

# CUSTOMS ECONOMIC PROCEDURES IN SRI LANKA

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**T H I L A K   A R U M A P P E R U M A   A R A C H C H I**

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Deputy Director of Customs  
Ruhunu Magampura International Port  
Hambantota

# Customs Economic Procedures (CEP)

**Embrace  
Number of  
Customs  
Relief  
Procedures  
with  
economic  
impact**

**Customs Bonding Scheme**

**Temporary Import for Export Processing (TIEP) Scheme**

**Textile & Apparel Industry - INFAC Scheme**

**Container Freight Stations**

**Entrepôt Trade Scheme**

# CEP PERMITS



Sourcing of inputs without payment of fiscal levies for processing and export of finished/semi finished goods



Sourcing of plant, machinery and equipment for export industries with partial exemption of fiscal levies,



Sourcing of inputs on differed fiscal levies for manufacture and release of the finished products in the local market on payment of applicable levies,



Sourcing of specific commodities for subsequent release in to the local market on payment of fiscal levies.



Sourcing of consumer goods for subsequent release without payment of fiscal levies for eligible persons

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## **ADVANTAGES**

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Reduced cost of production of the export products

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Re-export with value addition

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Increased competitiveness in the international market

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Stabilization of local market prices

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Exploit the country's potential in international maritime network

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Maximizing the opportunities under Preferential Trade Agreements

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Connection opportunities to the Global Value Chain

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Generation of employment opportunities


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Motivation for local industries

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## FOR WHOM?



### Indirect exporters

- Manufactures and supply direct exporters



### Manufacturers

- Manufacture and export/sale of finished goods



### Direct exporters

- Process and re-export
- Manufacture and export



### Logistic operators

- Cargo consolidations
- Trade between ports



### Traders

- Store for subsequent supply/release of goods under a different scheme

## **THE BONDING SCHEME**

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**A major scheme to facilitate import of goods without payment of fiscal levies and deposit in a bonded warehouse for a certain period of time until placing them under a different Customs Procedure.**

