

EXECUTIVE SUMMARY

Sri Lanka as a country, heavily depends on indirect taxes and Sri Lanka Customs is the main revenue generator of the country generating 57% of the country's revenue. Tax of an item depends on the Harmonized System Classification Code (HS Code), value of the goods, and the quantity. Sri Lanka is a binding party for several bilateral and multilateral agreements where Sri Lanka has to provide special and differential treatments to the binding parties and one prime concern is the tariff concessions. Tariff concessions are mainly provided based on the HS code. The trade statistics of Sri Lanka are also recorded using the HS code. Thus, identification of the correct HS code of a product is crucial. Sri Lanka Customs provided its service to the trading community through the Commodity Classification Division (CCD), where traders can obtain the correct HS code for a product.

With the current trends of globalization and high trade volumes, the international agencies are concerned about Customs modernization where trade facilitation is considered as the prime objective. World Customs Organization has provided the Revised Kyoto Convention as the blueprint of modern Customs and WTO has provided Trade Facilitation Agreement as a binding agreement for the Customs to act as a trade facilitator. Issuing Advance Rulings is a main concept of trade facilitation where the HS codes are issued by the Customs to the traders prior to the importation/exportation. CCD issues Advance Rulings to the internal parties as well as to the external parties and this project focuses on external advance ruling process only. Though CCD was established in the recent past as a trade facilitation instrument, CCD and its procedures are not well organized as it is functioning at a primary level with minimum resources.

Advance Ruling processes vary from country to country, but there are common features that should be adhered. Developed countries like USA, Australia, and Singapore have fixed the validity period of an Advance Ruling and time taken to issue an Advance Ruling. They have automated Advance Ruling systems, databases, better procedures and mechanisms in place to provide an effective and efficient service. In this project, the reorganization of CCD will be achieved using three components; introducing an online portal, restructuring and process improvement, and establishing a classification library. The procedure will be automated using the online portal to request and issue advance rulings. After automation, the structure and the

processes will be changed with association of the automated system. Classification library will act as a knowledge base which will be helpful to all the internal officials to refer into their classification matters.

A situation analysis is carried out prior to the project components to identify the critical issues in the division. From data analysis, process mapping and 5-why analysis, it is discovered that the main issues are less amount of resources, manual and time consuming procedures, improperly organized practices and less amount of financial benefits for the staff in the division. When implementing the online portal, it will be linked with the chemical lab; a division working along with CCD, and an introductory training will be provided to all the users regarding the portal operation. When restructuring, the staff of the division will be increased, a sample storage procedure will be implemented along with an expedite service facility. The current manual process will be improved incorporating the portal. Establishment of the classification library will be in two modules; a physical library and an e-library.

Each component is further discussed with related to the literature on how that component will affect the overall outcome of the project. When implementing the project, there are some crucial factors to consider about; the support from the Director General of Customs, legislations regarding the advance ruling procedure, internal control system, integrity and mutual trust of the Customs officials and external stake holders. An appeal procedure should also be in place when requesters disagree with the Customs decisions.