

SRI LANKA LOGISTICS & FREIGHT FORWARDERS ASSOCIATION

COUNTRY REPORT

For

49th Executive Council Meeting

The Federation of Asia Pacific Air-cargo Associations

SRI LANKA LOGISTICS & FREIGHT FORWARDERS' ASSOCIATION

CHAIRMAN	:	Mr. Dinesh Sri Chandrasekara
VICE CHAIRMAN	:	Mr. Channa Gunawardena
TREASURER	:	Mr. Andre Fernando
IMMEDIATE PAST CHAIRMAN	:	Mr. Roshan Silva
ADVISORY COUNCIL	:	Mr. Niral Kadawatharatchie Mr. Tony De Livera Mr. Mohan S. Mohanadas Mr. Dushmantha Karannagoda Ms. Tania Polonnowita Wettimuny Mr. Jagath Pathirane

EXECUTIVE COMMITTEE

Aitken Spence Cargo (Pvt) Ltd
DHL Global Forwarding Lanka (Pvt) Ltd
Famous Pacific Shipping Lanka (Pvt) Ltd
Foreway Logistics (Pvt) Ltd
Freight Links International (Pte) Ltd
GAC Logistics Ltd
Salota International (Pvt) Ltd
Scanwell Logistics Colombo (Pvt) Ltd
Shermans Logistics (Pvt) Ltd
Speedmark Transportation Services (Pvt) Ltd

SECRETARIAT

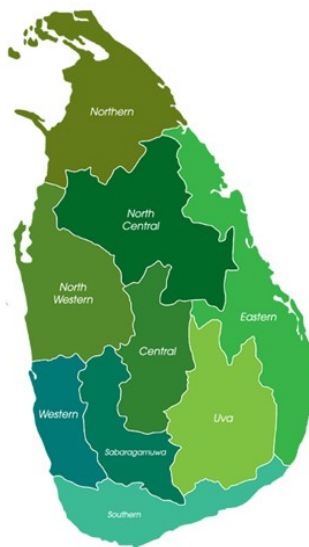
Sri Lanka Logistics & Freight Forwarders' Association
No. 37 D, Torrington Avenue, Colombo 07, Sri Lanka

Democratic Socialist Republic of Sri Lanka



Capital	-	<i>Sri Jayawardenapura Kotte</i>
Commercial Capital	-	<i>Colombo</i>
Official Languages	-	<i>Sinhala, Tamil</i>
Language for inter-ethnic Communication	-	<i>English</i>
Ethnic Groups	-	<i>74.9% Sinhala, 11.2 % Sri Lankan Tamils, 7.2% Sri Lankan Moors, 4.2% Indian Tamils and 0.5% Others.</i>
Independence	-	<i>February 4, 1948 (From the United Kingdom)</i>
Total Area	-	<i>65,610 sq km</i>
Total Population	-	<i>22,409,381 (estimate 2017)</i>

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



OVERVIEW OF THE ECONOMY

In 2022, the Sri Lankan economy registered its most onerous year in its post-independence history, mainly driven by the ripple effects of the unprecedented economic crisis amidst the domestic and global headwinds that reversed the post-pandemic recovery.

The impoverished conditions in the economy warranted immediate and coordinated policy initiatives by the Government and the Central Bank to preempt a further escalation of the situation. Although the corrective measures affected the vast citizenry in the near term, they were necessary to safeguard the economy and economic agents from potentially devastating consequences of unrestrained economic instability. The outcomes of these efforts have eventuated since late 2022.

The country managed to transition to a workable equilibrium in the near term, focused on restoring socio-economic stability, while the envisaged assistance from the international financial institutions begins to materialise. Against this backdrop, the Government and the Central Bank initiated several containment and remedial policy measures aimed at preempting a major economic catastrophe that would otherwise have occurred, leading to hyperinflation and depression in the economy. Government of Sri Lanka sought assistance from the International Monetary Fund (IMF) for a funding arrangement and announced a debt standstill as an interim measure, pending negotiations on debt restructuring with bilateral and commercial creditors. These swift and remedial measures helped contain the fall of economic activity and ins-till confidence in the economy and enabled restoring stability in the exchange rate to a greater extent by minimising the gap between official and grey market exchange rates.

