SRI LANKA FREIGHT FORWARDERS ASSOCIATION

COUNTRY REPORT

For

38th Executive Council Meeting

of

The Federation of Asia Pacific Air-cargo Associations

in

Dhaka, Bangladesh

27th & 28th June 2011
SRI LANKA FREIGHT FORWARDERS’ ASSOCIATION

REPORT OF THE EXECUTIVE COMMITTEE
FOR THE YEAR 2010 / 2011

CHAIRMAN : Mr. Tony De Livera
VICE CHAIRMAN : Mr. S. Mohanadas
TREASURER : Mr. Dushmantha Karannagoda
IMMEDIATE PAST CHAIRMAN : Mr. Ruwan Waidyaratne
ADVISORY COUNCIL : Mr. Niral Kadawatharatchie
Mr. K R T Peiris
Mr. Sunil Malawana
Mr. Romesh David
Mr. Sumith Guruge
Mr. Charles Wijesundera
Mr. D R Hallock
Mr. Hanif Yusooof

EXECUTIVE COMMITTEE

CL Synergy (Pvt) Ltd
Expolanka Freight (Pvt) Ltd
Freight Systems Logistics Lanka (Pvt) Ltd
Hellmann Worldwide Logistics (Pvt) Ltd
John Keells Logistics Lanka (Pvt) Ltd
Phoenix International Logistics Lanka (Pvt) Ltd
Speedmark Transportation Lanka (Pvt) Ltd

SECRETARIAT

Sri Lanka Freight Forwarders’ Association
No. 37 D, Torrington Avenue
Colombo 07.
Democratic Socialist Republic of Sri Lanka

<table>
<thead>
<tr>
<th>Capital</th>
<th>Sri Jayawardenapura Kotte</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Capital</td>
<td>Colombo</td>
</tr>
<tr>
<td>Official Languages</td>
<td>Sinhala, Tamil</td>
</tr>
</tbody>
</table>

Language for inter-ethnic communication - English

Ethnic Groups - 73% Sinhala, 13.9% Tamil, 7.2% Moors
- 4.6% Indian Tamils, 0.5% Others

Independence - February 4, 1948

Total Area - 65,610 sq km

Total Population - 20,242,000 (estimate 2009)

Sri Lanka is divided into 9 provinces : 25 Districts. Each province is administered by a directly-elected provincial council.
INTRODUCTION

Sri Lanka Freight Forwarders’ Association was established in 1981 as the main representative body of the freight forwarding companies serving the logistics industry in Sri Lanka. Today the Government of Sri Lanka and its agencies have recognized SLFFA as the Apex body of the industry.

SLFFA currently has 92 leading Freight Forwarding Companies in its membership who contribute more than 80% turnover of the industry. It is a member of The Federation of Asia Pacific Air cargo Associations (FAPAA) and the International Federation of Freight Forwarders’ Associations (FIATA).

The Sri Lanka Freight Forwarders’ Association works towards taking advantage of Sri Lanka's strategic geographical location to get the maximum benefits to its members and to the industry. It has identified the need for greater investment for the development of Air and Sea freight, infrastructure facilities and in skills development and capacity building for its personnel in its quest in becoming the regional distribution hub. SLFFA played an active role in developing a comprehensive maritime policy for Sri Lanka and in formulating a National Civil Aviation Development Plan towards achieving this objective.

The Association continues to maintain an active dialogue amongst its members and with all other trade associations, as well as Government and statutory bodies, in order to develop local and international trade and commerce while maintaining the standard of the freight forwarding industry.

The Association is mindful of the developments taking place in the international freight forwarding arena and tries to keep the Sri Lankan freight forwarding industry abreast with the rest of the world.

OVERVIEW OF THE ECONOMY

Sri Lanka’s economy grew by an impressive 8.0% in 2010, reflecting a fast recovery from the setback suffered in 2009 and moved to a high and sustainable growth path. All key sectors of the economy demonstrated a commendable performance in 2010, underpinned by the peaceful domestic environment improved investor confidence, favourable macroeconomic conditions and gradual recovery of the global economy from one of the deepest recessions in history.

