sector, the Sri Lanka Tourism Promotion Bureau for promoting and marketing Sri Lanka as a tourist destination, and the Sri Lanka Convention Bureau for the promotion of meetings, incentives, conferences, and exhibition (MICE) tourism.

4.4.1.4 Policy and strategy

4.103. Sri Lanka's Ministry of Economic Development issued its first strategic tourism plan for 2009-12 and the second for the period 2011-16 in order to address issues related to the industry including government policy, capacity and manpower build-up requirements, infrastructure development, improving service standards, marketing and promotion, regulations, guidelines, public relations, tourist safety, and improvements to domestic tourism. While recognizing the surge in tourism after the internal conflict, the policy sets out to concentrate on the sector as one of the main contributors to Sri Lanka's economic growth.

4.104. As such, it sets out seven key objectives (Box 4.2) for the sector to be achieved through emphasis on five main areas: creating an environment conducive for tourism, attracting the right type of tourists to the country, ensuring that departing tourists are happy, improving domestic tourism, and contributing towards improving the global image of Sri Lanka. Some of the specific elements envisioned include increasing accommodation capacity, improving the regulatory framework, simplifying the tax system, finding transport solutions, and improving service standards. From the data available as of 2014, Sri Lanka had made advances in reaching the targets. The policy also puts an emphasis on sustainable tourism, eco-tourism, and diversification of tourist offerings as Sri Lanka moves ahead with tourism sector development.

Box 4.2 Key objectives in the Tourism Development Strategy

Objectives
Increase tourist arrivals from 650,000 in 2010 to 2.5 million by 2016.
Attract US$3,000 million as foreign direct investment to the country within 5 years.
Increase the tourism-related employment from 125,000 in 2010 to 500,000 by 2016 and expand tourism-based industry and services all over the island.

[60] Act No. 38 of 2005.

Objectives
Distribute the economic benefits of tourism to a larger cross section of the society and integrate tourism into the real economy.
Increase the foreign exchange earnings from US$500 million in 2010 to US$2.75 billion by 2016.
Contribute towards improving the global trade and economic linkages of Sri Lanka.
Position Sri Lanka as the world's most treasured island for tourism.

Source: Tourism Development Strategy, 2011-16.

4.4.1.5 Legal and regulatory framework

4.105. Sri Lanka's 2005 Tourism Act provides the main legal framework for the sector. There are also several regulations in place that provide minimum requirements for registration, licensing, and fees for certain tourism activities including tourist water sports establishments, tourist diving centres/schools/establishments, tourist shops, spice garden shops, tourist guest houses, and tourist restaurants.[61] The regulations generally provide minimum requirements for the provision of the service but do not discriminate regarding who may provide the service.

4.106. Tourist hotels in Sri Lanka are required to be classified pursuant to the Tourist Act Regulations (Tourist Hotels Code 2010), following a 5-star tourist hotel ranking system.[62] According to the authorities, pursuant to the most recently updated classification system of April 2016, the ranking system is based on international standards. The ranking of tourist hotels is based on a set of mandatory requirements for each star level and a minimum number of points based on another list of criteria. Different fee structures exist for the registration and licensing of hotels, ranging from Rs 2,000 (1 star) to Rs 10,000 (5 stars) for licensing, and Rs 5,000 (1 star) to Rs 25,000 (5 stars) for registration.[63] To operate a tourist hotel in Sri Lanka, registration is necessary and based on compliance with minimum criteria in the *Gazette of the Democratic Socialist Republic of Sri Lanka*; thereafter an annual licence is issued to operate after a control check.

4.107. In contrast to hotels, tourist restaurants do not have a classification system and operate under the local authorities. Licences need to be obtained to operate restaurants.

4.108. The SLTDA regulates and provides licences to travel agents, i.e. those that sell travel-related products and services, in particular package tours, business travel, etc. The main requirements are: a minimum paid-up capital of not less than Rs 500,000 for a limited liability company (LLC) or Rs 600,000 for a sole proprietorship; the sole proprietorship or majority shares of an LLC should be held by Sri Lankan citizens, although certain exceptions may apply[64]; a current account at a Sri Lankan bank and a guarantee of not less than 10% of the paid-in capital; adequate business facilities; employing a minimum of three professionally qualified staff; and employing tour guides that are trained and licensed by the SLTDA.[65] Licensing of tour guides and chauffeurs follows after a training course at the tourism training centre.

4.109. Travel agency licences for air travel are issued by the Civil Aviation Authority (CAA) pursuant to the Air Navigation (Special Provisions) Act No. 55 of 1992. Any person, partnership, or company that is an air transport service provider must be issued such a licence to operate. There are two types of licences, "A" or "B" depending on the stated capital/capital contribution: Rs 500,000 or higher for type "A", and Rs 250,000 to Rs 500,000 for type "B", thus a minimum of Rs 250,000 is necessary to establish a travel agency in Sri Lanka. Other requirements for the licence are an appointment letter from an airline or similar designating the agent, two IATA/UFTAA qualified staff members, sufficient office space, business registration certificate, and certification letter of bank guarantee if required.[66]

[61] *Gazette* of 6 September 1999, No. 1096/6.
[62] *Gazette* of 20 April 2016, No. 1968/28.
[63] Sri Lanka Tourism Development Authority online information. Viewed at: http://www.sltda.lk/sites/default/files/registration/Guidelines_Marksheet-Tourist%20Hotels.pdf.
[64] If in business longer than 10 years, the SLTDA may waive this requirement.
[65] Sri Lanka Tourism Development Authority online information. Viewed at: http://www.sltda.lk/sites/default/files/Guidelines-MINIMUM_REQUIREMENTS.pdf.
[66] CAA online information. Viewed at: http://www.caa.lk/index.php?option=com_content&view=article&id=492&Itemid=1078&lang=en.

4.110. Pursuant to Sri Lanka's Tourism Development Strategy 2011-16, Sri Lanka planned to issue new regulations or guidelines to bring certain aspects of the tourism sector in line with international standards or best practices. These include new regulations/guidelines on: adventure sports centres, apartment hotels, camping sites, cruise liners/luxury vessels, eco lodges, elephant safari, guest houses, heritage hotels, house boats, home stay units, boutique hotels and villas, Ayurvedic hotels/centres, professional event organizers, restaurants, safari tours by vehicles, spa and wellness centres, spice gardens, tourist bungalows, tourist hotels, tourist shops, travel agencies, and whale and dolphin watching.[67] As of June 2016, these new regulations were in the process of being finalized.

4.111. The Government imposes price controls in the form of minimum room rates for star classed Colombo hotels in 2016.[68] According to the authorities, there are no other prices controls in the sector.

4.4.1.6 Incentives

4.112. In order to attract investment into the sector, Sri Lanka has established a "One Stop Unit" (OSU) for national investment in tourism. The Unit is a specialized unit set up under the Sri Lanka Tourism Development Authority which has specialized staff from various government agencies that coordinate activities such as approvals, submitting applications, obtaining licences, and identifying projects. The OSU provides fast-track government approvals, liaises with the BOI on incentive schemes, recommends visas, and coordinates building plan approvals[69] (see Section 2.4.4 for investment incentives).

4.113. Sri Lanka Customs provides duty waivers on goods imported for construction or refurbishing of tourist hotels, subject to the approval of the Secretary to the Treasury.[70] These are pursuant to tourism projects through BOI incentive schemes.

4.114. Sri Lanka has established five tourism zones to help encourage investment and development of the tourism sector.[71] These zones concentrate development in certain areas for environmental and other reasons, and provide infrastructure and facilitate paperwork.

4.115. Tourist establishments that are registered with the SLTDA are exempt from the 3% Nation Building Tax (NBT).[72]

4.4.1.7 GATS commitments

4.116. Sri Lanka has undertaken some GATS commitments in the sector, in particular for hotel and lodging services, and for travel agencies and tour operators. For hotel and lodging services, limitations on market access exist for mode 4, as regards labour, immigration, and customs laws. Modes 1 and 2 remain unbound and there are no other limitations listed for the subsector. The travel agency and tour operator subsector has similar limitations for mode 4 pursuant to labour, immigration, and customs laws, while only mode 2 remains unbound; other modes have no limitations.

[67] Sri Lanka Tourism Development Authority online information. Viewed at: http://www.sltda.lk/sites/default/files/English.pdf.

[68] Economynext online information. Viewed at: http://www.economynext.com/news_details_print.php?id=4228.

[69] Sri Lanka Tourism Development Authority online information. Viewed at: http://www.sltda.lk/Tourism_Investment.

[70] Sri Lanka Customs online information. Viewed at: www.customs.gov.lk/highlights/NPCfi.pdf.

[71] Sri Lanka Tourism Development Authority online information. Viewed at: http://www.sltda.lk/tourism_zones.

[72] Sri Lanka Tourism Development Authority online information. Viewed at: http://www.sltda.lk/Benefits_of_registering_at_sltda.

4.4.2 Financial services

4.4.2.1 Overview

4.117. Sri Lanka's financial sector has continued to show improved performance, reflecting the underlying economic performance and supportive prudential regulatory measures undertaken in recent years. There has been further strengthening and stability compared to relatively higher volatility emanating from domestic and global developments.

4.118. There were several developments in the sector since the last review. The rate of income tax applicable to profits of any branch of a commercial bank was amended and as of June 2016 was 28%.[73] There was a repeal of the DFCC Bank Act [74] and amendments to the Recovery of Loans by Banks Act[75] and Prevention of Money Laundering Act.[76] The DFCC Bank Act was repealed to facilitate a proposed merger among three banks; however only the merger of DFCC and DFCC Vardhanda has taken place. Amendments to the Recovery of Loans by Banks Act included changes to the interpretation of the term Bank within the meaning of the Banking Act and amending the parate execution provisions to apply to loans of an amount higher than Rs 5 million. The National Payment Platform and National Digital Identity initiatives were launched as part of the 2016 Budget.[77]

4.119. Total assets of major financial sectors of the economy increased steadily over the period to Rs 13.6 trillion in 2015, thus the sector more than doubled in size since 2010. The banking sector remains the largest, accounting for about 70% of the total financial sector. The next largest sector is contractual savings institutions and other deposit taking financial institutions (Table 4.19).

Table 4.19 Overview of the financial sector, 2010-15

(Rs billion)

	2010	2011	2012	2013	2014	2015
Banking sector	4,527	5,376	6,377	7,188	8,442	9,503
Other deposit taking financial institutions	295	427	621	756	857	1,042
Specialized financial institutions	354	339	310	378	441	544
Contractual savings institutions	1,179	1,299	1,430	1,633	1,854	2,108
Insurance companies	219	271	323	366	421	465
Total	**6,574**	**7,712**	**9,061**	**10,320**	**12,015**	**13,662**

Source: Insurance Board of Sri Lanka, *Statistical Review*, 2014 and 2015.

4.4.2.1.1 Banking

4.120. Sri Lanka's banking sector comprises licensed commercial banks (LCB) and licensed specialized banks (LSB); together they dominate the financial system and LCBs in particular account for more than half of Sri Lanka's financial system (Tables 4.19 and 4.20). About half of LCBs are foreign banks, although the number of branches of foreign banks is considerably lower than the number of branches of domestic banks; i.e. 220 versus 2,694 (Table 4.20). Increased demand for credit increased the asset growth and improved the financial performance of banks in recent years.

4.121. The banking sector is highly concentrated, thus the stability of the financial system is primarily dependent on the performance and strength of the six largest LCBs, i.e. two state banks and the four largest domestic commercial banks.

4.122. A number of regulatory policies were introduced in 2015 to further strengthen the risk management and public confidence in the banking sector. Banks were required to implement the Liquidity Coverage Ratio under Basel III Liquidity Standards, and a maximum loan-to-value ratio of 70% for loans for motor vehicles was invoked. Further, a consultation paper on the implementation of Basel III minimum capital requirements and leverage ratio was issued to banks

[73] Inland Revenue (Amendment) Act No. 8 of 2012.
[74] Viewed at: http://www.srilankalaw.lk/D/dfcc-bank-repeal-and-consequential-provisions-act.html.
[75] Viewed at: http://documents.gov.lk/actspg/act2011-1.html.
[76] Viewed at: http://documents.gov.lk/actspg/act2011-2.html.
[77] Viewed at: http://nation.lk/online/2015/11/20/summary-of-2016-budget-proposals.html.

and the final standard on the same will be issued in due course, in line with the international timeline.

