Illegal Trading Activities;
An analysis from Sri Lanka

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Sri Lanka
An overview

* Has a written history for more than 3,000 years.

* Estimated population is 20.483 million.

* Area- 65,610 Square kilometers.

* Land to many nationals.

* Has a divers landscape with a high biodiversity.
* Legal background is provided by the Customs Ordinance (Chapter 235).

* In year 2009, celebrated 200 years service to the nation.

* Collects more than 55% of the government's tax revenue.

* Collects nearly 48% of governments revenue.

* Implements the Agreement on Customs valuation (ACV), from year 2003.
Revenue Task Force is the main investigation arm of the Sri Lanka customs.

Implements an own risk management system.

Selects consignments for investigation, from the ACYCUDA world system or container cargo manifests.

Sample for this research was selected from the investigations of year 2012 and 2013.
Valuation is the process of estimating what something is worth.

The correct value is important to calculate the due levies.

Undervaluation is declaring a less value to calculate the levies.

Non Declaration- hiding the actual contents of the consignments to evade due levies.
## Composition of imports in year 2013

<table>
<thead>
<tr>
<th>Category</th>
<th>Value in USD million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer goods</td>
<td>2,995</td>
</tr>
<tr>
<td>Intermediate goods</td>
<td>11,578</td>
</tr>
<tr>
<td>Investment goods</td>
<td>4,590</td>
</tr>
<tr>
<td>Other</td>
<td>28</td>
</tr>
<tr>
<td>Total</td>
<td>19,191</td>
</tr>
</tbody>
</table>
Imports by origin

* Source: Central bank of Sri Lanka
Imports by commodities

- Refined petroleum: 15%
- Textile and textile articles: 13%
- Chemical products: 6%
- Plastic and articles: 11%
- Diamonds and precious metals: 4%
- Base metals: 2%
- Crude oil: 3%
- Other: 3%
- Other: 4%

Source: Central bank of Sri Lanka
Composition of Government Revenue

12% Tax Revenue
88% Non Tax Revenue

* Source: Central Bank of Sri Lanka
Present Cargo Clearance System of Sri Lanka Customs

1. Submission of declaration
2. Verification of HS code and value
3. Payment
4. Selection of channel based on the risk
   - Red
   - Yellow
   - Green
Objectives

* To understand the level of undervaluation.
* To understand the level of non declaration.
* To study the relationship between payable amount of levies and evasion of levies.
* To study the relationship between rates of tariff and evasion of levies.
* To review the effect of undervaluation and non-declaration to the supply chain management.
* Analysis of the available detection and prevention methods of these illegal activities.
This study is limited to the investigation carried out by the Revenue Task force of Sri Lanka customs for year 2012 and 2013.
* Illegal trading activities create an informal economy.
* In some countries this informal economy represents 30% to 50% of the GDP.
* Formal businesses depend on the informal economy.
* Very difficult to distinguish formal from informal.
* The causes for these illegal trading activities are the black market premium and the high tariff rates.
* Some researches have identified the tariff barrier as the main reason for undervaluation and non declaration.
* Some studies explains that it would be possible to raise penalty to wipeout undervaluation.
* Sample was selected from the investigation records of the Revenue Task Force directorate of Sri Lanka customs.

* 200 investigations from year 2012 and 200 from year 2013 were randomly selected.

* Samples were categorized according to the twenty one sections of the National tariff guide.
* When there were two or more commodities, the section of the highest valued commodity was taken.

* When there is more than five commodities or mixed goods, they have been categorized as section 22.

* The data of initial payment of levies, additional payment on minimum value, penalty on excess and undeclared goods, country of export, type of commodity, rates of tariff were analyzed using SPSS.
Findings

* Additional payments have been made for 59.2% of the imports.

* 63% of the imports have been penalized for the presence of excess and undeclared goods.

* There is positive correlation between additional payment on undervaluation and initial payment of levies.

* A positive and significant correlation is observed between rates of tariff and the additional payment on undervaluation.
Findings

* There is no significant relationship between the declared values and the additional payment on undervaluation.

* There is no significant correlation between declared values and the penalty on excess and undeclared goods.

* According to the sample selected for this research 78% of the excess and non-declared goods are of inferior quality goods.

* A significant delay in delivery has been observed when there were undervalued or undeclared goods present.
* Majority of the consignments are undervalued.
* The rate of presence of undeclared and excess quantities of goods is considerable.
* The importers are sensitive to the high rates of tariff.
* There is a tendency of undervaluation when the payable amount of levies is high.
* Most of the undervalued and excess goods are low quality counterfeit products.
Recommendations

* Consider a revision of rates of tariff.

* Implementation of a non biased risk management system.

* Implementation of a global customs data tank to exchange data to get the correct value for levies.
Thank you...