Sri Lanka Shippers' Council

Annual Report & Accounts 2013 / 2014

Sri Lanka Shippers' Council

44th Annual General Meeting

ANNUAL REPORT

&

ACCOUNTS

2013/2014

SRI LANKA SHIPPERS' COUNCIL

The Sri Lanka Shippers' Council is the apex body representing Sri Lankan Shippers, which was established in March 1966 to protect and promote the interests of shippers. It was the first National Shippers' Council to be set up in Asia and was formed on a request made in 1965 by the local Committee of the Ceylon/Continental Conference, and a subsequent request made by the Director of Commerce in January 1966, to the Ceylon Chamber of Commerce. The Council is also a founder member of the Association of Shippers' Councils of Bangladesh, India, Pakistan and Sri Lanka (ASCOBIPS), founded in 1981 and the Asian Shippers' Council, founded in 2004.

Membership of the Council consists of Chambers of Commerce, Trade Associations & individual organisations. The Managing Committee of the Council only consists of PA's with voting rights. Currently, the Council represents a large percentage of the import/export trade in the country through its broad based representation and membership of these trade Associations and individual Companies.

The Council has now opened its doors to individual companies as Associate Members so that companies in the import/export trade could have access to the Council's resources and expertise to resolve their shipping related problems.
The Sri Lanka Shippers' Council is headed by an elected Chairman and assisted by two Vice-Chairmen who are also elected by the constituent members.

The Ceylon Chamber of Commerce provides secretarial services to the Council and also acts as the Secretariat.

The Council actively supports the Sri Lankan Government's vision of making Sri Lanka the Logistics Center in the Asian region, which would result in the generation of enhanced economic activity, employment and wealth. As such all Council activities have been planned and prepared to support this vision and to facilitate International trade.

OUR VISION

"To enhance the competitiveness of our members by abolishing hidden logistics costs."

OUR MISSION

We facilitate our customers to be more competitive in their Business Logistics; performance and cost, by the following;

1. Being the APEX Body, protect the interest of our customers and being a strong Advocate to the Government.

2. Ensuring cost effective strategies are developed and implemented in the logistics and value chain to make our members more competitive.

3. Facilitating greater efficiencies in logistics by reducing logistics barriers and simplifying trade.

4. Acting as the mediator in resolving conflicts amongst our customers (members).

5. Facilitating a level playing field by developing and promoting a code of conduct / ethics for our customers (members).

6. Establishing a centre for excellence for information sharing and to upgrade competencies of members to compete globally.

7. Leveraging regional and global partnerships and facilitating global best practices in logistics in Sri Lanka.

It is the Council's firm belief that in order to be competitive with the international market Sri Lankan shippers should;

a) Have a clear understanding when deciding on Carriers /Freight rates and be clear and free of any ambiguity with regard to the Freight rates and matters prevailing in the Market.

b) Have freight and associated costs stabled, particularly for traditional exports such as tea, rubber, coconut products, which account for at least 70% of total export volume out of Sri Lanka. A major part of the turnover of these exports in foreign exchange is retained in the country and it is vital to protect these industries from international competition. Furthermore, these commodities are with relatively low margins and usually with forward trading patterns cannot absorb constant and continuous cost escalations.

c) Concurrently are the major exports such as garments are usually traded on FOB terms and the local manufacturers are constantly under pressure to provide low priced services, thus are unable to absorb any additional charges keeping in mind that almost all material for these industries are being imported. Therefore the constant increases in charges could seriously affect such industries as they are called upon to pay these charges both at the point of import of raw materials and export of finished products.

d) Have reasonable Service providers who would not take undue advantage from their captive customers.