4.123. A Direction on Supervisory Review Process (Pillar 2 of Basel II) was issued requiring banks to implement an Internal Capital Adequacy Assessment Process and to maintain adequate capital above the minimum regulatory capital requirement under Pillar 1 to cover their exposure to all risks. Starting from 1 July 2014, banks were given the option to move to the Standardized Approach or the Alternative Standardized Approach to compute the capital charge for operational risk. In addition, the risk management framework of banks was further strengthened in areas such as integrated risk management, outsourcing of business operations, exposure to the stock market, foreign exchange trading activities, stress testing, and information security management.

4.124. In mid-2015, the supervisory approach for banks was improved to be more risk sensitive and proactive. The new approach focuses on banking business models to identify potential risks that may affect the efficiency and sustainability of banks.

4.125. The Sri Lanka Deposit Insurance and Liquidity Support Scheme was established in 2010 and covers deposits of both banks and licensed finance companies. With effect from 1 January 2015, the deposit insurance coverage per depositor per institution was increased from Rs 200,000 to Rs 300,000.

4.126. At present, the Central Bank of Sri Lanka focuses on creating an enabling environment to encourage market-driven financial sector consolidation to enhance financial system stability. In addition, the 2016 Budget has proposed to merge a few small government-owned banks.

Table 4.20 Overview of the banking sector, 2010-15

	2010	2011	2012	2013	2014	2015
Total assets (Rs billion):						
Central bank	977	1,123	1,279	1,246	1,471	1,426
Licensed commercial banks (LCB)	2,975	3,578	4,356	5,022	5,884	6,974
Licensed specialized banks (LSB)	576	674	743	919	1,087	1,103
Distribution of banks and branches:						
No. of LCBs	22	24	24	24	25	25
Domestic	11	12	12	12	13	13
Foreign	11	12	12	12	12	12
No. of LCB branches	2,365	2,601	2,719	2,792	2,893	2,914
Domestic	1,424	1,533	2,510	2,582	2,672	2,694
Foreign	46	48	220	221	221	220
No. of LSBs	9	9	9	9	9	7
No. of LSB branches	600	624	637	645	652	624

Source: Central Bank of Sri Lanka, *Annual Report 2015*.

4.4.2.1.2 Insurance

4.127. The insurance sector has undergone substantial liberalization and deregulation over the last decade and has exhibited continued expansion, reaching a growth of 16.12% in total premiums in 2015. As of 2015, the insurance sector had 30 insurance companies, 57 insurance brokers, and over 45,000 insurance agents.[78] The insurance market is highly concentrated with the two largest companies accounting for about 60% of total assets. While the sector has expanded, with total premium income increasing from Rs 66 billion in 2010 to Rs 122 billion in 2015, the sector remains small, accounting for only 3.4% of total financial sector assets (Tables 4.19 and 4.21).

4.128. Limits on foreign equity participation in insurance firms and brokers were removed in 2002 and the State ceased operation in the market until a Supreme Court challenge annulled the privatization of Sri Lanka Insurance Corporation (SLIC) – thus this entity is owned and operated by the State (Ministry of Public Enterprise Development) and has a dominant position as the largest and strongest insurance provider for life, motor, and general insurance in Sri Lanka.

[78] Insurance Board of Sri Lanka, *Annual Report 2014*.

4.129. The Insurance Board of Sri Lanka (IBSL) is the sector's regulator. Both domestic and foreign insurers must be locally incorporated under the Companies Act (2007) and be registered with the IBSL. Minimum capital requirements and solvency margins apply equally to domestic and foreign insurers. Sri Lanka does not allow cross-border supply of insurance, except for health, and employer's liability insurance. The IBSL allows registered insurers to obtain insurance cover for their directors and other employees from foreign insurers not registered in Sri Lanka.

4.130. The IBSL has introduced a risk-based supervision system and has proposed a comprehensive revision of the regulations of the Insurance Industry Act in order to enhance its supervisory framework. The proposed changes to the regulations involve: strengthening the powers to issue directions on enhanced capital requirements; making rules and determinations; engaging in dispute resolution; prescribing criteria for board of directors' members; and requiring that life and general insurance businesses be conducted in separate incorporated entities. Most of the provisions under the risk-based supervision system became operational in 2016.

4.131. In 2011, the Regulation of Insurance Industry Act was amended. The main element was the requirement for insurance companies to segregate their life and non-life insurance businesses into separate legal entities.[79]

Table 4.21 Insurance sector statistics, 2010-15

(Rs million)

	2010	2011	2012	2013	2014	2015
Long-term insurance	31,152	35,162	37,477	41,676	44,596	53,575
General insurance	35,101	46,929	53,213	58,284	60,803	68,815
Total premium income	66,253	82,091	90,690	99,960	105,399	122,390
Growth rate in total premium (%)	15.12	17.62	10.48	10.22	5.44	16.12
Penetration % (total industry premium as a % of GDP)	1.18	1.14	1.04	1.04	1.01	1.09
Insurance density (total premium income/ population) Rs	3,208	3,934	4,440	4,857	5,074	5,838

Source: Insurance Board of Sri Lanka, *Statistical Review*, 2014 and 2015.

4.132. Also, as part of the insurance sector, the Sri Lanka Export Credit Insurance Corporation (SLECIC) was established by Act No. 15 of 1978 as a government organization providing export credit insurance and export credit guarantee facilities for Sri Lankan exporters and presently functions under the Ministry of Finance. The SLECIC offers a variety of export credit insurance policies based on the requirements of exporters to reduce repayment risks on foreign receivables resulting from political or commercial events (see also Section 3.2.5).

4.4.2.1.3 Capital markets

4.133. Securities market regulation in Sri Lanka is established pursuant to the Securities and Exchange Commission of Sri Lanka (SEC) Act No. 36 of 1987, as amended, to develop the Sri Lankan capital market to complement the banking sector as a mode of fundraising and investment. The objectives of the SEC, as the regulator of the securities market, are to protect investors, ensure that markets are fair, efficient and transparent, and reduce systemic risk. The SEC regulates registered market intermediaries and licensed stock brokers, stock dealers, and management companies of unit trusts. Sri Lanka's capital market is still developing as its market capitalization to GDP ratio was 26.3% at the end of 2015 (Table 4.22).

4.134. In 2012, the SEC, Colombo Stock Exchange (CSE), and other key industry stakeholders launched a Capital Market Development Road Map to help develop the sector. The road map included the following initiatives: attracting more funds (both local and foreign); increasing liquidity; developing the corporate debt market; developing new products (i.e. derivatives and commodities); growing the unit trusts' market; promoting education and awareness; strengthening risk management; demutualizing the stock exchange; and developing a trading

[79] Regulation of Insurance Industry (Amendment) Act No. 3 of 2011.

infrastructure.[80] Furthermore, as part of this initiative, the SEC was working toward amending the SEC Act to accommodate the changes from the road map as well as to introduce other changes. Upon passage, the amendments will align SEC governance with IOSCO (International Organization of Securities Commissions) standards; introduce civil and administrative penalties; extend the jurisdiction of the SEC to all public offers of securities including to the unlisted securities market; incorporate legal provisions to regulate a demutualized stock exchange, govern a clearing house and dis-apply insolvency laws to provide bankruptcy remoteness to the clearing house; impose mandatory reporting duties to the SEC on auditors if they detect financial irregularities in their audits of companies within the purview of the SEC; and introduce provisions on the protection of whistle-blowers and sharing of information. As of June 2016, the amendments were consolidated into a draft law and were being refined with an enactment target of end-2016.

Table 4.22 Capital market indicators, as of June 2016

Market (Colombo Stock Exchange)	
Market capitalization	Rs 2,775.3 billion
Listed companies	294
Market turnover	Rs 261,707,673
Share volume	15,670,888
Number of investors	604,826
Foreign participation	Rs 85 billion
Net foreign outflow[a]	Rs 2,157.7 million
Licensing and registration	**Number of entities licensed, as of Feb. 2016**
Stock exchanges	1
Stockbroking companies	35
Stock dealing companies	15
Managing companies of unit trusts	14
Unit trust funds	79
Investment managers	34
Margin providers	32
Underwriters	9
Credit rating agencies	2
Clearing houses	1

a As of March 2016.

Source: SEC online information. Viewed at: http://www.sec.gov.lk/wp-content/uploads/SEC-AR-2014-English-Final_2-2.pdf; CSE online information. Viewed at: https://www.cse.lk and https://www.cse.lk/pdf/CSE_Annual_Report_2014.pdf; and information provided by the authorities.

4.135. In 2013, the CSE launched "Invest Sri Lanka – Investor Forums" in order to attract more foreign investors; subsequently, foreign purchases reached a record level of Rs 104.7 billion in 2014, falling slightly to Rs 85 billion in 2016. For share investments, institutions incorporated outside Sri Lanka and individuals resident outside Sri Lanka may buy or sell up to 100% of the issued shares of a listed company subject to certain restrictions; the SEC grants approvals subject to compliance with exchange control regulations, the Prevention of Money Laundering Act No. 5 of 2006, the Financial Reporting Transactions Act No. 6 of 2006, and the laws relating to securities. For ordinary shares, permission is granted for the issuance of shares by companies incorporated in Sri Lanka by persons resident outside Sri Lanka subject to certain exclusions, limitations and conditions.[81]

4.136. Other developments during the review period include establishment of a central counterparty (CCP) for financial stability by addressing asset commitment and settlement risks in the market. The CCP is expected to significantly minimize the risk of settlement failure and counterparty risk while enabling the introduction of new products to the capital market. There are five phases for the project to establish the CCP; it entered the second phase in late 2015 and is expected to be operational at the end of 2016. The CSE is in the process of demutualization by

[80] SEC online information. Viewed at: http://www.sec.gov.lk/wp-content/uploads/LBR-CEO-Forum-Final5.pdf.

[81] The exclusions relate to firms conducting money lending, pawn broking, retail trade of a capital of less than US$1 million, personal services other than export or tourism, and coastal fishing. Limitations are imposed on the per cent of issued capital of the company, generally at 40%, but it can be higher in the case of a BOI-approved investment. Furthermore, limitations for certain sectors, e.g. air transport, coastal shipping, industrial undertakings, large-scale gem mining, and lotteries, are only up to the per cent of issued capital on which approval has been granted by the Government of Sri Lanka.

converting the CSE from a mutual company owned by its members into a company owned by shareholders. The proposed demutualization will segregate ownership and management from the trading rights of the members, and draw a distinction between the CSE's commercial and regulatory functions. The draft law is due to be presented to Parliament after passage of the SEC Act amendments.

4.4.2.1.4 GATS commitments

4.137. Sri Lanka made a number of GATS commitments in the financial and insurance sectors. According to the authorities, the applied regime for insurance remains the same, and thus the GATS commitments reflect the current situation in Sri Lanka. Total foreign participation in the share capital of a licensed bank incorporated or established in Sri Lanka is permitted up to 100%. Regulatory requirements exist for the employment of expatriate staff in banks.

4.4.3 Telecommunications services

4.138. Sri Lanka's telecommunication sector continued to experience significant growth during the review period, mainly due to growth in the mobile telephone subsector, which has also contributed to economic progress in the country. The sector has been described as mature compared to others in the region due to a high level of saturation. It is noted that the sector has attracted a significant amount of FDI for telecom infrastructure development in recent years, thus contributing to its technological advancement.[82] Although there are a number of foreign participants, the national telecom operator, Sri Lanka Telecom, in which the majority of shares are owned by the State, remains a significant market player in telecom services.

4.4.3.1 Statistical overview

4.139. Sri Lanka's telecommunication sector continued to follow global trends during the review period, with increased growth in the cellular and internet spheres, while payphones and wireless local loop services declined. Wireline telephone services showed modest growth, as did the overall telephone penetration rate. The penetration rate for cell phones reached over 100 per 100 persons, and internet penetration more than doubled during the review period (Table 4.23).