Both exports and imports recovered strongly, while increased earnings from the tourism industry and higher inward remittances offset the widening trade deficit to a great extent, reducing the external current account deficit. The Services sector, which contributed 59.3% of the GDP, grew at an encouraging 8%, compared to 3.3% in 2009. The transport and telecommunications sector grew with the improved performance in transport, cargo handling, aviation and telecommunications sectors.

External trade rebounded strongly in 2010, reversing the sharp contraction observed during the global recession in 2009. Earnings from exports increased by 17.3%, reflecting higher earnings from the industrial and agricultural sectors. Expenditure on imports grew by 32.8%, led by immediate goods imports. As a result, the trade deficit expanded to US$ 5,205 million in 2010.
Although export earnings were volatile in the early part of the year amidst uncertainties regarding the global recovery, they improved towards the latter part of the year, indicating a new growth path, despite the withdrawal of GSP+ concessions. This reflected the peace dividend and the dynamism of local exporters. Meanwhile, international commodity prices rose due to the global economic recovery, higher demand for commodities from emerging economies, and global supply constraints.

The global economy gradually recovered in 2010 from its deepest recession since the 1930s. The global recovery could be largely attributed to the pickup in private demand and policies taken towards fiscal consolidation and external rebalancing, although it was weakened by high unemployment and systemic risks and renewed stresses in the financial sector.

Supported by post-conflict optimism and strengthening global demand, the medium term outlook for Sri Lanka’s economy is encouraging. Following the 8% real growth in the economy in 2010, in the medium term, the economy is expected to grow by 8-9% per annum. Greater capacity utilization with the development of infrastructure facilities, expansion in the agriculture sector with a larger contribution coming from the Northern and Eastern provinces, improved productivity, product and market diversification and expansion of industries, expansion of trade and services sectors including tourism, ports, transportation, banking and insurance, are expected to provide the required impetus for realizing such higher growth prospects.

The government has planned to transform Sri Lanka into a strategically important economic centre by developing five strategic hubs; a knowledge hub, a naval/maritime hub, an aviation hub and an energy hub, taking advantage of Sri Lanka’s strategic location and resources. Implementing the commercial hub and naval/maritime hub include, developing the Port of Colombo into a major transshipment hub, Galle as a tourist port, Trincomalee as an industrial port, Oluvil as a fisheries harbour and Hambantota as a logistics centre and developing the country as a shipping, trading and finance centre.
OVERVIEW OF THE INDUSTRY

With the gradual recovery in international trade, the performance of port operations increased significantly in 2010. The Colombo Port achieved a new record of 4.1 million containers supported by steadfast growth in both import-export and transshipment cargo. Total container handling throughput increased by 19.4% to 4.1 million TEUs in 2010. This also reflects a 10.8% increase compared to the total of 3.7 million TEUs in 2008, the highest ever performance before the global recession. Transshipment handling increased by 18%, while the cargo handling at the port of Colombo increased by 26.7% in 2010.

The global economic recovery has helped the Sri Lanka Ports Authority (SLPA) to improve its financial performance. The revenue of the SLPA increased by 21.2% to Rs. 28.3 billion, while the operating expenditure increased by 11.7% to Rs. 23.9 billion. The operating profit of the SLPA increased by 126% to Rs. 4.4 billion in 2010. The capital expenditure incurred by the SLPA during the year increased to Rs. 6.1 billion compared to Rs. 3.8 billion in 2009.