# TYPES OF BONDED WAREHOUSES

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graph TD; A[TYPES OF BONDED WAREHOUSES] --> B[State/Public owned]; A --> C[Private owned]; B --> D[SLPA General Bonds]; C --> E[Private Bond]; C --> F[Private General Bond];
```

State/Public  
owned

SLPA General  
Bonds

Private  
owned

Private Bond

Private  
General Bond

## **THE BONDING SCHEME INVOLVES**

**Application to the Director General of Customs**

**Approval from the Ministry of Finance**

**Nomination by the Director General of Customs**

**Deposit of security to cover the revenue liabilities**

**Operation under the scheme**

- **To-Bond Customs declarations**
- **Ex-Bond Customs declarations**
- **Re-Bond Customs declarations**
- **Re-Export Customs declarations**
- **Reconciliation of inputs against output**

**Annual verification and renewal**





## **COMMON OPERATIONS UNDER THE BONDING SCHEME**

**Manufacture in Bond (Apparel, Motor vehicles)**

**Duty Free Shops**

**Supply of Ship Stores**

**Sugar and Rice Bonds**

**Clearance of Express Cargo Bonds (Courier)**

**Unaccompanied Personal Baggage (UPB) Bonds**

**Bunker Trade**

**\* [125 No. of Bonds Currently in Operation]**

## **BONDED WAREHOUSE OPERATION**

**No goods shall be entered until deposit of security**

**No duty paid goods allowed**

**Goods shall be properly marked and stowed**

**Warehouse shall be locked and secured**

**Opened only in the presence of Customs**

**Concealed or illegally removed of goods forfeited**

**No clandestine access to the goods**

**No destruction of goods**

**Goods to be cleared within 2 years**

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## THE TIEP SCHEME

**Temporary Import for Export Processing (TIEP) Scheme, a widely popular system implemented by Customs in collaboration with the Ministry of Industry and Commerce specially facilitating the export and export related industries with simplified and flexible approval and relaxed operational procedures.**

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## TWO SCHEMES IN OPERATION



### TIEP-I SCHEME

- Import of raw materials (inputs)
- No fiscal levies
- Processing
- Manufacture
- Direct/Indirect/Deemed Export



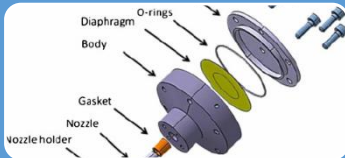
### TIEP-IV SCHEME

- Import of plant machinery and equipment
- Partial exemption of fiscal levies
- Export > 50% of volume of production

## TIEP-I: PERMITTED INPUTS



Raw-materials, Components and Parts which will be incorporated in the exported product;



Parts for assembly of the product to be exported;



Consumables such as Catalysts, Accelerators, Processing Chemicals, Lab Chemicals, Research Chemicals, and Retarders of chemical reaction to be used in the product to be exported;



Packing material including labels, stickers and tags to be used for packing the export products, raw materials for the manufacture of such packaging material and export catalogues and brochures

## TIEP-I: FISCAL LEVIES

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At IMPORT all fiscal levies, except for VAT, are **suspended** and Debited against security deposited in the form of Bank Guarantees or Corporate Bonds to cover the unpaid (suspended) import levies.

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VAT is **deferred** at import for those registered under the VAT Deferred Payment Facility and the same is settled against exports on VAT Credit Vouchers issued by the Department of Inland Revenue.