Table 4.23 Telecommunications indicators, 2010-15

	2010	2011	2012	2013	2014	2015
Fixed access services (1,000)	3,578	3,608	3,449	2,707	2,710	2,601
Wireline telephones in service	897	942	999	1,062	1,123	1,128
Wireless local loop telephones	2,638	2,667	2,450	1,645	1,587	1,473
Cellular phone subscribers (1,000)	17,267	18,319	20,324	20,315	22,123	24,385
Other services						
Public payphones	6,958	6,458	6,983	6,788	6,642	5,809
Internet connections (1,000)	502	844	1,366	2,009	3,396	4,091
Telephone penetration (connections per 100 persons)	99	106.1	117	112.4	119.6	128.7
Fixed telephones	17	17.5	17	13.2	13.1	12.4
Cellular phones	82	88.6	100	99.2	106.5	116.3
Internet penetration	2.38	4.09	6.7	9.8	16.4	19.5

Source: Ministry of Finance of Sri Lanka online information. Viewed at: http://www.treasury.gov.lk/images/depts/fpd/docs/reports/annualreport/2013/chapters/Chapter5.pdf, http://www.treasury.gov.lk/reports/annualreport/2012/5-FiscalDevelopments.pdf, and http://www.treasury.gov.lk/images/depts/fpd/docs/reports/annualreport/2014/full/annualReport-2014E.pdf; Central Bank of Sri Lanka, Annual Reports; Central Bank of Sri Lanka online information. Viewed at: http://www.cbsl.gov.lk/pics_n_docs/10_pub/_docs/statistics/other/econ_&_ss_2015_e.pdf; and information provided by the authorities.

[82] Telecommunications Regulatory Commission of Sri Lanka, Annual Reports.

4.4.3.2 Framework

4.140. Sri Lanka's main regulatory body continued to be the Telecommunications Regulatory Commission of Sri Lanka (TRCSL). It has a broad mandate with respect to issuance of licences to operate telecommunication systems in Sri Lanka, issuance of licences for the use of radio frequency and radio frequency emitting apparatus, issuance of vendor licences and licences to operate private networks, determining tariffs, formulating pricing policies, responding to customer complaints and conducting investigations, and monitoring and ensuring compliance with telecommunications laws and regulations. It maintains policies on frequency allocation, towers, and numbering.

4.141. The TRCSL operates pursuant to the Sri Lanka Telecommunications Act No. 25 of 1991, its amendments, and regulations. The main elements of the Act include the provision of granting licences to operate, the authority to maintain technical standards, and the ability to enforce and issue penalties.

4.142. The Information and Communication Technology Agency (ICTA) of Sri Lanka works on development aspects of the ICT sector by increasing accessibility and facilitating communication, in particular in rural communities. The ICTA is working towards a digitally inclusive Sri Lanka by 2018 through the e-Sri Lanka programme as sponsored by the World Bank. It aims to improve access to ICT in the country to improve economic and social development.

4.143. Sri Lanka's newly created Ministry of Telecommunication and Digital Infrastructure is tasked with formulating and implementing national policy on telecommunications and digital infrastructure. The Ministry is working on a Road Map 2017-20 to provide for new scenarios and development of the telecommunications sector. The last telecommunications policy of the Government is from 2010 and its main aim was to have well established telecommunications facilities for the country.[83] It also strived to strengthen private sector partnerships, upgrade telecommunications services, and minimize regional disparity.

4.144. The importation of telecommunications equipment and cellular telephones requires an import control licence pursuant to the Imports and Exports (Control) Act No. 1 of 1969. All such equipment requires a recommendation letter from the Telecommunication Regulatory Commission to be attached to the documentation submitted for the issuance of the import control licence. Such licensing is for type approval.

4.145. In 2015, Sri Lanka became the first country in South Asia to join the Budapest Convention on Cybercrime.

4.4.3.3 Developments

4.146. Developments during the period include the introduction of the Telecommunications Levy in 2011, which was further revised in 2013 and 2014.[84] The levy was introduced to have one composite tax applied to telecommunications services. The levy replaced all other taxes, including VAT, NBT, Environment Conservation Levy and Mobile Subscribers' Levy, in order to simplify the tax structure for telecom. The rates applied were modified during the period to have a lower rate for internet services compared to telecommunications services and to further raise the rate on telecommunications services; the rates are currently 10% on the value of supply of internet services, and 25% on the value of supply of telecommunication services.

4.147. During the period, the TRCSL launched an E-Agriculture Strategy with the Ministry of Agriculture in order to address challenges that impact the ICT sector regarding development of the agricultural sector and to harness the ICT potential of Sri Lanka in achieving its agricultural goals. This strategy was developed following a framework proposed by the FAO-ITU E-Agriculture Strategy Guide. To date, an e–agriculture task force has been set up comprising various

[83] TRCSL online information. Viewed at: http://www.trc.gov.lk/images/pdf/PolicyFramework.pdf.

[84] Telecommunications Levy Act of 2011. Viewed at: http://www.srilankalaw.lk/Volume-VIII/telecommunication-levy-act.html; Telecommunications Levy Amendment Act 2013. Viewed at: http://documents.gov.lk/Acts/2013/Telecommunication%20Levy%20(Amendment)%20Act%20No.%2008%200f%202013/Act%20No.%2008%20E.pdf; and Telecommunications Levy Amendment Act 2014. Viewed at: http://www.srilankalaw.lk/gazette/2014_pdf/11.pdf.

government departments and the project is receiving technical assistance from the FAO and the ITU.

4.148. Developments in 2012 included a new FM broadcast frequency plan that improved reception and increased accessibility. In 2013, the TRCSL established regulations for the quality of fixed and mobile voice services. More recently, in December 2015, the TRCSL commenced review of the telecommunication sector licensing framework with the help of the ITU. The operators also upgraded cabling systems and offered new 4G internet services.[85]

4.4.3.4 Structure

4.149. Up until 2002, Sri Lanka's international and voice telecommunication services were controlled by the state monopoly Sri Lanka Telecom (SLT); it still operates as a government provider of telecommunications services under the Ministry of Telecommunication and Digital Infrastructure. During the last decade, the telecommunications service sector has opened up to several providers in most subsectors (Table 4.24). However, most of these remained static or were reduced during the review period; for example, the mobile sector continued to have five operators, and the number of fixed access providers decreased from four to three. There are fewer providers of internet services and external gateway operators.

Table 4.24 Cumulative licences granted under Section 17 of the Sri Lanka Telecommunications Act No. 25 of 1991, as of December 2015

Category of service	Number of licences
Fixed access telephone service	3
Cellular mobile phones	5
Data communications (facility based)	3
Data communications (non-facility based) and ISPs	9
Trunk mobile radio	1
External gateway operators	7
Direct-to-home satellite broadcasting service	4
Cable TV distribution network	3
Satellite services	1
Leased circuit providers	1
Licensed payphone service providers	1
Total	38

Source: TRCSL online information. Viewed at: http://www.trc.gov.lk/2014-05-13-03-56-46/statistics.html.

4.4.3.5 GATS commitments

4.150. In 1997, Sri Lanka made additional commitments in basic telecom in the post-Uruguay Round negotiations.[86] For international voice services, limitations on market access were in place until 1999 with a monopoly guaranteed for SLT. Thereafter, an additional licence was previewed dependent upon satisfactory progress on tariff rebalancing. Investment restrictions were with respect to a 35% foreign equity limit in SLT. For mobile cellular and wireless local loop services, limitations were with respect to operator licences, in which four and two were previewed respectively, however the matter was to be reviewed at a later date. For public payphone services, five service providers were scheduled, for radio paging services, five operator licences, and for data communication services, six operator licences. For GMPCS services supplied through own gateways, the issuing of licences was under consideration. Since the scheduling of these commitments, Sri Lanka has proceeded with liberalizing many of its telecom subsectors, thus the applied regime is more liberal than its GATS commitments.

[85] Central Bank of Sri Lanka online information. Viewed at: http://www.cbsl.gov.lk/pics_n_docs/10_pub/_docs/statistics/other/econ_&_ss_2015_e.pdf.

[86] GATS/SC/79/Suppl.1.

4.4.4 Transport services

4.151. Sri Lanka's geography and strategic location contribute to its growth as a trading hub, with its ports and related infrastructures serving to promote economic development and international trade, and enhance Sri Lanka as a transhipment point for Asian trade. In contrast, the domestic transport sector is dominated by road transport, which provides the main infrastructure for the internal transport of goods and persons. The road sector has unique challenges with intensified demand and what has been described as inadequate infrastructure. Sri Lanka has continued to invest heavily in recent years in both ports and roads so as to be a world-class hub for merchandise and to develop and repair its road infrastructure. Air and rail transport in Sri Lanka are dominated by national carriers. The railway network is in need of investment and rehabilitation, as it suffers from aging rolling stock and obsolete equipment, and operates with large losses that are then covered by state subsidies.[87]

4.152. The transport sector continues to be an important part of the economy and accounted for 12.5% of GDP in 2015 (Table 1.2). The Government has developed a strategy for the further development of the sector that includes ensuring the availability of mode choices in transportation; providing efficient movement of passengers and goods to their final destination in a cost effective way; integrating transport planning with land use development of the country; introduction of information technology to improve efficiency of transport sector operations and administration procedures; improving quality and reliability of the transport system; promoting multi-modal connectivity; ensuring qualified human resources for transport development; and proper regulation of para-transit. The sector remains important for economic growth and trade, as it facilitates the movement of inputs and goods, and an efficient transport network improves specialization and widens markets.

4.4.4.1 Legal framework

4.153. There are many laws and regulations impacting the transport sector and transport services in Sri Lanka (Table 4.25).

Table 4.25 Main transport laws and regulations, 2016

Law	Overview	Viewed at:
Ports and Airports Development Levy Act No. 18 of 2011	Creates an import levy on all articles originating outside Sri Lanka	http://www.srilankalaw.lk/Volume-VI/ports-and-airports-development-levy-act.html
Ports and Airports Development Levy (Amendment) Act No. 10 of 2012	Defers the payment of the levy on imports of items for certain specified projects	http://www.srilankalaw.lk/gazette/2012_pdf/10.pdf
National Thoroughfares Act No. 40 of 2008	Provides for the planning, design, construction, development, maintenance and administration of the public road network	http://www.rda.gov.lk/supported/aboutrda/RDA%20act.pdf
Road Development Authority Act No. 73 of 1981	Provides for the establishment and function of the Road Development Authority	http://www.rda.gov.lk/supported/aboutrda/act73.pdf
Motor Traffic (Fees) Regulations 2011	Fees for registration of vehicles	http://www.motortraffic.gov.lk/web/index.php?option=com_content&view=article&id=175&Itemid=157&lang=en
Ports and Airports Development Levy (Amendment) Act No. 5 of 2013	Amends the 2011 Act so that certain processing, exportation, and re-export activities are exempt from the levy	http://www.srilankalaw.lk/gazette/2013_pdf/05.pdf

[87] Institute of Policy Studies of Sri Lanka online information. Viewed at: http://www.ips.lk/images/Publication/policy_insight/2015/PI%20-%20JWSJ.pdf.

Law	Overview	Viewed at:
Motor Traffic Act No. 14 of 1951, and Motor Traffic (Amendment) Act No. 8 of 2009	Registration of vehicles, drivers licences, licensing of driving schools and instructors	http://www.motortraffic.gov.lk/web/index.php?option=com_content&view=article&id=167&Itemid=156&lang=en
National Transport Commission Act No. 37 of 1991	Established the National Transport Commission	http://www.commonlii.org/lk/legis/num_act/ntca37o1991396/
Civil Aviation Act No. 14 of 2010	Governs all civil aviation activities in Sri Lanka	http://www.srilankalaw.lk/Volume-II/civil-aviation-act.html
Air Navigation (Special Provisions) Act No. 55 of 1992	Repealed, except part II (Sec. 126 of CA Act No. 14 of 2010)	http://www.commonlii.org/lk/legis/num_act/anpa55o1992398/

Source: Compiled by the WTO Secretariat from the laws indicated.