The engagement with the IMF on a macroeconomic adjustment programme progressed on many fronts, with a staff level agreement for an EFF being reached in early September 2022. The debt restructuring process has also reached an advanced stage. Considering the progress that has been made thus far in relation to the IMF-EFF programme and debt restructuring negotiations, and the reforms that have already been undertaken and those that are to be implemented in the period ahead, the economy is expected to transition onto the path to recovery from the latter part of 2023.

(Source – Central Bank of Sri Lanka Annual Report 2022)

OVERVIEW OF THE INDUSTRY

The Freight Forwarding sector of Sri Lanka experienced heightened vulnerabilities with the decline in foreign exchange inflows due to unprecedented challenges in recent years, amidst the outbreak of the COVID-19 pandemic and adverse developments in the global economy.

Both sea and air freight transport sectors recorded a negative growth. All indicators under sea freight, including cargo handling, transshipments, ship arrivals and container handling recorded a negative growth during the year, particularly declining in the second half of 2022.

The key reason for this decline was the gradual decline in merchandise imports after the first quarter of 2022. The depreciation of the Sri Lanka rupee, severe foreign currency liquidity shortage in the domestic foreign exchange market that led to the announcement of a debt standstill, import restrictions imposed by the Government as well as the moderation of global trade during the second half of 2022 exacerbated the aforementioned decline. This, combined with gradually decreasing international freight rates from record high prices in 2020 and 2021, due to COVID-19 disruptions, resulted in earnings from both sea and air freight transport services, declining during 2022, compared to the previous year.

However, both inflows and outflows in the air passenger transport services recorded a positive growth during the year, with increased tourist arrivals and the gradual resumption of Sri Lankan residents traveling abroad. Since the National Single Window platform is not yet available, Sri Lanka Customs (SLC) continued its measures to integrate about 15 Governmental regulatory agencies into the ASYCUDA system to facilitate trade. Meanwhile, SLC streamlined its activities further, in relation to the implementation of the Trade Facilitation Agreement (TFA) of the WTO in Sri Lanka that showed more than 70 per cent overall progress by January 2023.

(Source – Central Bank of Sri Lanka Annual Report 2022)

Civil Aviation

The performance of the Civil Aviation sector in 2022 improved with the gradual restoration of global travel activity as the world recovered from the COVID-19 pandemic. Accordingly, passenger movements increased to 5.5 million in 2022, registering a notable year-on-year growth of 266.8 per cent, largely supported by the resumption of global travel activities as well as the low statistical base in 2021. During the year, cargo handling contracted by 9.3 per cent, year-on-year, to 166,969 metric tons. By end 2022, 33 international airlines and five domestic airlines were in operation in the country.

The total number of aircraft movements witnessed an increase of 68.2 per cent to 42,196, with the Bandaranayake International Airport (BIA) registering a significant growth of 70.7 per cent to 41,547 in aircraft movements during the year. This was mainly facilitated by the initiatives of the Government to attract new airlines from Russia, Uzbekistan, UAE, and Thailand in support of the revival of the tourism sector.

Meanwhile, operations of several international airlines, including Air France, Swiss International Airline, and Alliance Air were recommenced in Sri Lanka. Domestic air passenger transportation also registered a substantial growth in 2022. Although aviation activities were challenged by domestic fuel shortages particularly in mid 2022, the Civil Aviation Authority, together with the Government, continued to engage closely with airlines and other stakeholders in the industry to ensure a stable supply of fuel for aircraft operations throughout the year. Meanwhile, several concessions were granted on the embarkation levy and landing and parking charges for new airlines and existing operators to attract more airlines to Sri Lankan airports.

Construction work of several aviation development projects was underway in 2022, despite some hindrances caused by the deepened economic crisis. The Airport and Aviation Services (Sri Lanka) Limited (AASL) carried out the restructuring and remodeling projects in the existing Passenger Terminal Building at BIA during the year, striving towards utilising the existing capacity effectively. Also, the construction of the import cargo terminal building, modification to internal and external roads at BIA, and the project of the bonded warehouse for the electronic mall at BIA, were on progress during the year.

Moreover, in order to ensure the orderly development of BIA, initiatives were launched to develop a new airport master plan to accommodate aviation demands for the next 30 years. Meanwhile, the project of construction of the new taxiway with an additional apron area was completed in March 2022, under the Colombo International Airport Ratmalana Master Plan - Way to 2030.