The development of port infrastructure and services is at the forefront of the government’s infrastructure development agenda. Phase 1 of the Mahinda Rajapakse Port in Magampura was inaugurated in November 2010. The port is expected to initially function as a services and industrial port. It will later be developed to handle transshipment cargo, specifically from the Indian Sub-Continent, East Africa and other neighbouring regions. Construction of Phase II of the Port is underway at an estimated cost of US$ 800 million. Construction of bunkering facilities and a Tank Farm with 14 Tanks with a total storage capacity of 80,000 cubic meters of petroleum products is scheduled to be completed by October 2011. The supply of bunkers at the port is expected to commence in 2011. Upon completion, the Mahinda Rajapakse Port will be the largest port in South Asia. Meanwhile, 48% of the construction work of the breakwater was
completed in the Colombo South Port by end 2010. The construction work of the 1st terminal is expected to commence in early 2011 and is expected to be ready for operation in 2013. The South Terminal of the Colombo South Port project is designed as a Public Private Partnership (PPP) project on Build, Operate and Transfer (BOT) basis. The Colombo South Port project with three terminals, and each terminal having the capacity of 2.4 million TEUs per annum, will increase the capacity of the Colombo Port by 160% upon completion. Construction work of the Port of Oluvil is expected to be completed by mid-2011. Construction work at the Galle and Trincomalee ports were under way in 2010.

The government has declared its intention to develop the country as a regional shipping hub. Sri Lanka’s strategic location within close proximity to the East West maritime route used for international trade, the growing trade in the Indian sub-continent and the increased level of integration with the rest of the world has helped Sri Lanka to emerge as a shipping hub in the region. The SLPA has been proactively involved in addressing the capacity limitations of the port sector and the modernization of port operations through infusion of new technology to make Sri Lanka a shipping hub in the region. Sri Lanka has a massive potential to develop the port and shipping industry into one of the prime sectors of the economy, which would help generate foreign exchange and a range of direct and indirect employment opportunities in the medium term.

The SLPA has taken several measures to improve productivity and efficiency of port operations. It is necessary for Sri Lanka to differentiate itself as a unique, high quality and timely service provider to emerge as a shipping hub. Separate bays have been planned within Port of Colombo to facilitate importers and their representatives to clear cargo with minimum delay. Facilities at the Jaye Container Terminal of the Port of Colombo are being upgraded to enhance efficiency and productivity. Steps were taken to set up a “Cargo Village” at Peliyagoda on a land with road and rail connectivity. Also, an electronic documentation transfer system is to be introduced for importers and exporters to submit shipping documents without visiting the port. An online payment system will also be made available for port users.

Although, Sri Lanka is strategically positioned on a popular maritime route, the ports sector faces competition from counterparts in the region. Hence, to maintain the competitiveness, it is essential to continually focus on improving the infrastructure of the ports. While many measures are under way, less importance has been placed on the development of an effective inter-modal transport system. It is important to improve the road and rail connectivity to and from the port to ensure cost-effective transportation within the country. Further, there is an urgent need to implement the planned port information systems and to develop information systems linking with other key ports in the region.

It is also necessary for the SLPA to engage in cooperative ventures with ports in countries such as China, India and those in Africa. This can help SLPA to gain expertise related to the development and management of state-of-the-art ports. This will also provide opportunity for SLPA to forge partnership with major shipping lines.
INDUSTRY REGULATION

**Freight Forwarders’ Licensing Regulations**

Following several meetings with the DMS, SLFFA drafted submissions, which was forwarded to the DMS as advised. Several amendments were recommended by the DMS, which were discussed and incorporated accordingly by SLFFA.

The Association is currently awaiting a final confirmation from the DMS on the submissions presented.

**SLFFA Standard Trading Conditions**

It was the view of the Executive Committee that the current SLFFA Standard Trading Conditions needed to be re-drafted and modified to suit the present industry standards. Hence, after much discussion and research the SLFFA STC was re-drafted taking into consideration the current industry standards. The final draft was circulated to the members for any feedback, but as no comments were received, the SLFFA STC was ratified at a Special General Membership meeting held in April 2011.

**SLFFA Constitution**

The Association is currently in the process of revising the SLFFA Constitution.