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On proof of EXPORT, Credits are granted on Security replenishing the quantity of inputs again importable under the same.

## TIEP-I: REGISTRATION PROCEDURE

**Application to the DDC (Industries & Services)**

**Details of the production/manufacturing process**

**Approval from the Development Division of the Ministry of Industry and Commerce (TIEP-I form) on **Conversion Ratio** and **Wastage Factor****

**Verification by Customs**

**Registration with a unique Customs Reference Number (**Warehouse Code**)**

## TIEP-I: TIEP-I FORM

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Form stipulated in the Government Extraordinary Gazette No. 1053/11 of 11/11/1998

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Can be downloaded from:

<http://www.customs.gov.lk>

<https://Investinceylon.wordpress.com>



# TIEP-I: THE APPLICATION FORM

APPLICATION FORM FOR INWARD PROCESSING					
Submit in Triplicates			TIEP 1		
WARNING: There are heavy penalties for making false declarations	Name & Address of Applicant		Date (YY/MM/DD) <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	Approval Number	
			TIN No. <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	Customs Ref. Number	
	Address of Workshop/Factory		Type of Operation <input type="checkbox"/> Manufacturer cum Exporter <input type="checkbox"/> Manufacturer cum Indirect Exporter		
Name of Address of exporter (to be filled by Indirect exporter use overleaf if necessary)					
EXPORT	Export/Manufactured Product		H.S Number	Unit of Productions	Unit Price FOB
				Annual Output	Annual Output value(Rs)
IMPORT	Item No.	Description of import Items	Conversion Ratio	H.S Number	Annual Quantity Kg/Units
					Total value per Year(Rs)
Total Value per Year					
CERTIFICATE	Approval is hereby granted to operate under the scheme in terms of the terms conditions and the rules governing the scheme. We approve duty free clearance of the ..... above items. .....Items amended overleaf, subject to conditions governing the scheme. We recommended clearances under			1. I/we under signed apply for duty and tax free clearance of above mentioned items and declare that I/we do not operate under any other scheme for duty and tax free clearance of items for the same product.	
	<input type="checkbox"/> 100% Bank Guarantee <input type="checkbox"/> 25% Bank & 75% Exporter Guarantee <input type="checkbox"/> Exporter Guarantee			2. If approval is granted to import the above mentioned item duty free and tax free, I /We agree to abide by the terms and conditions and the Rule governing the scheme.	
..... Designation Date.....  Export Facilitation Unit, 1 <sup>st</sup> Floor, Sri Lanka Customs, Colombo 11.			3. I/We declare that the particulars given herein are true & correct. I/We request clearance on <input type="checkbox"/> 100% Bank Guarantee <input type="checkbox"/> 25% Bank & 75% Exporter Guarantee <input type="checkbox"/> Exporter Guarantee  Name of Authorized..... Signature..... Designation.....  Signature.....		

Dark Cage for official use only

### CONVERSION RATIO

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Conversion Ratio is to be given for each and every input used in the production of specific output.

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This could either be stated as a percentage of each and every input used, or number of units used in the production of one unit of output.

E.g.

**To assemble one unit of 26" foot-bicycle requires:**

1 no of saddle