4.4.4.2 Ports

4.154. Sri Lanka has long served as an important port in Southeast Asia due to its geographical location and proximity to trade routes. The Government has committed itself to continue to develop Sri Lanka as a regional and global shipping hub with further emphasis on port infrastructure and services as part of its development agenda.[88] Colombo port ranked as the 26th port in the world according to Alphaliner Research.[89] Growing transhipment demand, in particular to neighbouring India, Bangladesh, and Myanmar, has provided growth to the sector as it remains competitive in terms of time and cost as a significant transhipment hub for the region.[90]

4.155. The Colombo Port expansion project improved facilities at the South Container Terminal and the East Container Terminal so as to allow for the new generation mega container ships. The Magam Ruhunupura Mahinda Rajapaksa (Hambantota) Port Project commenced operations in 2010. Hambantota Port phase 2 is almost completed and will add seven quays and a handling yard. The Oluvil Port commenced operations mainly as a fishing harbour. The Galle Port Development Project and Colombo Port City Project are other significant port development projects that have occurred during the review period. However, Colombo Port City project now comes under the Megapolis Development Plan. Furthermore, Sri Lanka's Hambantota and Colombo Ports were designated as free ports in mid-2013; this has helped enhance port sector activities. Foreign direct investment is possible under BOI concessions to generate port-related cargo and value addition within the port sector.

4.156. The Sri Lanka Ports Authority (SLPA)[91] owns and manages all commercial ports in Sri Lanka[92]; it also operates bonded warehouses and container freight stations. Its main functions are to formulate, implement, and monitor policies on ports sector development and improvement of shipping services in Sri Lanka. Foreign operators can invest and operate in terminal facilities on a build-operate-transfer (BOT)/public–private partnership (PPP) basis. Two private terminal operators are operating in Port of Colombo with the BOT/PPP model, and the Government of Sri Lanka encourages more private operators to operate container terminals on this basis. Despite the growing number of ships and increase in volume, SLPA has to re-pay large loans for infrastructure development. In an effort to attract more ships and improve Sri Lanka's attractiveness, and make use of its strategic location, the SLPA and the Government invested billions of rupees in port infrastructure development and new port development projects. Despite the increasing volume of traffic, the SLPA ports reportedly operate with increasing financial losses and have certain inefficiencies.[93]

[88] Ministry of Highways, Ports, and Shipping, *Annual Performance Report 2014*. Viewed at: https://www.parliament.lk/uploads/documents/paperspresented/performance-report-ministry-of-highways-ports-and-shipping-2014.pdf.

[89] March 2016 Edition.

[90] JOC online information. Viewed at: http://www.joc.com/port-news/asian-ports/port-colombo/colombo-breaks-through-south-asia%E2%80%99s-next-big-transshipment-port_20151020.html.

[91] SLPA Act No. 51 of 1979.

[92] These include the ports of Colombo, Hambantota, Galle, Trincomalee, Kankasanturai, Oluvil, and Point Pedru.

[93] Economy next online information. Viewed at: http://www.economynext.com/news_details_print.php?id=1512.

4.157. Port statistics show an overall increase in port activity during the period. While there have been small fluctuations in the numbers of ships arriving in Sri Lanka, the gross tonnage and container throughput figures showed a marked increase in port activity since 2010, thus in part indicating the arrival of larger ships. New port developments in certain ports have allowed for more varied ships, i.e. oil tankers, ro-ro traffic, etc. in recent years. However, the vast majority of vessels remain container ships and Sri Lanka relies heavily on transhipment container throughput which accounts for around 75% of its traffic (Table 4.26).

Table 4.26 Port statistics, 2010-15

.	2010	2011	2012	2013	2014	2015
Port of Colombo						
Ship arrivals						
Cargo ships						
Container	3,076	3,187	3,092	3,142	3,239	3,643
Conventional	56	0	52	38	28	45
Other cargo	616	680	591	354	366	388
Ships for repairs	47	30	35	36	38	43
Ships bunkering	68	65	51	50	25	30
Other ships	47	94	49	47	46	48
Total ships arrived	**3,910**	**4,124**	**3,870**	**3,667**	**3,742**	**4,197**
Container throughput (TEUs)						
Imports	461,648	523,790	508,046	516,102	567,580	608,200
Laden	415,291	487,901	466,661	476,982	518,951	573,518
Empty	46,357	35,889	41,385	39,120	48,629	34,682
Exports	470,596	523,096	512,209	515,875	559,405	609,771
Laden	244,268	260,047	265,039	256,396	269,931	263,363
Empty	226,328	263,049	247,170	259,479	289,474	346,408
Transhipment	3,095,589	3,123,828	3,064,767	3,208,117	3,699,710	3,888,321
Re-stowing	109,608	92,173	102,098	66,112	81,220	79,175
Total TEUs	**4,137,441**	**4,262,887**	**4,187,120**	**4,306,206**	**4,907,915**	**5,185,467**
Total cargo discharged (tonnes)	**34,306,691**	**36,642,398**	**36,720,621**	**37,453,003**	**41,540,086**	**43,270,861**
Total cargo loaded (tonnes)	**24,460,952**	**25,372,947**	**24,948,933**	**26,028,949**	**29,254,103**	**30,446,762**
Total cargo handled (tonnes)	**58,767,643**	**62,015,345**	**61,669,554**	**63,481,952**	**70,794,189**	**73,717,623**
Vehicles handled by ro-ro ships						
No. of car carriers arrived	131	144	66	25	36	48
No. of vehicles handled						
Domestic	45,779	90,824	38,886	6,651	21,296	71,738
Transhipment	2,455	993	183	466	0	13
Total	**48,234**	**91,817**	**39,069**	**7117**	**21,296**	**71,751**
Port of Trincomalee						
Ship arrivals						
Cargo ships	96	114	139	113	120	158
Ships for repairs	9	1	3	3	1	1
Ships bunkering	0	3	6	6	1	2
Other ships	4	8	13	12	5	3
Total ships arrived	**109**	**126**	**161**	**134**	**127**	**164**
Total cargo discharged (tonnes)	**1,959,676**	**2,336,672**	**2,645,965**	**2,275,794**	**2,620,593**	**2,648,615**
Total cargo loaded (tonnes)	**194,030**	**236,979**	**213,362**	**159,460**	**126,950**	**378,791**
Total cargo handled (tonnes)	**2,153,706**	**2,573,651**	**2,859,327**	**2,435,254**	**2,747,543**	**3,027,406**
Port of Galle						
Ship arrivals						
Cargo ships	35	52	52	31	46	62
Ships for repairs	6	5	3	1	0	1
Ships bunkering	3	2	8	0	5	1
Other ships	4	14	6	4	9	8
Total ships arrived	**48**	**73**	**69**	**36**	**60**	**72**
Total cargo discharged (tonnes)	**317,633**	**463,519**	**421,665**	**199,848**	**393,607**	**539,957**
Total cargo loaded (tonnes)	**410**	**253**	**8**	**6,692**	**370**	**1,820**
Total cargo handled (tonnes)	**318,043**	**463,772**	**421,673**	**206,540**	**393,977**	**541,777**
Ports of Kankasanturai, Myliddy, Point Pedro and Karainagar						
Ship arrivals						
Cargo ships	8	26	44	48	34	32
Ships for repairs	0	0	0	0	0	0

.	2010	2011	2012	2013	2014	2015
Ships bunkering	0	0	0	0	0	0
Other ships	0	0	0	0	0	0
Total ships arrived	**8**	**26**	**44**	**48**	34	32
Total cargo discharged (tonnes)	**11,387**	**28,414**	**59,814**	**49,347**	**21,204**	**31,685**
Total cargo loaded (tonnes)	**0**	**0**	**0**	**0**	**0**	**0**
Total cargo handled (tonnes)	**11,387**	**28,414**	**59,814**	**49,347**	**21,204**	**31,685**
Port of Magam Ruhunupura Mahinda Rajapaksha (Hambantota)						
Ship arrivals						
Cargo ships	0	6	33	136	269	278
Ships for repairs	0	0	0	1	0	2
Ships bunkering	0	0	0	0	63	7
Other ships	0	3	1	2	3	8
Total ships arrived	**0**	**9**	**34**	**139**	**335**	**295**
Total cargo discharged (tonnes)	**0**	**5,058**	**17,081**	**89,870**	**315,563**	**195,061**
Total cargo loaded (tonnes)	**0**	**10,330**	**2,635**	**28,709**	**158,449**	**97,520**
Total cargo handled (tonnes)	**0**	**15,388**	**19,716**	**118,579**	**474,012**	**292,581**
Vehicles handled by ro-ro ships						
No. of car carriers arrived	0	0	31	134	253	276
No. of vehicles handled						
Domestic	0	0	6,511	26,458	37,923	69,195
Transhipment	0	0	4,338	38,064	160,502	116,257
Total	**0**	**0**	**10,849**	**64,522**	**198,425**	**185,452**
All ports						
No. of ships	4,075	4,358	4,178	4,024	4,298	4,760
Cargo discharged (tonnes)	36,595,387	39,476,061	39,865,146	40,067,862	44,891,053	46,686,179
Cargo loaded (tonnes)	24,655,392	25,620,509	25,164,938	26,223,810	29,539,872	30,924,893
Total cargo throughput	**61,250,779**	**65,096,570**	**65,030,084**	**66,291,672**	**74,430,925**	**77,611,072**

Note: Number of ships excludes sailing crafts, naval vessels, fishing trawlers, barges and dredgers etc.

Source: Information provided by the authorities.

4.4.4.3 Air

4.158. Sri Lanka's air transport sector has seen continual growth in recent years, in large part due to an increase in tourism and trade. Passenger arrivals and departures have grown at nearly the same rate, with an overall growth of over 50% between 2010 and 2015. Cargo transport has seen irregular growth, but an overall increase during the review period, with the cargo discharge growth rate outpacing cargo uplifts (Table 4.27). The national carrier, Sri Lankan Airlines, continued to be the dominant player in both air passenger and cargo markets during the period; in 2014, Sri Lankan Airlines accounted for 50% of all cargo traffic and 53% of passenger traffic.[94] Many of Sri Lanka's codeshare partners significantly increased their operations to Sri Lanka pursuant to their air service agreements in recent years, thus reflecting the growth in the passenger transport subsector, especially with respect to increasing the diversity of connected cities.

Table 4.27 Air Transport, 2010-15

	2010	2011	2012	2013	2014	2015
Passengers:						
Arrivals	2,657,532	3,095,089	3,590,122	3,690,047	3,893,400	4,273,959
Departures	2,609,237	3,079,126	3,554,969	3,621,822	3,926,447	4,252,619
Total	5,266,769	6,187,683	7,145,091	7,311,842	7,819,847	8,526,578
Cargo (metric tons):						
Uplift	101,207	95,411	108,043	119,447	115,400	116,585
Discharge	59,631	63,161	66,602	71,776	77,040	98,446
Total	160,838	158,667	174,645	191,224	192,440	215,031

Source: CAA, *Annual Report 2014*. Viewed at: http://www.caa.lk/images/_stories/pdf/annual_report/AR2014.pdf; CAA, *Annual Report 2012*. Viewed at: http://www.caa.lk/images/stories/pdf/annual_report/caa_annual_report_2012.pdf; and information provided by the authorities.

[94] CAA, *Annual Report 2014*. Viewed at: http://www.caa.lk/images/stories/pdf/annual_report/AR2014.pdf.

4.159. During the review period, Sri Lanka improved its air transport capacity with investments in infrastructure, and has more plans for expansion in the future. Through the government-owned enterprise, Airport and Aviation Services (Sri Lanka) Ltd. (AASL), the Government manages and develops the civil airports in Sri Lanka. Its main airport, Bandaranaike International Airport (BIA), has been operating over its stated capacity of 6 million passengers per annum (PPA), and has plans to increase capacity by 9 million PPA by 2019 with the help of an international loan from Japan.[95] In 2013, commercial operations commenced at Sri Lanka's second international airport, Mattala Rajapaksa International Airport (MRIA), although due to low demand the airport is served by only two airlines. AASL also provides air cargo services for Sri Lanka with a capacity of 250,000 metric tonnes at its main airport, BIA.

4.160. Sri Lanka's Civil Aviation Authority, created in 2002 as a result of the Civil Aviation Act[96], is Sri Lanka's main regulatory authority for aviation in the country. It has many roles in addition to its main role in air transport safety, including certification of new training schools, surveillance of flying schools, licensing, registration, and aviation security. The Ministry of Transport and Civil Aviation is responsible for the overall policy of the sector.

4.161. Establishment and registration of airlines in Sri Lanka can be done only in terms of the provisions of Section 87 of the Civil Aviation Act No. 14 of 2010. These provide that airline licences for domestic or international commercial air transportation in Sri Lanka are only available to: Sri Lankan citizens; a registered body of persons having its principal place of business in Sri Lanka and in which at least 51% of the share capital is owned by Sri Lankan citizens; or any person or body of persons approved by the Cabinet of Ministers. However, foreign airlines may operate flights to Sri Lanka in respect of the terms of a bilateral air services agreement.