**CASS in Sri Lanka**

SLFFA continues to stand by its decision of opposing the implementation of the CASS system under the guidelines and basis highlighted by IATA. SLFFA’s standpoint in this regard was expressively communicated to IATA.

THE AIR CARGO VILLAGE

**Introduction of electronic Master Airway Bills by UL**

Following a workshop and training session organized by Srilankan Airlines Cargo to all member organizations of the ACV, this pilot project was implemented in February 2011. As it is still in the initial stages, Srilankan Airlines Cargo will be conducting another training program for SLFFA members in Colombo very soon.

However, it is quite unfortunate that only a few SLFFA members were currently using this facility due to various practical issues and lack of equipment and technical knowledge.
SLFFA as a body has been pushing for E-freight, and therefore encourage its members to give their fullest corporation as this is the way forward for e-freight and electronic data transfer which is inevitable to keep pace with future global practices and trends.

**Introduction of bar-coded labels**

Bar coded labels were introduced by Srilankan Airlines Cargo in April 2011. This facilitates the option of printing bar code labels by downloading from the UL website or collecting bar code MWB stickers from UL. Other airlines are also expected to follow suit in the near future.

### OCEAN FREIGHT, PORT & CUSTOMS

During the year under review, the SLFFA ocean freight sub-committee had meetings with Sri Lanka Customs and the Sri Lanka Ports Authority to address the issues that were relevant to ocean freight. Following are some of the issues addressed;

**E-Manifesting**

During the year under review, the Association continued to work closely with the Sri Lanka Customs department pertaining to the XML format being imposed to transmit the proposed E-Manifesting system under ASYCUDA World, in order to prepare and familiarize forwarders in the new e-manifesting system. All XML formats, examples have been intimated to the members through the Secretariat and a close study of the process being followed carefully by the pilot team. The final XML schema was also intimated to the members and at present testing and compliance was being carried out.

**Sri Lanka Ports Authority**

The Association worked closely with the Sri Lanka Ports Authority and have scheduled quarterly meetings with the SLPA to address various port related matters.

Issues pertaining to direct billing procedures and MCC handling were discussed. The MCC cargo identification process was also re-visited to enable promotion and MCC freight to be handled in a designated area were also addressed.

**Ceylon Association of Ships’ Agents**

The Association had several discussions with CASA pertaining to washing charges, surrender fees and miscellaneous extra charges levied by CASA members and have requested for a meeting with CASA to discuss these issues in detail.
SLFFACS Cargo Services Ltd, a commercial venture established by 26 members of the Association, operates an import cargo terminal at the Bandaranaike International Airport. This is a unique operation managed by an independent management and Board.

The year has seen an increase in the gross turnover from Rs. 103.57 million in the previous year to Rs. 139.23 million this year. This has been due to an increase in the gross weight of cargo delivered by SLFFACS from 5.8 million kilos in the previous year to 7.74 million kilos this year. The trend of handling more “fast moving shipments” has been observed over the past several years and it has resulted in 80% of cargo being delivered free of demurrage while demurrage free cargo was 74% in the last year. The greater part of the cargo is fabrics for the apparel industry which is in rolls and bulk needing high usage of labour and handling equipment. There is a need to move over an effort based tariff in order to remain profitable.

The Administration and Establishment costs have increased from Rs. 45.54 million to Rs. 51.63 million. The costs of overheads have continued to increase by around 10%. There has, however, been an increase in the net profit earned from Rs. 14.37 million in the previous year to Rs. 20.12 million in the current year.

SLFFACS has still not utilized 100% of its storage capacity. Its shareholders have transferred 62% of the cargo delivered by SLFFACS, while SLFFA members had brought in 34% and 4% was brought in by other agents.

SLFFACS has now completed the upgrading of the Warehouse Management System, which will enable SLFFACS to venture into providing value added services by having a web based product, to enable their agents to access cargo details online without delay.