During the period under review, the revenue of SLA registered a notable increase of 222.9 per cent, while operating expenditure increased by 176.0 per cent. With the severe shortage of aviation fuel

amidst the fuel crisis in Sri Lanka and the subsequent Civil Aviation declaration of non-availability of fuel for general re-fueling of aircraft, airlines resorted to 'Tankering', and operating via other stops for re-fueling, resulting in high costs for operations.

In view of the fiscal burden, stemming from financial constraints of SLA, key initiatives were taken to restructure SLA and its subsidiary companies by handing over a considerable number of shares and management of the company to investors, who are to be selected through a transparent procurement process. Accordingly, the State Owned Enterprises Restructuring Unit of the Ministry of Finance, Economic Stabilisation and National Policies was assigned to provide recommendations on restructuring SLA.

Port Services

In 2022, Port activities were adversely affected by the moderation of import demand amidst several restrictions and subdued economic activity. Despite the favourable performance observed during the first quarter of the year, port activities recorded an overall contraction in 2022, reflecting the impact of the decline in domestic import volumes owing to import restrictions and weakened international confidence over the port operations amidst the deepened economic crisis.

The moderation in growth of global trade volumes also weighed on the port activities during the year, accordingly the overall container handling and cargo handling activities recorded year-on-year contractions of 5.3 per cent and 8.2 per cent, respectively, while ship arrivals also recorded a year-on-year contraction of 2.6 per cent during 2022, despite some improvement observed towards the latter period of the year. All the terminals of the Port of Colombo recorded a decline in both cargo handling and container handling.

The Colombo International Container Terminal (CICT), Sri Lanka Ports Authority (SLPA), comprising the Jaya Container Terminal, Unity Container Terminal, and the first quay wall of East Container Terminal (ECT), and South Asia Gateway Terminal (SAGT) accounted for 46.4 per cent, 28.1 per cent, and 25.5 per cent, respectively, of the total volume of the containers handled, and the 45.3 per cent, 28.6 per cent and 26.1 per cent, respectively, of the transshipment containers handled at the Port of Colombo. The total vehicle handling at the Hambantota Port expanded during 2022 with increased vehicle handling for transshipment purposes amidst minimal activities related to domestic vehicle handling.

Development of the port infrastructure and services remained one of the major priorities of the country's infrastructure development agenda. Accordingly, major development projects related to the Port of Colombo and regional ports continued to expand in 2022. Construction work of the second phase of ECT was in progress during the year and 30 per cent of work, relating to dredging and reclamation was completed by end 2022. Construction work of the West Container Terminal (WCT) of the Colombo Port commenced in November 2022, following the finalisation of the Build-Operate-Transfer (BOT) agreement that spans over 35 years between a foreign investor, a local investor and the SLPA for the development of the project. The ECT and WCT terminals are expected to be completed by 2025 and 2027, respectively. Upon the completion of both terminals, the estimated annual capacity of the Port of Colombo is expected to enhance by around 6 million TEUs, which will largely support to cater to future demand in the port industry, enabling the Port of Colombo to derive benefits from its strategic geographical location.

The financial performance of SLPA improved in 2022 despite the overall decline in port activities, largely driven by the increased revenue supported by the significant depreciation in exchange rate. The upward revision of port charges of SLPA also partly contributed to the increase in revenue. Further,

efficiency of port activity improved significantly in 2022 over the previous year, with the support of the terminal management system and training initiatives of the SLPA.

Accordingly, the total revenue of SLPA increased by 50.5 per cent, year-on-year, to Rs. 68.4 billion, while operating expenditure has increased by 33.0 per cent to Rs. 43.7 billion. As a result, the SLPA recorded a profit before taxes of Rs. 57.0 billion in 2022, compared to Rs. 25.6 billion in 2021.