4.162. For computer reservation services, marketing and selling of air transport services, aircraft repair and maintenance, ground handling services, and airport management services, Sri Lanka does not have any restrictions or limitations on foreign participation in these subsectors but they are subject to obtaining the required licensing and approvals. However, Sri Lanka does have licensing requirements for travel agents (Section 4.4.1).

4.163. Since its last review, Sri Lanka has signed 83 new or updated bilateral air services agreements. These agreements mainly contain provisions for the granting of rights, designation and authorization, revocation or suspension of operating authorization, capacity, tariffs, taxes, customs duties and other charges, currency conversion and remittance of earnings, aviation safety, aviation security, and settlement of disputes.

4.4.4.4 Rail

4.164. Sri Lanka Railways (SLR), a 100% government-owned entity, is the sole authority in respect of the administration, operation and maintenance of the rail transport service sector in the country; the establishment of any operations in the rail sector by any other institution would have to be authorized by the relevant ministry and be approved by higher authorities. The current policy of the SLR is to provide an improved passenger and freight transport service to the public by increasing the present fleet of locomotives, diesel multiple units, passenger coaches and other rolling stock to provide additional trains; expand the existing network of tracks to encompass major towns, ports and airports; provide modern signalling/telecommunication systems; and improve passenger facilities in trains and at stations. Sri Lanka is currently relying on foreign grants and loans to improve the rail network and services. For the rail service, passenger usage has increased in recent years from 4.6 billion passenger-kilometres in 2011 to 7.4 billion passenger-kilometres in 2015, while freight traffic has declined, from 153 million ton-kilometres in 2011 to 130 million ton-kilometres in 2015. Freight traffic faces competition from the road transport sector. Inefficiencies of integration with other forms of transport, especially loading/unloading facilities, and lack of investment have hindered the sector in recent years.

[95] Airport and Aviation Services (Sri Lanka) Ltd., *Annual Report 2014*. Viewed at: http://www.airport.lk/aasl/business_info/2014_annual_rpt.pdf.

[96] Act No. 34 of 2002.

4.4.4.5 Roads

4.165. As an island nation, Sri Lanka's road network is self-contained and there is no international transport by road. However, the country is highly dependent on the road network for its internal transport needs, in particular freight movements where it accounts for about 97% of this traffic, and for the movement of persons, both in public and private transport.[97] Although there is a relatively high road density, especially in comparison to other developing countries, Sri Lanka's roads are characterized as having overdue maintenance, being poorly planned and not up to today's standards, having safety and congestion issues, and not being able to keep up with growing demand.[98] Thus, Sri Lanka has recognized the need for further investment in the road transport sector, and the BOI has targeted the sector for additional investment promotion (Section 2.4.4).[99]

4.4.4.5.1 Infrastructure and policy

4.166. The road sector has many entities involved in its organization, development, and provision of transport services; sometimes without clear demarcation. The Ministry of Higher Education and Highways is responsible for programmes and policies regarding highways, including the rural road development programme; between 2010-15 the Ministry of Highways, Ports, and Shipping (now the Ministry of Ports and Shipping) was responsible. The Road Development Authority (RDA) has responsibilities for the maintenance and development of the national highways and for the planning, design, and construction of new highways, bridges and expressways to augment the existing network.

4.167. Overall, the Ministry of Transport oversees the Motor Traffic Act and National Transport Commission Act, and the Department of Motor Traffic is responsible for vehicle registration and licences. Since its establishment in 2010, the Ministry of Private Transport Services promotes efficient and comfortable passenger transport services, and oversees the National Transport Commission which has the main oversight of inter-provincial private passenger transport. The Sri Lanka Transport Board (SLTB) continues to operate public passenger bus services throughout the country. In the road construction sector, there continue to be three state-owned enterprises – Maganeguma Construction Company, Maganeguma Consultancy Company, and Maganeguma Emulsion Company – responsible for road construction and rehabilitation in Sri Lanka; they operate under the Ministry of Higher Education and Highways.

4.168. In 2007, Sri Lanka created a "National Road Master Plan, 2007-17" (NRMP 2007-2017), for the first time creating a long-term plan for the network and also addressing in detail the long neglected rehabilitation due to lack of adequate resources.[100] It also emphasized the importance that an efficient road network played in terms of trade competitiveness, especially as Sri Lanka's manufacturing industry was increasingly integrated in international value chains and was moving towards greater containerized cargo on Sri Lanka's roads. However, the NRMP was formulated during the internal conflict and the requirements of the north-eastern provinces have not been considered adequately. Furthermore, since 2010, the Government has implemented many projects outside the Master Plan while some of the interventions identified were not implemented. At present, the RDA is in the process of preparing the "National Road Master Plan, 2017-27" (NRMP 2017-2027) and due consideration will be given to address all the requirements in a sustainable manner within the prevailing policy framework.

4.169. The highway development plan is comprised of two main points – rehabilitation of the existing network and development of a high mobility network – with the overall objective of sustaining and enhancing general welfare, promoting economic growth, eradicating poverty, and strengthening social cohesion. In addition to the six main elements considered in the previous NRMP (namely, construction of expressways and highways, widening of highways to three different standards, reduction of traffic congestion, road maintenance and rehabilitation, bridge

[97] Asian Development Bank (2012), *Sector Assistance Program Evaluation: The Asian Development Bank's Support for the Transport Sector in Sri Lanka*. Viewed at: http://www.oecd.org/derec/50582596.pdf.

[98] World Bank (2013).

[99] BOI online information. Viewed at: http://www.investsrilanka.com/images/publications/pdf/Investment_Guide_2014.pdf.

[100] Road Development Authority online information. Viewed at: http://www.rda.gov.lk/supported/noticeboard/publications/nrmp_executiveSummary.pdf.

rehabilitation and reconstruction, and land acquisition and resettlement), road safety and facilitating public transport requirements will be given top priority. However, it is noted that construction of expressways and widening of highways are the two principal areas accounting for over 65% of expected investments.

4.170. At the time of its drafting in 2006, the NRMP 2007-2017 had an expected total cost of Rs 670 billion, or an average annual funding level of Rs 61 billion, with expected contributions of the Government of 45%, international financial institutions, 49%, and public–private partnerships, 6%.[101] In 2014, new initiatives were introduced with the Intelligent Transport System (ITS) as a modern electronic messaging system to improve highway service, and the Integrated Road Investment Programme (iROAD) to improve the accessibility of roads in rural areas. Projects were ongoing to connect major cities in the south with the construction of the Southern Expressway, Colombo with the airport through the Colombo–Katunayake Expressway, and the recently completed section of the Outer Circular Highway from Kottawa to Kadawatha. There was also implementation of the JICA Major Bridges Construction Project of the National Road Network, commencing construction of the extension of the Southern Highway from Matara to Hambantota, and starting construction for the Outer Circular Highway from Kadawatha to Kerawalapitiya.

4.171. Sri Lanka has so far relied heavily on foreign loans and credit to help build and rebuild its road network, as there is limited private investment in the sector. The Government of Sri Lanka also contributes from 15% to 20% of the construction cost in addition to the land acquisition and resettlement costs. However, during the period 2007-13, the budgetary allocation for routine maintenance and rehabilitation was chronically underfunded.[102] The Asian Development Bank (ADB) has been involved in several road development projects for many years, and since 2005, the World Bank has provided financing to create an efficient national road system under the Road Sector Assistance Project (RSAP). An initial credit of US$100 million was approved by the Bank for the project. RSAP Phase I and Phase II projects had been completed by 2016.

4.172. As of 2015, RSAP has rehabilitated and maintained 800 km of national roads and 160 km of rural roads, reduced the national highways in poor condition from 52% to 35%, and reduced average vehicle operating costs on highways from Rs 23.9/km to Rs 14.21/km.[103] Between 2010-13, the ADB has built or upgraded 634 km of expressways and national highways in Sri Lanka.[104] The Export-Import Bank of China, Japan International Cooperation Agency (JICA), Economic Development Corporation Fund of Korea, Saudi Fund for Development, Kuwait Fund for Development, OPEC Fund for Development, UK Government financial assistance, and French Government financial assistance have also been involved in the financing or development of the road sector in Sri Lanka in recent years.

4.173. According to the authorities, Sri Lanka has developed the following strategies for the subsector:

- managing the capacity and investing in capacity enhancements of roads to ensure a high level of service and user-friendly roads in each level of road administration (national, provincial and rural) to facilitate free flow of people and goods;
- providing efficient mobility linking district capitals, key economic centres, and agro-processing zones, industrial zones, ports and airports;
- linking rural hubs to the closest urban centres;
- improving mobility in urban areas while ensuring more space for walking and non-motorized transports; and
- ensuring a sustainable road maintenance system.

[101] Road Development Authority online information. Viewed at: http://www.rda.gov.lk/source/highway_development_plan.htm.

[102] World Bank online information. Viewed at: http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2015/09/23/090224b0830fbf88/2_0/Rendered/PDF/Directions0and00transport0200502015.pdf.

[103] World Bank online information. Viewed at: http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2015/09/23/090224b0830fbf88/2_0/Rendered/PDF/Directions0and00transport0200502015.pdf.

[104] Asian Development Bank online information. Viewed at: http://www.adb.org/results/roads-and-highways-sri-lanka.

4.174. The road network of Sri Lanka is categorized as national, provincial, urban or rural, depending on function and ownership. National roads (Classes A and B) are under the purview of the RDA, provincial roads are the responsibility of the relevant Provincial Councils (Classes C and D), and Pradeshiya Saba and other local government roads are the responsibility of local governments. Since the last review period, the road network has remained relatively constant except for the development of expressways. In 2011, the first expressways were built and they are generally toll paying roads, but they account for less than 1% of the road infrastructure. Sri Lanka's national highways (Classes A and B) make up about one third of Sri Lanka's road network but are responsible for about 70% of the traffic; however the majority of roads are local roads (Class C) (Table 4.28).[105]

Table 4.28 Road network, 2011-15

(Kilometres)

	2011	2012	2013	2014	2015
Class A[a]	4,219	4,219	4,219	4,215	4,215
Class B[b]	7,800	7,945	7,949	7,993	7,995
Class C[c]	11,424	11,304	11,669	11,837	..
Class D[d]	6,356	6,287	6,726	7,193	..
Expressways	95	95	121	161	170
Total	**29,895**	**29,850**	**30,684**	**31,398**	**..**

.. Not available.

a All roads within the network of trunk roads connecting the national capital with the provincial capitals and also connecting these capitals with one another. Also included are other major roads (all roads paved and bitumen surfaced with carriage way between 24 ft and 36 ft and platform width of 36 ft to 56 ft).

b Main roads connecting other important towns and also providing important links within the trunk route system (metalled and bitumen with a small percentage gravelled).

c Other roads such as agricultural roads and local roads (single carriage way of 12 ft width and a platform width of 22 ft, mostly metalled but with a small percentage gravelled).

d Gravelled road with 8 ft to 10 ft width surface generally motorable during dry weather only.

Source: Central Bank of Sri Lanka online information. Viewed at: www.cbsl.gov.lk/pics_n_docs/10_pub/_docs/statistics/other/econ_&_ss_2015_e.pdf.

4.4.4.5.2 Services

4.175. Traditionally, public passenger road transport was under the sole responsibility of the Ceylon Transport Board, until 1978 whereupon deregulation private buses were allowed to operate and compete with the public transport network. The Ceylon Transport Board was transformed several times before becoming the Sri Lanka Transport Board (SLTB) in 2005. The state owned and run SLTB continues to operate in rural and urban areas, often providing services in unprofitable areas; it also operates bus depots. The SLBT does not cover its costs and receives subsidies or aid from the Government for about 30% of its operations.