SLFFACS is also in the process of making its cold room more cost effective compartmentalizing it to achieve energy efficiency. These upgrades will hopefully enable SLFFACS to maximize the use of its facilities that include trained manpower, customs supervised warehousing and industry related material handling equipment.

Occupying a prime location at BIA with both airside and landside access and working in close cooperation with Sri lankan Airlines, Customs and Airport and Aviation Services, it is a good example of a private sector operated facility working closely with the public sector and its full potential has still to be realized.

DEBTOR’S DATABASE

Following the introduction of the web based debtors’ database there was a positive response from the membership in providing their debtors information. Almost 60% of the members were uploading their information, which is indeed a very positive and encouraging response.

Members now have the benefit of uploading their monthly debtors’ information directly to the database by using an individual password allocated to each member. With this web-based system members are also able to obtain relevant debtors information swiftly by using the allocated password, rather than having to coordinate with the Secretariat.
In order to continue maintaining confidentiality, the database system is administered by the Secretariat. Any queries regarding the debtors’ system can be directed to the Secretariat.

**LIAISON WITH OTHER ORGANIZATIONS**

The Sri Lanka Freight Forwarders’ Association continued to work in close co-operation with international agencies, governmental and private sector organizations, and other concerned organizations. The Association continued its amiable relations with the Department of Civil Aviation, the Department of Inland Revenue, the Department of Exchange Control, Airport and Aviation Services Ltd, the Sri Lanka Ports Authority, the Sri Lanka Shippers’ Council, the Ceylon Chamber of Commerce, the Board of Airline Representatives, Sri Lanka Air Cargo Association and the Sri Lanka Customs.

The Association received the fullest co-operation and support from these organizations and wishes to place on record its appreciation for the co-operation extended.

**SLFFA WEB SITE**

The newly designed web-site is a great location to obtain information of the Association and its activities. Following some feedback received from some members, the website was further modified to be a more user friendly site.

The new home page is a gateway for updating members of latest happenings in the industry and the Association with easy and speedy access.

**SOCIAL ACTIVITIES**

**SLFFA DINNER DANCE**

The SLFFA Dinner Dance was held on 19th November 2011, at Waters Edge, Battaramulla. As in the past year, the Dance was organized as an event to support a worthy cause with the forwarding society. Therefore, the proceeds collected at this event was dedicated to the further development of SLFFA’s training arm AITT, (Academy of International Trade and Transport) which operates as a nonprofit organization which works towards the development of Education in the logistics industry of Sri Lanka.

This event which was filled with unlimited entertainment was a roaring success.

**SLFFA Cricket Carnival**

The second SLFFA Day/Night Cricket Carnival was held on Saturday, 14th May 2011, at the NCC Grounds, Colombo and 48 teams from member companies participated at this event. The carnival atmosphere at the grounds was indeed ideal for the whole family, as there was a kid’s corner to keep the young entertained while others enjoyed live music with papare bands and food stalls.
SLFFA member organization M/s. DHL Global Forwarding Lanka (Pvt) Ltd. won the Championship Challenge Trophy (sponsored by Wings Logistics (Pvt) Ltd) for the second consecutive year while the runners-up were once again M/s. McCallum Cargo (Pvt) Ltd.

Invitation matches were also played by teams from the Sri Lanka Ports Authority, Sri Lanka Airline Cargo Association and SLFFA Cargo Services Ltd. The Ports Authority teams emerged winners in the invitation matches.

The Chief Guest at the event was Sri Lanka National Player Upul Tharanga.

SECRETARIAT

The SLFFA Secretariat continues its daily operations from its location at the office of SLFFA Cargo Services Ltd at No. 37D, Torrington Avenue, Colombo 07.

Despite being located outside of the Ceylon Chamber of Commerce (CCC), SLFFA continues its ties with the CCC by being an affiliated member of the Chamber and actively participating in Chamber activities and committees.

The Sri Lanka Freight Forwarders’ Association continues to work towards raising the standards within the industry in Sri Lanka and helping the member organizations and its personnel to receive the maximum benefits of the industry.