1 no of frame

2 no of wheels ...

**To produce certain recipe of tea blend might require:**

25% of Indian CTC tea

2% of Lemmon flavor in granules

73% of local black tea

## TIEP-I: CONVERSION RATIO & WASTAGE FACTOR

### WASTAGE FACTOR

Wastage factor is to be given for each and every input used in the production of specific output.

This is usually stated as a constituent percentage of the inputs used..

This figure is only a upper ceiling acceptable at the granting of approval. Applicants are required to claim only the actual wastage in the production process.

E.g.

**In the assembly one unit of 26" foot-bicycle requires:**

5% saddles

8% of frames

5% of wheels ...

**To produce certain recipe of tea blend might require:**

1% of Indian CTC tea

1% of Lemmon flavor in granules

## TIEP-I: TIEP-I CONDITIONS

- All imports are subject to normal law of the country i.e. import control regulations, payment regulations , plant & animal quarantine regulations...
- Operator is not entitled to process/produce similar product in any other economic scheme (Rule 7)
- Operator shall mark and stack goods for easy identification (Rule 13)
- Operator shall maintain a stock register (Rule 14)
- TIEP operator shall maintain records of production and stocks (Rule 16)
- TIEP operator may obtain supplies from similar other operators on GRN or Ex-Bond CusDec (Rule 17)
- Processing may be subcontracted but the TIEP operator is responsible (Rule 18 & 19)
- All inputs imported required to be re-exported within 6 months from import (Rule 20)
- Proof of export/supply shall be filed with Customs within 30 days from shipment for credit on exports (Rule 25)
- Disposal of waste is subject to Customs ...

## TIEP-I: TIEP-I CURRENT INDUSTRIAL SECTORS



Plantation produce Tea, Rubber, & Coconut



Export crops, Spices & Cashew



Printing & Packaging



Gem, Diamonds and jewellery



Confectionary



Apparel accessories



Ornamental fish



Electrical and electronics



Motor vehicle restoration



Toys & educational items

## TIEP-IV: PERMITTED INPUTS



Capital goods directly involved in production process

- Machinery, Equipment, Accessories etc.



Intermediate goods essential to the manufacturing process

- Appliances, Devices, Air conditioners, computers generators etc.



Spare parts of plants, machinery & equipment



Transport and handling equipment



Breeding stocks for agricultural projects

## TIEP-IV: WHO IS ENTITLED

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Those who export over 50% of their total volume of annual production.

## TIEP-IV: FISCAL LEVIES

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Ports and Airport Levy (PAL) is payable

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Nation Building Tax (NBT) is payable

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VAT is deferred against Security deposited with Customs

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Customs duty is exempted



## TIEP-IV: REGISTRATIN PROCEDURE

**Application to the DDC (Industries & Services) with the form TIEP-IV**

**Verification by Customs**

**Details of the production/manufacturing process and purpose of the imported item(s)**

**Proof of registration under SVAT scheme for VAT deferment**

**Registration with a unique Customs Reference Number (Warehouse Code)**



## TIEP-IV: CONDITIONS

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Goods shall be used only for the purpose for which they were permitted under the scheme