4.176. The private sector has long competed with the SLTB and is an important supplier of passenger transport services in Sri Lanka. Pursuant to the National Transport Commission Act (NTC), inter-provincial private omnibus transport has been regulated by the National Transport Commission, and provincial private omnibus transport by the respective provincial passenger transport authorities. The NTC regulates the sector by establishing bus timetables, determining fares, issuing passenger service permits, setting standards, conducting inspections, and providing training.[106]

4.177. In 2013, there were discussions to extend the reach of the National Transport Commission Act beyond the regulation of buses to other forms of transport, a process which is still ongoing.[107] Also, in 2011, amendments changed the legal structure of the private bus services by, for example, converting individual bus operators to limited liability companies, and converting

[105] World Bank online information. Viewed at: http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2015/09/23/090224b0830fbf88/2_0/Rendered/PDF/Directions0and00transport0200502015.pdf.

[106] National Transport Commission online information. Viewed at: http://www.ntc.gov.lk/.

[107] Ministry of Private Transportation Services online information. Viewed at: http://www.ptsmin.gov.lk/index.php/en/downloads/publications.

individual route permits to omnibus management contracts, with expected benefits in improved services, safety, and work conditions.[108]

4.178. Other forms of passenger transport, such as taxis, three-wheelers, etc., are currently not regulated, although planned future changes would include them. According to the authorities, there are no restrictions in the Motor Traffic (Amendment) Act No. 8 of 2009 or other laws for foreigners or foreign companies to establish operations in the transportation service sector.

4.179. As of 2010, buses accounted for 68% of passenger transport services (in terms of total number of passengers), of which 55% was through the SLTB and 45% through private bus services.[109] Passenger bus transport is increasingly dominated by private transporters, with an increase in the fleet, buses operated, operated kilometres, and passenger-kilometres during the period 2010-15. Private transporters accounted for nearly 80% of passenger-kilometres in 2014. In contrast, the SLTB bus fleet steadily declined during the period under review, as did the number of buses operated; operated kilometres and passenger-kilometres increased slightly (Table 4.29). SLBT buses tend to operate in more rural areas and on less economical routes, and they also provide a higher per cent of the school bus services.[110]

Table 4.29 Bus operations, 2010-14

	2010	2011	2012	2013	2014
Private (inter- and intra-provincial)					
Bus fleet	19,805	19,699	20,444	19,651	20,421
Buses operated	15,884	16,602	17,129	17,067	18,534
Operated km (million)	765.3	799.9	825.3	847.2	1,041.8
Passenger-km (million)	40,178	41,993	43,327	44,478	48,130
SLTB					
Bus fleet	8,352	7,790	7,745	7,603	7,003
Buses operated	5,407	5,333	5,191	5,081	5,222
Operated km (million)	..	339.5	337.8	342.8	371.2
Passenger-km (million)	11,815	11,907	11,909	12,201	12,717

.. Not available.

Source: Ministry of Private Transport Services online information. Viewed at: http://www.ptsmin.gov.lk/index.php/en/information/statistics; Ministry of Transport online information. Viewed at: http://www.transport.gov.lk/web/index.php?option=com_content&view=article&id=175&Itemid=114&lang=en; Ministry of Transport online information. Viewed at: http://www.transport.gov.lk/web/index.php?option=com_content&view=article&id=310&Itemid=180&lang=en; and Central Bank of Sri Lanka online information. Viewed at: http://www.cbsl.gov.lk/pics_n_docs/10_pub/_docs/statistics/other/econ_&_ss_2015_e.pdf.

4.180. In contrast to passenger transport, Sri Lanka's road freight transport is handled by private companies and is not regulated. It is a subsector that has traditionally had very little regulation or oversight, except with respect to vehicle registration and size limitations. There has been a steady growth in the registration of motor lorries over the review period, from 282,033 lorries registered in 2010 to 319,001 in 2016, thus reflecting the growth in Sri Lanka's freight transport sector.[111] Sri Lanka's National Transport Policy 2009 set out to improve mobility within the country, including that for the transport of goods.

[108] NTC, *Annual Report 2011*. Viewed at: https://www.parliament.lk/uploads/documents/paperspresented/annual_report_national_transport_commission_2011.pdf.

[109] Ministry of Private Transport Services, *Progress Report 2013*. Viewed at: http://www.ptsmin.gov.lk/index.php/en/downloads/publications.

[110] Ministry of Private Transport Services, *Progress Report 2013*. Viewed at: http://www.ptsmin.gov.lk/index.php/en/downloads/publication.

[111] Department of Motor Traffic online information. Viewed at: http://www.motortraffic.gov.lk/web/images/stories/document/pop2015.pdf.

4.4.4.6 GATS and FTA commitments

4.181. Sri Lanka has not undertaken any GATS commitments in the transportation services sector. Under the SAARC Agreement on Trade in Services (SATIS), Sri Lanka has undertaken commitments to liberalize the space transport subsector.

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5 APPENDIX TABLES

Table A1.1 Merchandise exports by group of products, 2010-15

	2010	2011	2012	2013	2014	2015
Total exports (US$ million)	8,304.1	10,011.3	9,369.8	10,004.9	11,295.5	10,439.7
	(% of total)					
Total primary products	31.9	30.8	30.3	30.1	31.6	29.9
Agriculture	30.8	29.8	29.2	29.1	28.4	27.6
Food	26.9	25.7	25.9	26.5	25.8	25.1
0741 Tea	16.5	14.7	15.0	15.3	14.2	12.7
0752 Spices (except pepper and pimento)	1.7	1.9	1.8	2.1	1.5	1.9
0577 Edible nuts fresh or dried	0.8	1.4	0.9	0.9	1.9	1.7
0751 Pepper of the genus *Piper*; fruits of the genus *Capsicum/Pimenta*	0.5	0.3	0.8	1.3	0.6	1.4
Agricultural raw material	3.9	4.0	3.3	2.6	2.6	2.5
Mining	1.0	1.1	1.1	0.9	3.2	2.3
Ores and other minerals	0.4	0.3	0.5	0.3	0.3	0.3
Non-ferrous metals	0.4	0.3	0.2	0.4	0.3	0.3
Fuels	0.2	0.4	0.4	0.3	2.6	1.8
Manufactures	66.5	69.2	69.4	69.7	68.2	70.1
Iron and steel	0.0	0.0	0.1	0.0	0.0	0.0
Chemicals	1.2	1.4	1.5	1.5	1.5	1.6
Other semi-manufactures	12.0	13.3	13.3	13.0	11.1	9.6
6259 Other tyres, tyre flaps and inner tubes, etc.	2.4	3.6	3.6	3.5	3.2	2.9
6672 Diamonds (excl. industrial, sorted) not mounted/set	3.6	3.8	3.5	3.1	1.7	1.3
Machinery and transport equipment	5.3	5.3	6.1	4.5	5.6	6.4
Power generating machines	0.0	0.0	0.3	0.1	0.1	0.1
Other non-electrical machinery	0.7	0.9	1.2	1.0	1.1	0.9
Agricultural machinery and tractors	0.0	0.0	0.0	0.0	0.0	0.0
Office machines and telecommunication equipment	0.2	0.1	0.2	0.1	0.5	0.3
Other electrical machines	2.3	2.1	2.0	1.9	2.1	1.9
Automotive products	0.1	0.1	0.2	0.2	0.2	0.1
Other transport equipment	2.1	2.0	2.1	1.2	1.6	3.1
Textiles	2.1	2.0	2.4	2.4	2.4	2.7
Clothing	42.0	42.1	42.7	45.1	43.5	45.7
8448 Underwear, nightwear, etc., knitted/crocheted	4.9	4.8	4.7	5.1	4.8	5.4
8455 Brassieres, girdles, corsets, braces, etc.	3.9	4.0	4.5	4.9	4.7	5.3
8454 T-shirts, singlets and other vests, knitted or crocheted	4.2	4.1	3.8	4.0	4.4	4.3
8442 Suits, ensembles, jackets, dresses, etc.	2.9	3.3	3.5	4.3	4.0	4.2
8414 Trousers, bib and brace overalls, breeches and shorts	4.2	4.1	3.9	3.8	3.6	3.4
8426 Trousers, breeches, etc., women's/girls', not knitted/crocheted	4.6	3.9	4.0	3.6	3.2	3.1
8469 Other made-up clothing accessories	2.0	2.1	2.1	2.3	2.1	2.2
8415 Shirts	1.6	1.5	1.7	1.8	1.9	2.0
8451 Babies' garments and clothing accessories	1.2	1.2	1.4	1.6	1.7	2.0
8453 Jerseys, pullovers, cardigans, etc., knitted/crocheted	1.7	1.4	1.2	1.5	1.7	1.9
8482 Articles of apparel and clothing accessories, of plastics/vulcanized rubber	1.7	1.9	2.0	2.0	1.7	1.7
8427 Blouses/shirts, women's/girls', not knitted/crocheted	1.2	1.3	1.2	1.4	1.4	1.6
8438 Underwear, nightwear, bathrobes, etc.	1.1	1.3	1.4	1.7	1.5	1.6
Other consumer goods	3.9	5.1	3.2	3.2	4.0	4.0
Other	1.6	0.0	0.4	0.3	0.3	0.0

Source: UNSD, Comtrade database (SITC Rev.3).

Table A1. 2 Merchandise imports by group of products, 2010-15

	2010	2011	2012	2013	2014	2015
Total imports (US$ million)	12,353.7	19,696.5	17,884.9	17,930.8	19,244.5	18,967.2
	(% of total)					
Total primary products	35.2	36.1	35.5	38.1	39.1	30.7
Agriculture	16.7	14.5	12.7	13.2	14.8	15.3
Food	15.2	12.9	11.4	11.9	13.2	13.1
0412 Other wheat (including spelt) and meslin, unmilled	1.9	2.3	1.8	1.8	1.9	1.7
0222 Milk and cream, concentrated or sweetened	2.0	1.7	1.6	1.5	1.7	1.2
0542 Leguminous vegetables, dried, shelled	1.5	0.9	0.7	0.9	0.9	1.2
0612 Other beet or cane sugar and chemically pure sucrose, in solid form	2.7	2.0	1.8	1.4	1.2	1.2
Agricultural raw material	1.4	1.6	1.3	1.3	1.6	2.2
Mining	18.5	21.6	22.8	24.9	24.3	15.3
Ores and other minerals	0.5	0.5	0.5	0.5	0.5	0.5
Non-ferrous metals	1.3	0.9	0.9	1.0	1.0	0.9
Fuels	16.7	20.2	21.4	23.4	22.8	14.0
3330 Crude oils of petroleum and bituminous minerals	6.1	6.9	7.2	7.5	7.0	4.0
3442 Gaseous hydrocarbons, liquefied, n.e.s.	1.0	0.9	1.2	1.1	1.0	0.8
3212 Other coal, whether or not pulverized, not agglomerated	0.1	0.6	0.7	0.7	0.8	0.8
Manufactures	64.1	60.8	62.9	60.5	60.8	69.1
Iron and steel	3.0	2.8	3.9	3.1	3.4	3.5
6726 Semi-finished iron/steel products <0.25% carbon	0.6	0.7	1.4	1.1	1.3	1.4
Chemicals	11.2	9.9	10.1	10.1	10.5	11.6
5429 Medicaments, n.e.s.	1.2	1.3	1.5	1.6	1.5	1.8
5621 Mineral or chemical fertilizers, nitrogenous	1.1	1.2	1.0	0.8	1.0	0.9
Other semi-manufactures	10.2	9.4	10.0	10.7	9.6	10.0
6612 Portland cement and similar hydraulic cements	1.5	1.8	2.2	2.9	2.7	2.6
6911 Structures (excluding prefabricated buildings of group 811) and parts of structures	0.3	0.3	0.4	0.8	0.5	0.8
Machinery and transport equipment	21.4	23.7	22.4	21.1	21.1	27.2
Power generating machines	1.1	1.1	1.7	1.1	1.0	0.9
Other non-electrical machinery	5.3	5.6	5.9	6.3	5.5	6.4
Agricultural machinery and tractors	0.7	0.7	0.6	0.5	0.3	0.6
Office machines and telecommunication equipment	3.0	3.6	3.8	3.9	3.4	4.3
7643 Transmission apparatus for radio-telephony, television, etc.	0.3	0.6	0.5	0.6	0.7	1.2
Other electrical machines	2.5	2.1	2.6	2.5	2.0	2.2
Automotive products	6.6	8.6	6.4	5.2	6.4	10.3
7812 Motor vehicles for the transport of persons, n.e.s.	3.6	4.7	2.8	3.3	4.2	6.8
7821 Goods vehicles	1.7	2.8	2.4	1.0	1.1	2.0
Other transport equipment	2.9	2.7	2.0	2.2	2.8	3.0
7851 Motorcycles and side-cars, etc.	1.2	0.9	0.7	0.6	1.1	1.3
Textiles	13.9	11.3	12.2	10.9	11.6	11.5
6552 Other knitted/crocheted fabrics, not impregnated/coated, etc.	3.8	3.4	3.7	3.4	3.7	3.6
6524 Other fabrics, of 85% finished cotton >200 g/m2	2.0	1.7	1.5	1.3	1.2	1.1
6532 Fabrics ≥85% synthetic fibres, excl. pile/ chenille	0.7	0.6	0.8	0.7	0.8	0.9
Clothing	0.9	0.8	1.0	1.0	1.3	1.8
Other consumer goods	3.3	2.9	3.3	3.4	3.3	3.5
Other	0.7	3.1	1.6	1.4	0.1	0.3

Source: UNSD, Comtrade database (SITC Rev.3).