(Source – Central Bank of Sri Lanka Annual Report 2022)

INDUSTRY STATISTICS

Table 3.6
Performance of the Aviation Sector

Item	2021 (a)	2022 (b)	Growth Rate (%)	
			2021 (a)	2022 (b)
1. Passengers (No.) (c)	1,500,078	5,502,539	-36.8	266.8
SriLankan Airlines	857,158	3,295,841	-30.8	284.5
Foreign Airlines	642,920	2,206,698	-43.4	243.2
2. Freight Handling (mt)	184,139	166,969	35.3	-9.3
SriLankan Airlines	93,195	88,170	66.0	-5.4
Foreign Airlines	90,944	78,799	13.8	-13.4
3. Aircraft Movements (No.) (d)	25,090	42,196	-1.9	68.2
BIA	24,336	41,547	-2.4	70.7
MRIA	722	266	43.0	-63.2
JIA	32	383	-77.1	1,096.9

(a) Revised
 (b) Provisional
 (c) Excludes transit passengers
 (d) Includes domestic aircraft movements

Source: Civil Aviation Authority of Sri Lanka

Table 3.7
Performance of Port Services

Item	2021	2022 (a)	Growth Rate (%)	
			2021	2022 (a)
1. Vessels Arrived (No.)	4,180	4,073	-3.6	-2.6
Colombo	3,675	3,648	-3.4	-0.7
Galle	14	7	-36.4	-50.0
Trincomalee	117	95	-13.3	-18.8
Hambantota	374	323	-	-13.6
2. Total Cargo Handled (mt '000)	109,369	100,376	6.3	-8.2
Colombo	103,824	96,170	6.3	-7.4
SAGT	24,062	22,731	-3.3	-5.5
CICT	42,400	41,717	13.6	-1.6
SLPA	37,362	31,722	5.3	-15.1
Galle	106	1	-73.8	-98.9
Trincomalee	3,190	2,089	3.8	-34.5
Hambantota	2,249	2,116	28.5	-5.9
3. Total Container Traffic (TEUs '000) (b)	7,249	6,862	5.8	-5.3
SAGT	1,839	1,752	-1.8	-4.7
CICT	3,212	3,184	11.3	-0.9
SLPA	2,198	1,926	4.8	-12.4
4. Transshipment Containers Handled (TEUs '000) (b) (c)	6,050	5,832	4.9	-3.6
SAGT	1,573	1,523	-2.1	-3.2
CICT	2,600	2,640	13.4	1.5
SLPA	1,877	1,670	0.6	-11.1

(a) Provisional
 (b) TEUs = Twenty-foot Equivalent Container Units
 (c) Includes re-stowing

Source: Sri Lanka Ports Authority

Figure 3.11
Performance of Port Activities

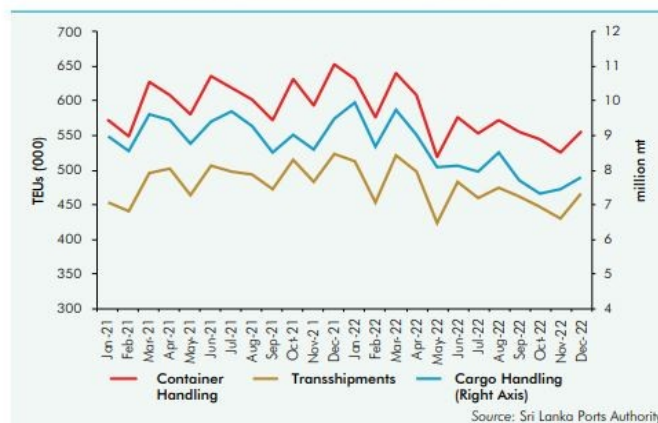


Figure 3.9
Air Passenger and Air Cargo Handling

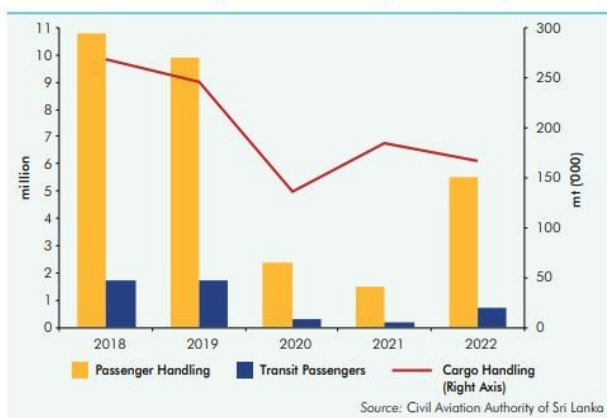
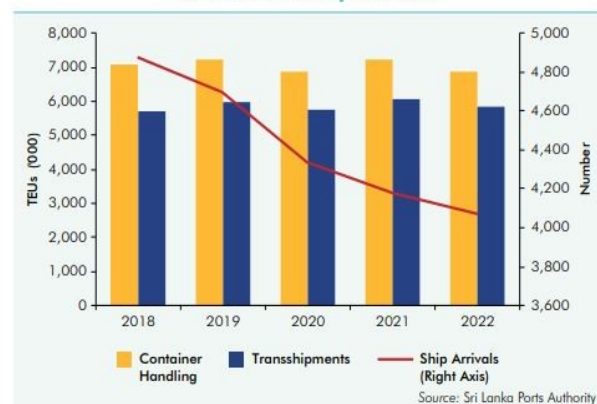