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Goods shall not be sold or disposed without the permission of the Director General of Customs

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Duly filled TIEP-V application shall be filed upon completion of one year from import, with auditors certificate on the production & export performance

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Disposal of Spent or waste items are subject to Customs ...



## THE INFAC SCHEME

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**Implementation of import duty concessions announced in the Budget speech for 1998 (Gazette Extraordinary No. 1000/11 of 05/11/1997) by the Ministry of Industrial Development for the facilitation of textile and garment industry**

## **THE INFAC SCHEME**

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**Provides import duty concessions for**

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**Project related machinery, equipment, parts**

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**Inputs including raw materials and accessories**

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**Packaging materials**

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**Subject to conditions laid down by the Secretary to the Treasury**

## **THE INFAC SCHEME : FOR WHOM**

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**Registered Manufacturers cum Exporters**

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**Registered exporters who uses imports to manufactures for export by a registered manufacturer**

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**Registered textile fabric/yarn/thread manufacturers/processors**

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**Providers of services such as washing plants, embroidery services, screen printing**

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**A Manufacturer in the Scheme is not entitled to operate under Customs Duty Rebate, Manufacture-in-Bond or any other such scheme in respect of an identical product**

# **THE INFAC SCHEME : APPLICATION PROCEDURE**

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**Application to the Director General of Customs**

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**Project Report**

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**Business Registration Certificate**

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**TIN & VAT Certificates from the IRD**

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**EDB Registration Certificate**

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**NIC & Passports of Signatory holders of CDP-1**

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**Project approval from the SME & Apparel Export Division of the Ministry of Industry and Commerce, with warehouse code**

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**Application for registration under Customs Deferred Payment (CDP-1) – in triplicate {VAT Act No. 14 of 2002}**

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**Power of Attorney (CDP-2) – in duplicate**

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**Company Guarantee (CDP-3) – (value > VAT for 6 month imports)**

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## **THE INFAC SCHEME : MIC CONDITIONS OF APPROVAL**

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**Confinement to the approved product**

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**Subject to approval from CEA**