Table A1. 3 Merchandise exports by destination, 2010-15

	2010	2011	2012	2013	2014	2015
Total exports (US$ million)	8,304.1	10,011.3	9,369.8	10,004.9	11,295.5	10,439.7
	(% of total)					
America	24.6	25.1	26.7	29.3	28.2	31.3
United States	21.3	21.4	22.6	24.9	24.1	26.8
Other America	3.3	3.7	4.1	4.4	4.1	4.5
Canada	1.1	1.3	1.5	1.5	1.5	1.7
Mexico	0.7	1.0	1.1	1.0	1.0	1.0
Europe	38.0	38.2	36.8	36.2	35.0	32.1
EU-28	35.0	35.6	34.1	32.8	31.2	29.1
United Kingdom	12.3	11.1	11.3	10.8	9.9	9.8
Germany	4.8	5.1	4.9	4.7	4.5	4.6
Italy	5.6	6.1	5.5	5.1	5.4	4.2
Belgium	4.7	5.5	5.0	4.6	2.8	2.7
Netherlands	2.2	2.0	1.8	1.9	2.2	2.1
France	1.9	1.8	1.9	1.9	2.5	1.9
EFTA	1.0	1.1	1.2	1.4	1.4	1.2
Switzerland	0.8	0.9	1.0	1.2	1.3	1.0
Other Europe	2.0	1.5	1.6	2.0	2.4	1.8
Turkey	2.0	1.5	1.5	1.9	2.3	1.7
Commonwealth of Independent States (CIS)	4.5	4.3	4.3	4.2	3.6	2.7
Russian Federation	2.9	2.8	2.8	2.8	2.4	1.9
Africa	1.6	1.9	2.4	2.1	2.2	2.6
Middle East	9.8	9.4	9.3	9.4	8.8	8.8
United Arab Emirates	3.0	3.0	2.4	2.4	2.6	2.7
Iran, Islamic Republic of	1.8	1.8	2.1	2.0	1.6	1.5
Israel	0.6	0.6	0.8	1.0	1.1	1.0
Iraq	0.6	0.9	0.9	0.9	0.8	1.0
Asia	19.9	20.9	20.3	18.4	20.7	21.3
China	1.1	1.0	1.3	1.2	1.6	2.9
Japan	2.0	2.2	2.3	2.2	2.1	2.1
Other Asia	16.8	17.6	16.7	15.0	17.0	16.3
India	5.6	5.2	6.4	5.4	6.5	6.8
Australia	1.2	1.3	1.4	1.6	1.5	1.5
Hong Kong, China	1.4	1.1	1.2	1.3	1.3	1.2
Bangladesh	0.4	0.5	0.7	0.8	1.0	0.9
Other	1.6	0.1	0.2	0.3	1.6	1.2

Source: UNSD Comtrade database.

Table A1. 4 Merchandise imports by origin, 2010-15

	2010	2011	2012	2013	2014	2015
Total imports (US$ million)	12,353.7	19,696.5	17,884.9	17,930.8	19,244.5	18,967.2
	(% of total)					
America	4.4	3.8	3.9	4.5	5.1	4.9
United States	1.4	1.5	1.3	2.0	2.6	2.5
Other America	3.0	2.3	2.5	2.5	2.6	2.4
Canada	2.0	1.7	1.7	1.6	1.6	1.5
Europe	13.9	13.6	11.7	11.0	9.3	10.5
EU-28	12.4	9.8	10.0	9.3	8.3	9.5
United Kingdom	2.2	1.6	1.7	1.6	1.5	2.5
Germany	2.0	1.8	1.8	2.1	1.7	1.8
Italy	1.6	1.5	1.6	1.4	1.4	1.1
Belgium	2.1	2.1	2.0	1.2	0.5	0.8
EFTA	1.3	3.5	1.4	1.4	0.7	0.7
Other Europe	0.2	0.3	0.3	0.3	0.3	0.3
Commonwealth of Independent States (CIS)	0.2	0.6	1.2	1.3	1.5	1.5
Russian Federation	0.2	0.4	0.5	0.8	1.4	1.3
Africa	0.5	0.5	0.5	0.6	0.4	0.7
Middle East	11.3	14.5	17.3	13.9	12.7	8.4
United Arab Emirates	2.7	4.1	7.2	6.8	9.1	5.7
Oman	0.7	1.1	2.0	4.3	1.8	1.3
Asia	69.7	66.8	65.1	68.4	71.0	73.9
China	10.1	10.8	14.4	16.5	17.7	19.7
Japan	4.7	5.2	3.1	3.7	4.9	7.3
Other Asia	54.9	50.8	47.6	48.1	48.3	46.9
India	20.6	22.1	19.7	17.4	20.7	22.5
Singapore	13.1	7.8	7.2	10.0	6.6	4.9
Malaysia	3.1	3.8	3.1	3.2	3.7	2.7
Thailand	2.6	2.5	2.6	2.4	2.4	2.6
Chinese Taipei	2.1	1.8	2.1	2.5	2.3	2.4
Indonesia	1.7	1.8	2.3	2.5	3.1	2.3
Hong Kong, China	4.7	3.6	3.3	2.4	1.8	2.0
Korea, Republic of	1.6	2.0	1.8	1.7	2.2	1.6
Pakistan	2.3	1.7	2.0	2.1	1.5	1.6
Australia	1.5	1.4	1.2	1.2	1.2	1.4
Viet Nam	0.4	0.5	0.6	1.0	1.0	1.3
New Zealand	0.6	1.4	1.4	1.2	1.3	1.0
Other	0.1	0.3	0.3	0.3	0.0	0.1

Source: UNSD, Comtrade database.

Table A2.1 Selected notifications to the WTO, 1 January 2010-1 July 2016

WTO Agreement	Description	Document symbol	Date
Agreement on Agriculture			
Articles 10 and 18.2; ES:1	Export subsidy commitments	G/AG/N/LKA/5	26/08/2015
Article 18.2; DS:1	Domestic support	G/AG/N/LKA/3 G/AG/N/LKA/4 G/AG/N/LKA/4/Corr.1	11/07/2014 25/06/2015 05/11/2015
Agreement on the Implementation of Article VII of the GATT 1994 (Customs Valuation)			
Article 22	National legislation	G/VAL/N/1/LKA/1	11/05/2015
Article 22	Checklist of issues	G/VAL/N/2/LKA/1	11/05/2015
Decision A.3	Notification of the treatment of interest charges	G/VAL/N/3/LKA/2	11/05/2015
Decision A.4	Notification of valuation of carrier media	G/VAL/N/3/LKA/1	11/05/2015
GATT 1994			
Article XXVIII:5	Invocation of paragraph 5 of Article XXVIII	G/MA/296	01/09/2014
Agreement on Import Licensing			
Article 1.4(a) and/or 8.2(b)	Publication	G/LIC/N/1/LKA/2	19/02/2014
Articles 5.1-5.4	Notification of import licensing procedures	G/LIC/N/2/LKA/1	12/01/2015
Article 7.3	Replies to the questionnaire	G/LIC/N/3/ LKA/2	19/02/2014
Agreement on Sanitary and Phytosanitary Measures			
Article 7 Annex B	Sanitary and phytosanitary regulations	Approximately 28 notifications received, please see: http://www.wto.org/ english/tratop_e/sps_e/wor k_and_doc_e.htm	
Agreement on Technical Barriers to Trade			
Article 2.9	Technical regulations	G/TBT/N/LKA/32 G/TBT/N/LKA/33	21/01/2010 29/01/2014
Article 15.2	Implementation and administration of the Agreement	G/TBT/2/Add.27/Rev.1	01/04/2015
Agreement on Trade-Related Aspects of Intellectual Property Rights			
Article 63.2	Checklist of issues	IP/N/6/LKA/1	15/01/2015
Article 63.2	Laws and regulations	IP/N/1/LKA/2 IP/N/1/LKA/C/2 IP/N/1/LKA/I/2	26/08/2010 31/08/2010
Article 69	Members' contact points	IP/N/3/LKA/1	15/01/2015
Agreement on Trade-Related Investment Measures			
Article 6.2	Publications on TRIMs	G/TRIMS/N/2/Rev.24 G/TRIMS/N/2/Rev.24/Add.3	15/09/2014 23/12/2014

Source: WTO Secretariat.

Table A2.2 Investment protection agreements

Partner	Date of entry into force
Australia	14/3/2007
Belgium-Luxembourg Economic Union	26/4/1984
China	25/3/1987
Denmark	4/6/1985
Egypt	10/3/1998
Finland	25/10/1987
France	19/4/1982
Germany	16/1/2004
India	13/2/1998
Indonesia	21/7/1997
Italy	20/3/1990
Japan	7/8/1982
Republic of Korea	15/7/1980
Malaysia	31/10/1995
Netherlands	1/5/1985
Norway	13/6/1985
Pakistan	5/1/2000
Romania	3/6/1982
Singapore	30/9/1980
Sweden	30/4/1982
Switzerland	12/2/1982
Thailand	14/5/1996
United Kingdom	18/12/1980
United States	1/5/1993

Source: Information provided by the authorities.

Table A3.1 HS codes for which the MFN rate exceeds the bound rate

		MFN rate	AVE	Bound rate
04079000	Other	Rs 100/= per kg	73.4%	50.0%
07031020	B' onions	Rs 20/= per kg	55.3%	50.0%
10061000	Rice in the husk (paddy or rough)	Rs 35/= per kg	100.7%	50.0%
10062000	Husked (brown) rice	Rs 35/= per kg	51.5%	50.0%
10063000	Semi-milled or wholly milled rice, whether or not polished or glazed	Rs 35/= per kg	56.9%	50.0%
10064000	Broken rice	Rs 35/= per kg	623.0%	50.0%
22030000	Beer made from malt	Rs 500= per l	232.4%	50.0%
22042100	In containers holding 2 l or less	Rs 400= per l	67.6%	50.0%
22042900	Other	Rs 400= per l	55.6%	50.0%
22051000	In containers holding 2 l or less	Rs 400= per l	75.3%	50.0%
22060000	Other fermented beverages (for example, cider, perry mead); mixtures of fermented beverages and mixtures of fermented beverages and non-alcoholic beverages, not elsewhere specified or included	Rs 400= per l	119.0%	50.0%
22071000	Undenatured ethyl alcohol of an alcoholic strength by volume of 80% or higher	Rs 400= per l	378.1%	50.0%
22072010	Spirits denatured in accordance with regulations framed under the Excise Ordinance	Rs 400= per l	118.8%	50.0%
22072090	Other	Rs 400= per l	157.1%	50.0%
22082000	Spirits obtained by distilling grape wine or grape marc	Rs 2500/= per l	146.7%	50.0%
22083000	Whiskies	Rs 2500/= per l	120.6%	50.0%
22084010	Rum	Rs 2500/= per l	210.0%	50.0%
22084090	Other	Rs 2500/= per l	98.3%	50.0%
22085000	Gin and Geneva	Rs 2500/= per l	207.8%	50.0%
22086000	Vodka	Rs 2500/= per l	176.3%	50.0%
22087000	Liqueurs and cordials	Rs 2500/= per l	179.5%	50.0%
22089010	Coconut base arrack	Rs 2500/= per l	250.8%	50.0%
22089090	Other	Rs 2500/= per l	141.5%	50.0%
24012000	Tobacco, partly or wholly stemmed/stripped	75%		50.0%
24013000	Tobacco refuse	75%		50.0%
24021000	Cigars, cheroots and cigarillos, containing tobacco	Rs 1,600/= per kg net weight	1225.2%	50.0%
24022010	Beedies	75% or Rs 4,000 per kg		50.0%
24022020	Cigarettes	125%		50.0%
24022030	Cigarettes	125%		50.0%
24022040	Cigarettes	125%		50.0%
24022050	Cigarettes	125%		50.0%
24022060	Cigarettes	125%		50.0%
24029000	Other	250% or Rs 1,600/= per kg gross weight		50.0%
24031100	Water pipe tobacco	250% or Rs 1,600/= per kg gross weight		50.0%
24031910	Pipe tobacco	250% or Rs 1,600/= per kg gross weight		50.0%
24031920	Beedi tobacco	85%		50.0%
24031990	Other	250% or Rs 1,600/= per kg gross weight		50.0%
24039110	Pipe tobacco	250% or Rs 1,600/= per kg gross weight		50.0%
24039190	Other	250% or Rs 1,600/= per kg gross weight		50.0%
24039910	Pipe tobacco	250% or Rs 1,600/= per kg gross weight		50.0%