Figure 3.10
Container Handling, Transshipment Volume and Ship Arrivals



(Source – Central Bank of Sri Lanka Annual Report 2022)

ACTIVITIES OF THE ASSOCIATION

The Association continued to maintain active dialogue amongst its members and with all other stakeholders associated with the industry, as well as Government and statutory bodies, particularly in relation to maintaining professionalism and efficiency in the freight forwarding industry as a whole.

In addition to its ongoing projects and activities, the Executive Committee focused more on sustaining the Association's position in matters concerning Ocean freight and Customs, Air freight, Port tariff, Delivery Order charges, and conducted regular discussions with officials of the Ministry of Ports, Shipping and Aviation, Sri Lanka Ports Authority (SLPA), Sri Lanka Customs (SLC), Airport & Aviation Services (SL) Ltd (AASL), Srilankan Cargo, Civil Aviation Authority of Sri Lanka (CAASL), Sri Lanka Export Development Board (SLEDB) and the Directorate of Merchant Shipping of the Ministry of Ports, Shipping & Aviation.

In addition The Executive Committee engaged in discussions with The Ceylon Chamber of Commerce, Sri Lanka Shippers Council (SLSC) and Ceylon Association of Shipping Agents (CASA). Strengthening the self-regulatory regime introduced by the Association, regular training programs and seminars were conducted for the benefit and betterment of the members.

Sri Lanka Customs

Many industry concerns have been addressed, some of which solutions were given.

A limitation in amending CUSDEC's at Export Facilitation Center (EFC) for exports were taken up with the Director General Customs and a solution was provided by facilitating same.

The penalties on manifest amendments have been at the mitigated amounts, after many years of negotiation. We have had no concerns reported since.

The manifest reporting tiers for inbound cargo has been another long-standing concern. The present practice does not seem to give all players a fair time frame to lodge details for manifesting. The implementation of the ASYWORLD will circumvent this issue when implemented. The estimated date for implementation is at end December 2023.

The DGMT (Digitizing Global Maritime Trade) project that will supplement the above ASYWORLD platform, is also due to take off the ground by end 2023, which was postponed from 2022 due to lack of funds. This platform will primarily facilitate the Pre-Arrival process (PAP) and Pre-Departure process (PDP).

Director General of Merchant Shipping of the Ministry of Ports and Shipping

The delivery order fee and related cost recovery has been a common discussion topic this year.

The Latest GE No. 2321/62 of March 2nd, 2023, has rescinded the previous Gazettes i.e., GE No.2302/24 of 20th October 2022 that relates to fixed charges for the D/O and cost recovery fee (destuffing). It further rescinds the GE No.2041/10 of 17th October 2017 in relation to the zero freight and all-inclusive freight. It further rescinds the GE No.1842/16 of 27th December 2013 relating to the declaration of the charges on the D/O Fee that required the approval of the DGMS.

There were many amendments to the applicable Gazette with guidelines published quite frequently. SLFFA voiced its concerns and views in this regard at several meetings held with HE the President and Minister of Ports, Shipping and Aviation, Industry stakeholders and other officials from the Ministry, where SLFFA advocated to follow Internationally practiced protocols. Following the discussion, HE the President decided to form a committee to review regulatory frameworks, work processes, cost of services to be borne by the respective stakeholders and international practices and to recommend

concrete actions to be taken by the Merchant Shipping Secretariat. Furthermore, among the nominated officials of this committee the Chairman and Vice Chairman of SLFFA were included.