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**Machinery to be new and modern**

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**Agreed annual production capacity**

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**Effective steps to use local materials**

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**All records on import/export to be maintained**

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**Summary of Export Declarations to MIC every month**

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**Subcontracting allowed with other INFAC/BOI operators**

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**Transfers on GRN**

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**Local disposal of rejects on approval of MIC and duty payable**

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**Progress report to MIC whenever required**

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## THE ENTREPÔT SCHEME

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**Provides for the import of goods and re-export to a third party with or without value addition without involvement of fiscal levies in Sri Lanka**

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**An important enabler of Commercial Hub Ports**

## AN ENTREPÔT

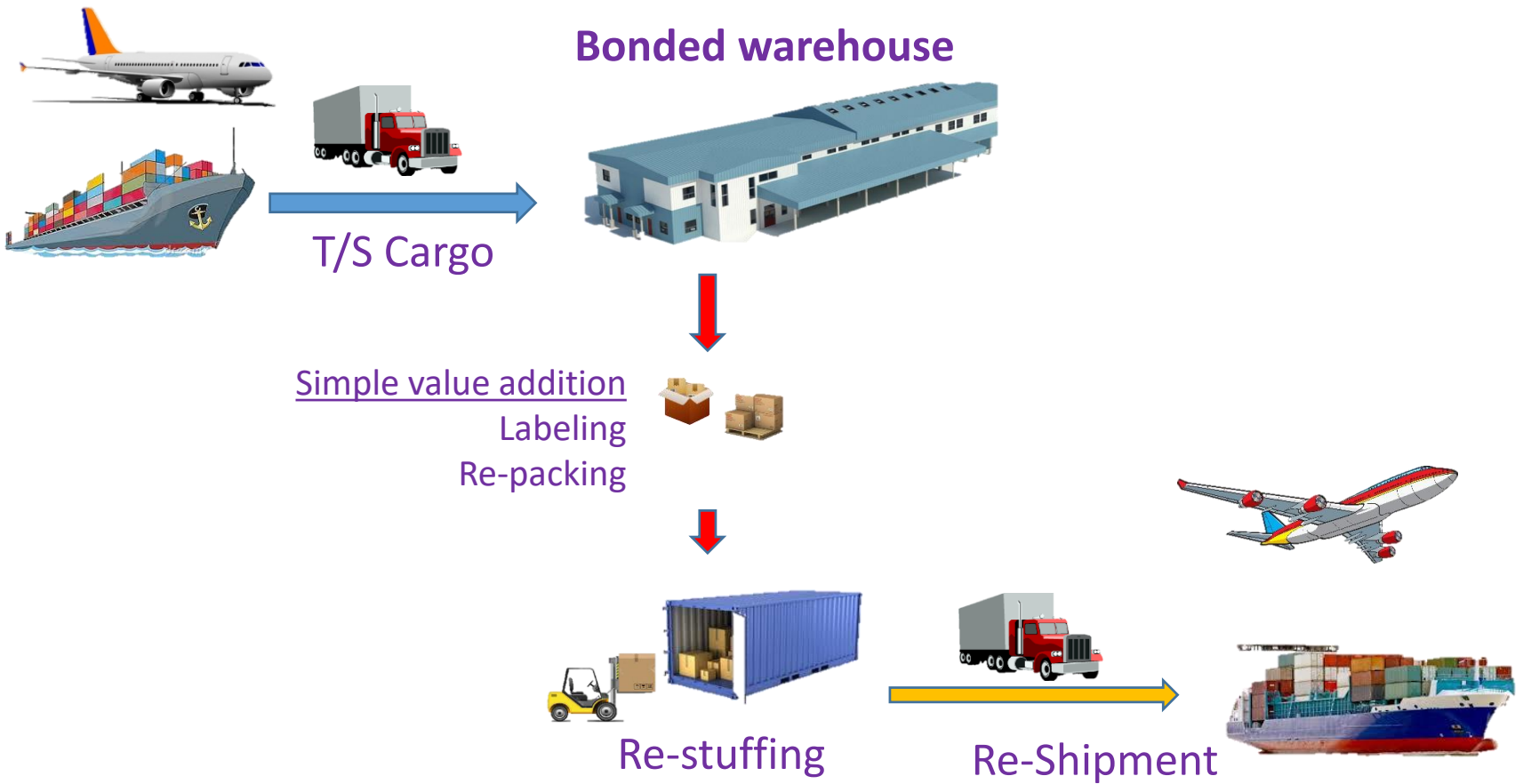
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**An entrepôt (French for "warehouse") or transshipment port is a port, city, or trading post where merchandise may be imported, stored or traded, usually to be exported again. These commercial cities spawned due the growth of long-distance trade. ([www.wikipedia.org](http://www.wikipedia.org))**

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**A port, city, or other centre to which goods are brought for import and export, and for collection and distribution. ([www.dictionary.com](http://www.dictionary.com))**

# THE ENTREPÔT TRADE



## THE ENTREPÔT SCHEME : ADVANTAGES

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No import control license

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Re-Export of goods '**as imported**' with or without (Budget 2017) value addition (No change of HS code)

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Meet buyers requirements by way of simple processing such as re-packing, labeling

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Exploit the country's strategic location in the maritime network

## THE ENTREPÔT TERMS & CONDITIONS

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### **IMPORT**

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Exchange control regulations are applicable

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Quarantine regulations are applicable

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Actual country of origin shall be declared

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### **RE-EXPORT**

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Exchange control regulations are applicable

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Re-Export under DA not permitted

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Re-Export FOB > Import CIF \*

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Country of Origin Shall not be changed

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*\* Budget 2017 – Paragraph No. 214. “At the same time, exports and imports related to Entrepot Trade will be allowed on No Foreign Exchange (NFP) terms, on establishment that logistic handling charges have been paid.”*