		MFN rate	AVE	Bound rate
24039990	Other	250% or Rs 1,600/= per kg gross weight		50.0%
48021000	Hand-made paper and paperboard	30%		25.0%
53050011	Twisted	30%		25.0%
53050012	Not twisted	30%		25.0%
53050013	Bleached	30%		25.0%
53050014	Dyed	30%		25.0%
53050021	Mixed with animal hair and not twisted	30%		25.0%
53050022	Other twisted	30%		25.0%
53050023	Other not twisted	30%		25.0%
53050030	Raw mixed fibre of coconut (coir) twisted	30%		25.0%
53050041	Twisted	30%		25.0%
53050042	Not twisted	30%		25.0%
53050050	Raw fibre pith of coconut (raw format not processed)	30%		25.0%
53050061	Twisted	30%		25.0%
53050069	Other	30%		25.0%
53050071	Moulded products for use in horticulture	30%		25.0%
53050072	Tow, noils and waste	30%		25.0%
53050079	Other	30%		25.0%
53050081	Raw	30%		25.0%
53050082	Tow, noils and waste	30%		25.0%
53050089	Other	30%		25.0%
53050094	Other tow and waste	30%		25.0%
53050099	Other	30%		25.0%
54072000	Woven fabrics obtained from strip or the like	15%		10.0%
56012110	Wet cleansing tissues	30%		5.0%
56012210	Wet cleansing tissues	30%		5.0%
56012910	Wet cleansing tissues	30%		5.0%
56072100	Binder or baler twine	30%		25.0%
56072900	Other	15%		10.0%
56074100	Binder or baler twine	30%		25.0%
56074910	Imported for the manufacture of fishing nets	15%		10.0%
56074990	Other	30%		25.0%
56075010	Imported for the manufacture of fishing nets	15%		10.0%
56075090	Other	30%		25.0%
56079020	Coir twine	30%		25.0%
56079030	Coir rope	30%		25.0%
56079040	Of jute or of other textile bast fibres of heading 53.03	30%		25.0%
56079090	Other	30%		25.0%
56081110	Of monofilament	15% or Rs 250/= per kg		10.0%
56081190	Other	15% or Rs 250/= per kg		10.0%
56081900	Other	30%		25.0%
56089000	Other	30%		25.0%
56090000	Articles of yarn, strip or the like	15%		10.0%
57011000	Of wool or fine animal hair	15%		10.0%
57019010	Coir carpets and rugs	15%		10.0%
57019020	Jute carpets	15%		10.0%
57019090	Other	15%		10.0%
57021000	"Kelem", "Schumacks", "Karamanie" and similar hand-woven rugs	15%		10.0%
57022010	Mats and rugs	15%		10.0%
57022020	Mattings	15%		10.0%
57022090	Other	15%		10.0%
57023100	Of wool or fine animal hair	15%		10.0%
57023200	Of man-made textile materials	15%		10.0%

		MFN rate	AVE	Bound rate
57023910	Jute carpets	15%		10.0%
57023990	Other	15%		10.0%
57024100	Of wool or fine animal hair	15%		10.0%
57024200	Of man-made textile materials	15%		10.0%
57024900	Of other textile materials	15%		10.0%
57025010	Of wool or fine animal hair	15%		10.0%
57025020	Of man-made textile materials	15%		10.0%
57025090	Of other textile materials	15%		10.0%
57029100	Of wool or fine animal hair	15%		10.0%
57029200	Of man-made textile materials	15%		10.0%
57029900	Of other textile materials	15%		10.0%
57031000	Of wool or fine animal hair	15%		10.0%
57032000	Of nylon or other polyamides	15%		10.0%
57033000	Of other man-made textile materials	15%		10.0%
57039010	Jute carpets	15%		10.0%
57039090	Other	15%		10.0%
57041000	Tiles, having a maximum surface area of 0.3 m^2	15%		10.0%
57049010	Jute carpets	15%		10.0%
57049090	Other	15%		10.0%
57050000	Other carpets and other textile floor coverings	15%		10.0%
58030000	Gauze, other than narrow fabrics of heading 58.06	30%		10.0%
58041011	Of monofilament	15% or Rs 200/= per Kg		10.0%
58041090	Other	15%		10.0%
59031000	With poly(vinyl chloride)	15%		10.0%
59080000	Textile wicks, woven, plaited or knitted, for lamps, stoves	15%		10.0%
84521010	Completely knocked-down, excluding furniture and stands	15%		5.0%
84521090	Other	30%		25.0%
85256000	Transmission apparatus incorporating reception apparatus	15%		5.0%
85271900	Other	30%		25.0%
85351000	Fuses	15%		5.0%
85352100	For a voltage of less than 72.5 kV	15%		5.0%
85352900	Other	15%		5.0%
85353000	Isolating switches and make-and-break switches	15%		5.0%
85354000	Lightning arresters, voltage limiters and surge suppressors	15%		5.0%
85359000	Other	15%		5.0%
85362000	Automatic circuit breakers	15%		5.0%
85365030	Main switches of 24 amp and over	15%		5.0%
85365090	Other	30%		5.0%
92093000	Musical instrument strings	15%		5.0%

Note: List might not be exhaustive as for some non-*ad valorem* rates no AVEs is provided.

Source: Data provided by the authorities.

Table A4.1 Summary of the Special Commodity Levy, 2011-15

Date	Number of tariff lines	Products	Amount of levy
22/09/2015	15	Soya bean/palm/sunflower/coconut/palm kernel/other oils	Rs 110-145 per kg
22/09/2015	1	B' onions	Rs 20 per kg
08/09/2015	24	Potatoes B' onions Peas (whole) Peas (split) Chickpeas (whole) Chickpeas (split) Cowpeas Red and yellow lentils Seeds/grains Margarine/other margarine Sugar	Rs 40 per kg Rs 10 per kg Rs 15 per kg Rs 18 per kg Rs 7 per kg Rs 10 per kg Rs 70 per kg Rs 2 per kg Rs 70 per kg Rs 175/275 per kg Rs 30 per kg
21/07/2015	46	Maldive fish, sprats, green gram, black gram, chillies, seeds of coriander, turmeric, black gram flour, soya bean oil, palm oil, sunflower oil, coconut oil, palm kernel oil, prepared fish, sugar	Ranging from Rs 10 to 360 per kg, depending on the product
18/06/2015	18	Red and yellow lentils Soya bean/palm/sunflower/coconut/other oils	Rs 0.25 per kg Rs 105-125 per kg
06/06/2015	2	Potatoes B' onions	Rs 30 per kg Rs 10 per kg
02/04/2015	37	Fresh/frozen fish Other dried fish Yogurt/buttermilk, cream Butter/dairy spreads/fats and oils Red onions Garlic Fresh fruit Seeds of cumin Seeds of fennel or mathe Kurakkan Ground nuts Mustard seeds Oils from soya/palm/sunflower/coconut/ other Salt	10% or Rs 10 per kg, whichever is higher Rs 102 per kg Rs 625 per kg Rs 880 per kg Rs 5 per kg Rs 40 per kg Rs 45-130 per kg Rs 162 per kg Rs 50-52 per kg Rs 150 per kg Rs 112 per kg Rs 62 per kg Rs 90-125 per kg Rs 40 per kg
18/03/2015	1	Mackerel	Rs 6 per kg
25/02/2015	3 15	Maize/sorghum Peas (whole) Peas (split) Chickpeas (whole) Chickpeas (split) Cowpeas Lentils Seeds/grains Margarine/other margarine	Levy removed Rs 15 per kg Rs 18 per kg Rs 7 per kg Rs 10 per kg Rs 70 per kg Rs 2 or 5 per kg Rs 70 per kg Rs 175/275 per kg
15/02/2015	2	Frozen fish Potatoes	Rs 10 per kg Rs 40 per kg
22/01/2015	4	Rice	Rs 20 per kg
01/01/2015	1	B' onions	Rs 10 per kg

Date	Number of tariff lines	Products	Amount of levy
05/09/2014	13	Rice Sugar	Rs 1 per kg Rs 33 per kg
23/08/2014	2	Potatoes B' onions	Rs 40 per kg Rs 35 per kg
15/08/2014	1	Potatoes	Rs 15 per kg
12/08/2014	2	Red onions B' onions	Rs 5 per kg Rs 25 per kg
26/07/2014	17	Peas (whole) Peas (split) Chickpeas (whole) Chickpeas (split) Green gram Cowpeas Lentils Maize/sorghum Seeds/grains	Rs 15 per kg Rs 18 per kg Rs 7 per kg Rs 10 per kg Rs 70 per kg Rs 70 per kg Rs 2 or 5 per kg 10% Rs 70 per kg
16/07/2014	10	Potatoes Sugar	Rs 5 per kg Rs 28 per kg
24/05/2014	4	Lentils	Rs 5 per kg
10/04/2014	4	Rice	Rs 5 per kg
08/03/2014	2	Red lentils Yellow lentils	Rs 10 per kg Rs 10 per kg
07/02/2014	3	Potatoes Red lentils Yellow lentils	Rs 25 per kg Rs 5 per kg Rs 5 per kg
17/11/2013	3	Potatoes Red onions B' onions	Rs 10 per kg Rs 5 per kg Rs 10 per kg
02/08/2013	1	B' onions	Rs 30 per kg
12/07/2013	9	Sugar	Rs 27 per kg
8/06/2013	75	Fish, onions, garlic, peas, chickpeas, gram, dhal, fresh fruit, chillies, seeds, spices, grains, flour, oils, processed fish, sugar	Ranging from Rs 10 to 500 per kg, depending on the product. 10% or Rs 10 per kg, whichever is higher, for fresh and frozen fish.
08/02/2013	76	Fish, potatoes, onions, garlic, peas, chickpeas, gram, dhal, fresh fruit, chillies, seeds, spices, grains, flour, oils, processed fish, sugar	Ranging from Rs 10 to 500 per kg, depending on the product. 10% or Rs 10 per kg, whichever is higher, for fresh and frozen fish.
18/09/2012	10	Potatoes B' onions Processed fish	Rs 50 per kg Rs 50 per kg Rs 75 per kg
13/08/2012	2	Potatoes B' onions	Rs 30 per kg Rs 50 per kg
20/07/2012	8	Sugar	Rs 20 per kg
14/07/2012	14	Fresh/frozen fish Fish	10% or Rs 10 per kg, whichever is higher Rs 10 per kg

Date	Number of tariff lines	Products	Amount of levy
		Fish Potatoes B' onions Processed fish	Rs 75 per kg Rs 10 per kg Rs 25 per kg Rs 50 per kg
12/05/2012	64	Fresh/frozen fish Maldive fish Dried sprats Other dried fish Potatoes Red onions Garlic Peas (whole) Peas (split) Chickpeas (whole) Chickpeas (split) Gram and cowpea Dhal Fresh oranges Fresh grapes Fresh apples	30% or Rs 35 per kg, whichever is higher Rs 250 per kg
22/03/2012	3	Green gram Fresh mandarins Kurakkan flour	Rs 75 per kg Rs 50 per kg Rs 100 per kg

Source: Sri Lanka Customs.