Sri Lanka Ports Authority

SLFFA had discussions with the Chairman, Managing Director and Chief Manager of the SLPA to discuss the importance of transforming Sri Lanka into a Regional Logistics Hub in line with the Maritime Hub, developing the Air-Sea transshipment operations (Hub status), concerns regarding direct billing facility for NVO / NVOCC operators that will ease doing business, office space required by Customs staff on duty at Pettah warehouse, private sector collaboration with SLPA to relook at the proposed joint venture in and off port, the keenness of SLFFA Cargo Services Ltd, the commercial arm of SLFFA to engage in such projects etc.

The Ministry Ports, Shipping and Aviation called for a meeting on the appointment of a Committee to study and report on detained containers by Sri Lanka Customs (SLC).

The Committee is expected to report on; delays in the sale of goods by SLPA, delays in the release process by SLC, legal implications resulting in delays, due to importers taking legal action, inability of SLC officers to expedite the 60-day cut off in sorting issues and releasing the empty units to MLO's and NVO's, goods detained unreasonably by SLC, the mafia in which goods are abandoned by design and later bought through the auction, ghost importer list that reappears in which such goods to be destroyed to prevent recurrence and unlawful methods of importation, investigate removing the issuance of temporary TIN certifications to prevent such fraudulent activity.

Airlines Demanding Freight Payments to be made in USD

With the economic crisis faced in Sri Lanka, all airlines including the national carrier decided to invoice freight charges in USD. This created a major issue for most of the forwarders due to insufficient reserves of USD within companies. The SLFFA Airfreight subcommittee had several meetings and discussions on this regard, with the main operators to Colombo, to revert back to charging in LKR. However, there was no positive response from airlines, who continue to issue invoices in USD.

Cargo Account Settlement System (CASS)

SLFFA has strongly voiced its objection and has filed a writ application in the Court of Appeal against the International Air Transport Association (IATA), Central Bank of Sri Lanka and the Monetary Board by SLFFA for attempting to introduce the Cargo Account Settlement System (CASS) in Sri Lanka, through our National Carrier Sri Lankan Airlines, thereby threatening the credit periods enjoyed by the exporters for their air cargo shipments.

SLFFA has voiced its displeasure to the unilateral change in the payment cycle as it would severely and adversely affect the business of our exporters and freight forwarders, who would in turn, be pressurized for lesser credit periods in line with the settlement cycle. Thus, SLFFA has voiced its objection in using CASS whilst there is also no value addition to the industry by bringing in CASS during the current economic crisis seriously affecting the entire country.

Cargo Community System for Air / Ocean Cargo

SLFFA proposed to introduce a Cargo Community System, in order to make the Air/Ocean cargo industry more efficient, cost effective and to facilitate ease of doing business for the import/export trade in the country. SLFFA emphasized on the requirement to implement a system in line with international practices at several forums held with the Hon. Minister of Ports, Shipping and Aviation,

Chairman of Airport and Aviation Services (AASL), Chairman of Sri Lanka Ports Authority (SLPA), Chairman of Sri Lanka Export Development Board (SLEDB) and many other industry stakeholders.

Reviewing Draft Policy on Transport

SLFFA has been involved in discussions with the Ministry of Transport and Highways, Transport Division on reviewing the current National transport policy of Sri Lanka. SLFFA represented several consultative workshops under the Chairmanship of Hon. Minister of Transport, Highways and Mass Media along with the Hon. State Ministers of Transport.

Social Security Contribution Levy (SSCL)

SLFFA had several discussions with the Governor of the Central Bank of Sri Lanka and officials of the Ministry of Finance on the impact of SSCL on the Freight Forwarding Community.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

SLFFA has been involved in various CSR projects over the past several years by contributing to the welfare of the Lady Ridgeway Hospital (LRH) for children with several donations, in recognition of the excellent medical care provided to the future generation of the country by LRH.

SLFFA has been focusing its CSR initiatives by providing valuable assistance to the LRH through its fund raising activities since 2012. To-date SLFFA has donated over Rs. 6 Million worth of equipment for various projects undertaken by the Association. However, SLFFA was unable to continue its CSR initiatives in 2021/22 due to the COVID-19 pandemic which prevented the fund raising activities of the Association.

Due to the current economic & social crisis engulfing the country, SLFFA is keen to extend its support to the medical sector to overcome the issues faced by them. Hence, as the latest CSR project with LRH, SLFFA has proposed to donate medical equipment worth of Rs. 1.5 Million.

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, Sri Lanka.