## THE ENTREPÔT SCHEME: PROHIBITIONS & RESTRICTIONS

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### PROHIBITED

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Narcotics

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Arms and ammunition

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Goods prohibited under international conventions

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### RESTRICTED

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Re-export of Spices, Textile and clothing to countries under preferential trading agreements

## **THE ENTREPÔT SCHEME: WAREHOUSING OF GOODS**

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**Public Bonded Warehouses of SLPA (CFS3/CFS5)**

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**Private Bonded Warehouse**

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**Transfer from inward to outward ship/aircraft is allowed under Customs supervision without warehousing**

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## THE ENTREPÔT SCHEME: SECURITIES & LIABILITIES

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### **MOVEMENT OF GOODS WITHIN THE PORT**

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No security is required

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No Customs supervision

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### **MOVEMENT OF GOODS FROM PORT TO BOND**

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Bank/Corporate Guarantee to cover liabilities

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Under Customs Supervision

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### **MOVEMENT OF GOODS FROM PORT TO PORT**

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No security is required

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No warehousing of goods

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Under Customs Supervision

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## **THE ENTREPÔT SCHEME: APPLICATION PROCEDURE**

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**Approval must be obtained case by case**

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**A letter of application to Director of Customs (Industries and Services) for approval**

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**Import and Export vessel Names**

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**Bill of lading number**

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**Description and quantity of goods**

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**Import commercial invoice number and the date**

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**Import value of the goods with terms of delivery (CIF)**

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**Destination of re-export**

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**Re-export value of the goods with terms of delivery and the gain**

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**Undertaking to re-export within the granted period**

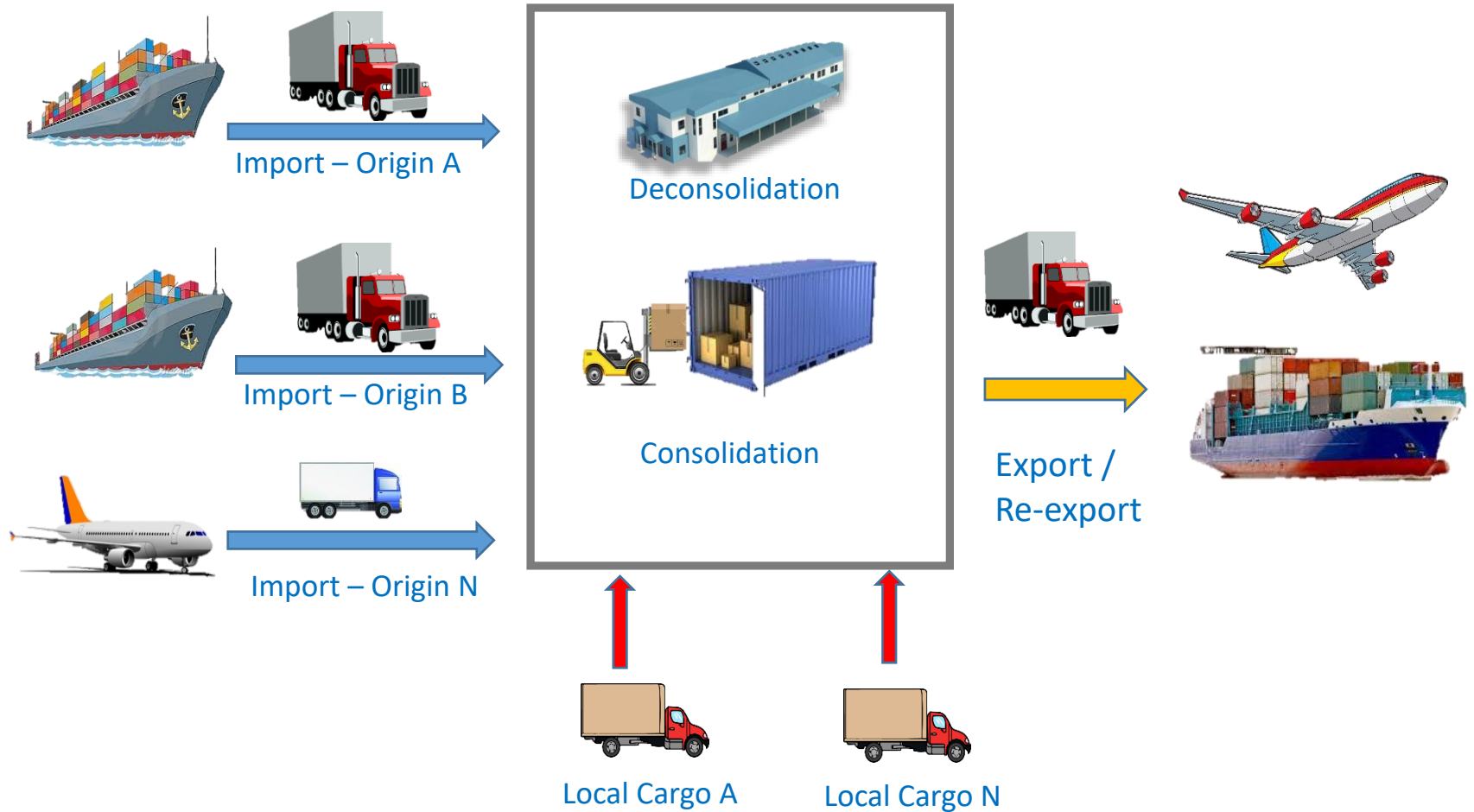
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**The warehouse code 7301142/7301127 for CFS3/CFS5 is linked to the TIN of the applicant for a period of one month**

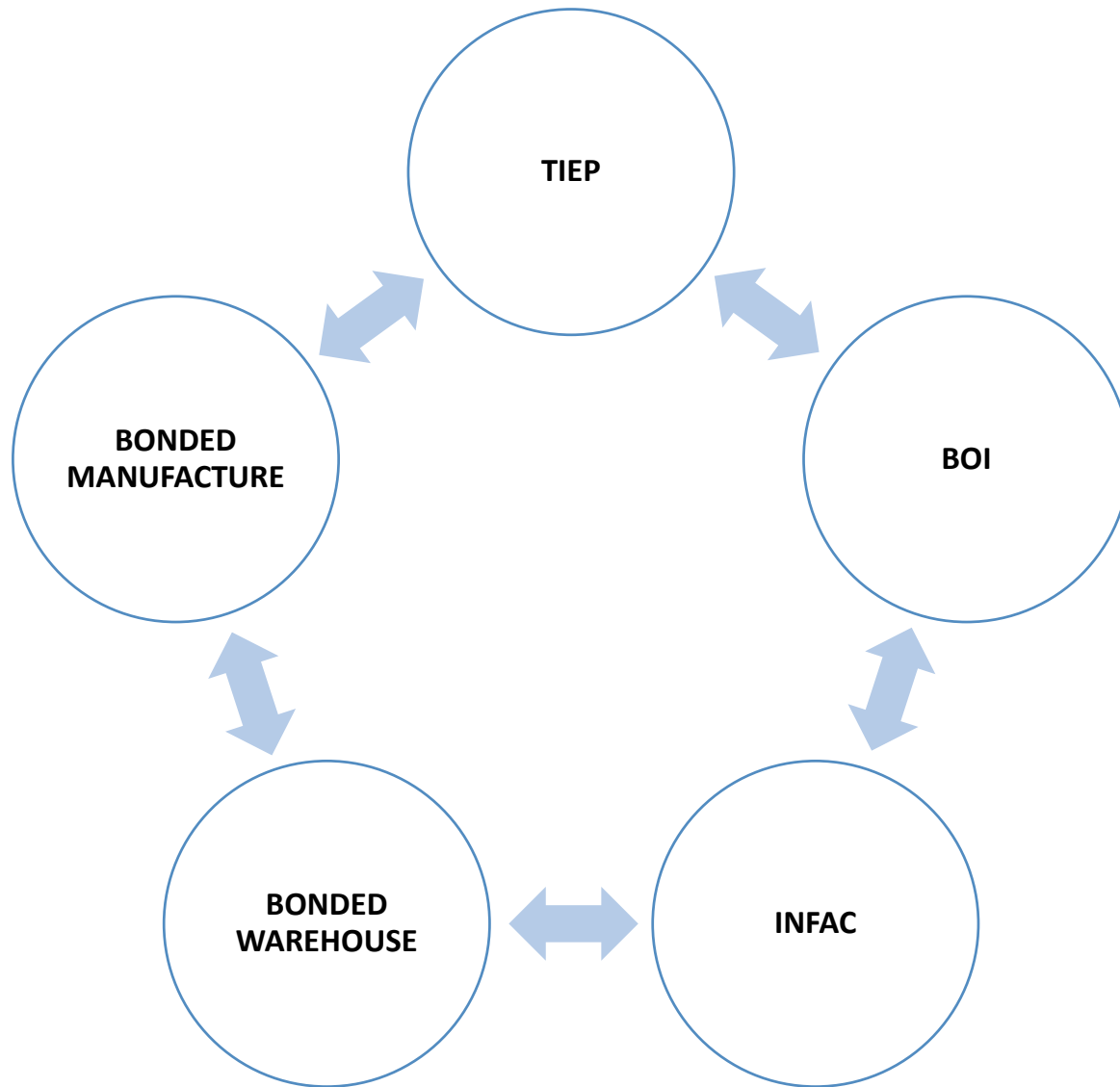
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**This facilitates the processing of CusDec for depositing goods at CFS3/CFS5**

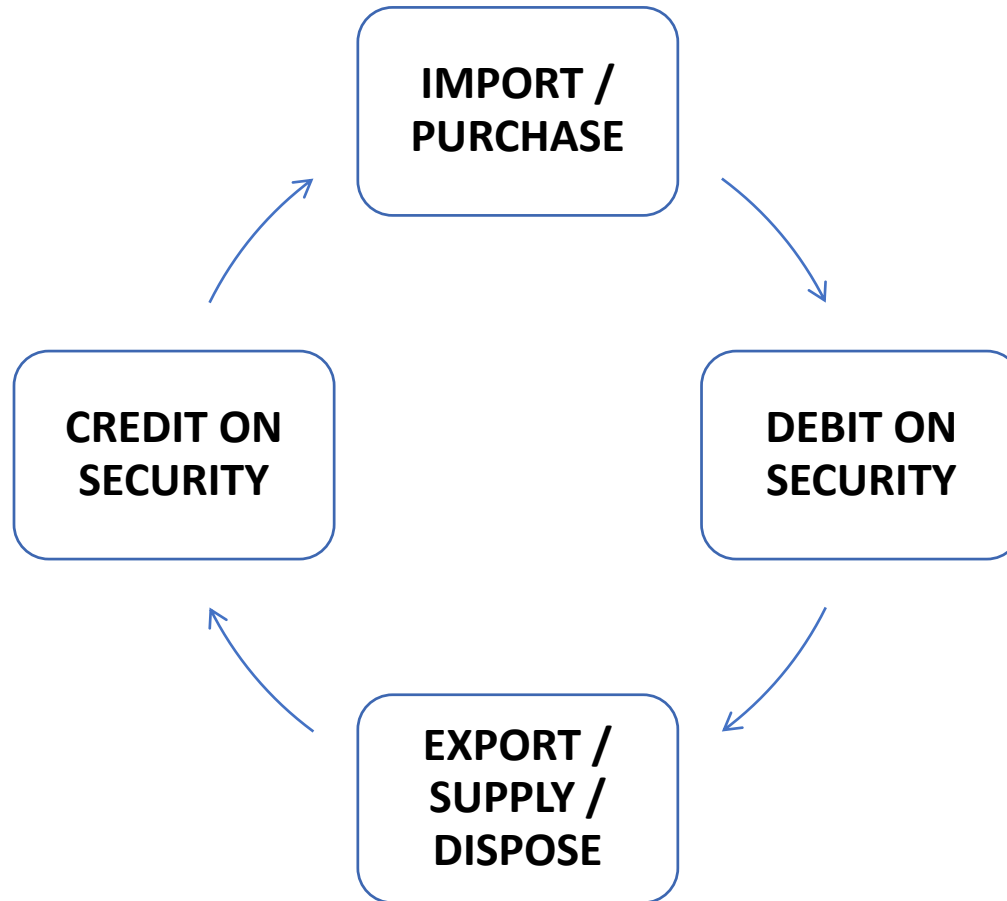
# MULTI COUNTRY CONSOLIDATION



## CEP – INTEROPERABILITY



## CEP – OPERATION IN GENERAL



## CEP – OPERATION IN GENERAL: IMPORT/PURCHASE

### IMPORT - Import Customs Declaration

Importer's VAT number

Customs Procedure Code                      7700 TRU – TIEP-1 raw materials VAT paid upfront

7700 TRD – TIEP-1 raw materials VAT deferred

7300 000 – Entrepot scheme normal procedure

Importer's Warehouse Code (Customs Reference Number)                      57xxxxx - Warehouse code assigned to the importer

7301142 - SLPA CFS3 Warehouse

## **CEP – OPERATION IN GENERAL: IMPORT/PURCHASE**

### **PURCHASE - GRN Customs Declaration**

**Supplier's VAT number**

**Purchase's VAT number**

**Customs Procedure Code**

**7777 TRD – Transfer between TIEP VAT deferred**

**7778 TRD – Transfer to TIEP from BOI VAT deferred**

**Purchase's warehouse Code (Customs Reference Number)**

## **CEP – OPERATION IN GENERAL: DEBIT ON SECURITY**



**At the making the IMPORT/GRN Customs declaration:**

**Revenue liabilities are debited against the security deposited, if insufficient, declaration is rejected**

**All the inputs are placed under the account of the importer/purchaser (warehouse code)**

**Issuance of Debit Note**



## CEP – OPERATION IN GENERAL: EXPORT/SUPPLY

### EXPORT - Export Customs Declaration

Exporter's VAT number

Customs Procedure Code    3277 T1E – Export under TIEP-1 scheme

3273 100 – Re-Export under Entrepot scheme

Exporter's Warehouse  
Code (Customs  
Reference Number)    57xxxxx - Warehouse code assigned to the importer

7301142 - SLPA CFS3 Warehouse

## CEP – OPERATION IN GENERAL: EXPORT/SUPPLY

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### **SUPPLY – Goods Receive Note Declaration**

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Supplier's VAT Number

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Supplier's Warehouse Code (Customs Reference Number)

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Purchaser's VAT Number

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Purchaser's Warehouse Code (Customs Reference Number)

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Description, Quantity, and Value of the goods

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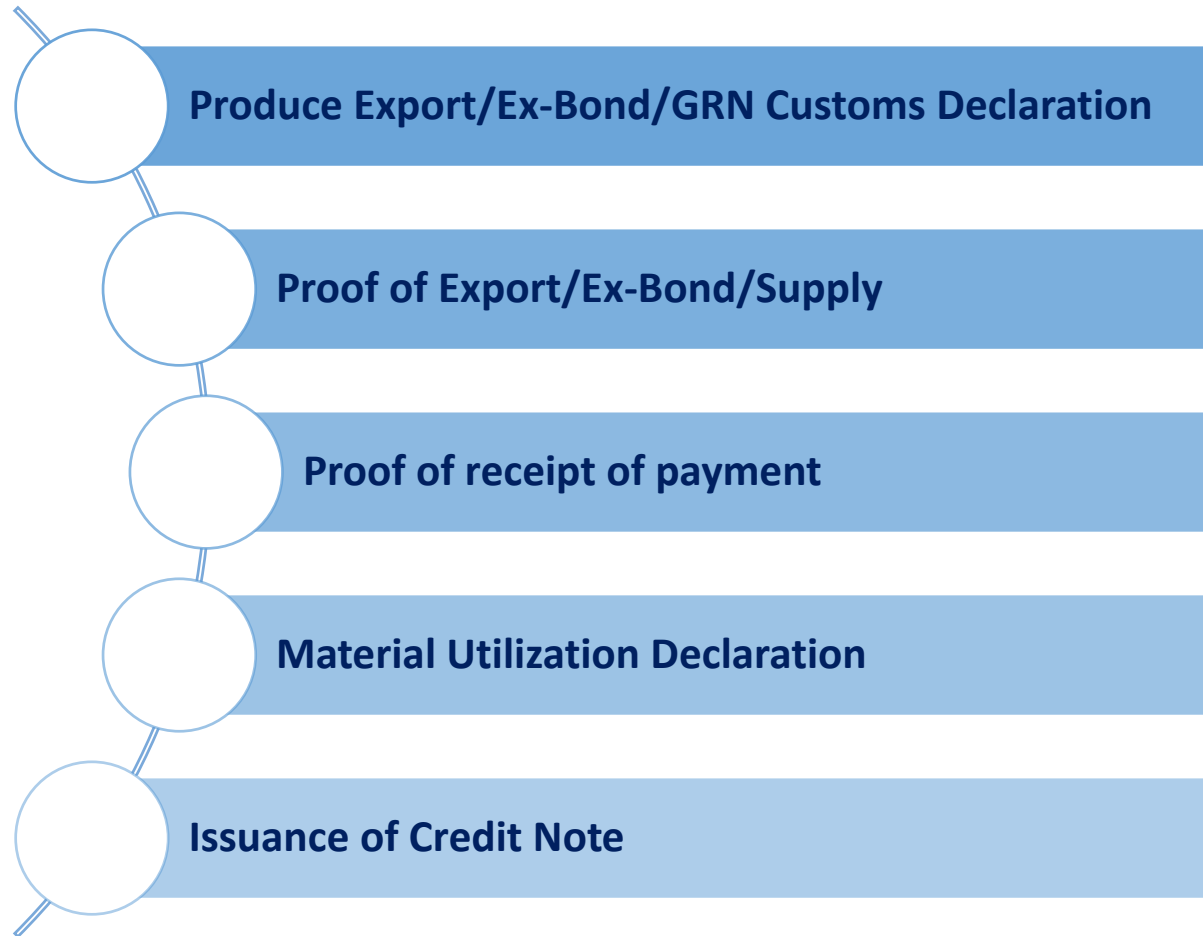
Purchaser's confirmation of the receipt of the goods in order

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Date & time of the receipt of the goods

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## **CEP – OPERATION IN GENERAL: CREDIT ON SECURITY**



## PREFERENTIAL TRADE AGREEMENTS

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### Certificate of Origin

**Substantial  
Transformation**

**Value addition**

### Export License

**Value Addition**

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## CONTACTS

**Bonded  
Warehousing/Manufacture**

- **Project Unit, Industries & Services Directorate**

**TIEP Scheme**

- **Export Facilitation Unit, Industries & Services Directorate**

**INFAC Scheme**

- **INFAC Unit, Industries & Services Directorate**

**Entrepôt Trade**

- **Monitoring Unit, Industries & Services Directorate**

**Container Freight Stations**

- **Export Directorate**
- **Project Unit, Industries & Services Directorate**

**Sri Lanka Customs,**

**No.40, Main Street, Colombo 11, Sri Lanka.**

**Tel: 0 11 2143434 web: [www.customs.gov.lk](http://www.customs.gov.lk)**