OUR OBJECTIVES AND KEY BENEFITS TO MEMBERS

1. To provide for consultation/dialogue between shippers and Ship-owners/ Conference Lines/Shipping Agents/Airlines/Airline Agents, Sri Lanka Ports Authority/ Customs and Government on matters of common interest;
2. To bring together the representatives of various shippers' associations, trade and industrial associations/organizations, for consideration and discussions of the problems affecting shippers in Sri Lanka;
3. To represent the views of shippers in regard to the composition of freight rates, availability and adequacy of shipping space and services including sailings / flights. Port/ Customs efficiency. Adequacy of Ports and Customs facilities and / charges
4. The Council in principal will not come into agreement on behalf of its members in relation to freight contracts. (The Council will encourage confidential shipper/carrier freight negotiations) However, if the circumstances necessitate negotiation and entering into agreements with ship owners/Conference Lines/Shipping Agents/Airlines/Airline Agents on matters affecting shippers, which involve general principles and policies or on such other matters, if referred to the Council, upon receipt of such matters, the Council will act to safeguard the interest of the shipper/Country.
5. To undertake research/studies on problems affecting shippers in Sri Lanka.
6. To circulate information and statistical data and to publish newsletters, brochures etc., for the benefit of shippers.
7. To convene independently or jointly with other organizations, conferences, seminars or meetings in furtherance of the objectives of the Council;
8. To accept any grants, gifts or donations whether in cash or securities and any property either movable or immovable and/or give any grants etc., in the furtherance of the objectives of the Council;
9. To make Rules, Regulations or Bye-Laws for the conduct of the affairs of the Council and to add, to amend, vary or rescind them as from time to time;
10. In the interest of the shippers, the Council will wherever possible nominate its members to institutions where key functions in the shipping industry are taking place.
11. The Council will closely work with international Shippers' Councils in order to interact and pass on information that could be beneficial for shippers and the country.
12. To take all such other steps as may be necessary or conducive to the interests of the Councils' members.

THE COUNCIL

Mr. Dinesh De Silva
Chairman

Mr. Sean Van Dort
1st Vice Chairman

Mr. Nalin Silva
2nd Vice Chairman

<u>HONORARY MEMBERS</u>

Mr. S.S. Jayawickrama

<u>OBSERVER</u>

The International Chamber of Commerce

<u>SECRETARY GENERAL</u>

Mr. Harin Malwatte

<u>SECRETARIAT</u>

The Ceylon Chamber of Commerce

MEMBERSHIP – 2013/2014

TRADE ASSOCIATIONS

The Ceylon Chamber of Commerce Import Section	Mr. Dinesh De Silva (Representative) Mr. Adrian Oswald (Alternate)
Joint Apparel Association Forum	Mr. Sean Van Dort (Representative) Mr. Rohan Masakorala (Alternate)
The Colombo Rubber Traders' Association	Mr. Nalin Silva (Representative) Mr. Talal Shums (Alternate)
The National Chamber of Commerce of Sri Lanka	Mr. Sujeeva Samaraweera (Representative) Mr. Tissa Ruberu (Alternate)
The Ceylon Coir Fibre Exporters' Association	Mr. Randolph Perera (Representative) Mr. N. Ramanathan (Alternate)
The Ceylon Chamber of Commerce	Mr. Chrisso De Mel (Representative) Mr. Russel Jurianz (Alternate)
The National Chamber of Exporters' of Sri Lanka	Mr. Rasa Weerasingham (Representative) Mr. Gehan De Silva (Alternate)

The Sri Lanka Freight Forwarders' Association	Mr. Dushmantha Karannagoda (Representative) Mr. Tony De Livera (Alternate)
The Sri Lanka Apparel Exporters' Association	Mr. Ajith Jayasekara (Representative) Mr. Naren Vanigasooriyar (Alternate)
Sri Lanka Fruits & Vegetable Producers, Processors & Exporters' Association	Mr. Imdadh Marikkar (Representative)
Sri Lanka Association of Air Express Companies	Mr. Dimithri Perera (Representative) Mr. Lawrance Paiva (Alternate)
Sri Lanka Logistics Providers' Association	Mr. Stanley Samarakoon (Representative) Mr. B L Rohitha (Alternate)
Tea Exporters' Association	Mr. Niraj De Mel (Representative) Mr. Shiral Fernando (Alternate)

INDIVIDUAL MEMBERS

Agility Logistics (Pvt) Ltd
Ansell Lanka (Pvt) Ltd
Anverally & Sons (Pvt) Ltd

Canro Exporters
Care Logistics (Pvt) Ltd
Ceylon Tea Marketing (Pvt) Ltd
City Cycle Industries
Civaro Lanka (Pvt) Ltd
CL Synergy (Pvt) Ltd
Control Union Inspections (Private) Limited

Fascination Exports (Pvt) Ltd
Freight Links International (Pte) Ltd
Finlays Colombo PLC

Hayleys PLC
HDDES Extracts (Pvt) Ltd
Hela Clothing (Pvt) Ltd
Hellmann Worldwide Logistics (Pvt) Ltd

Imperial Teas (Pvt) Ltd
Jiffy Products S.L. (Pvt) Ltd

Lafarge Mahaweli Cement (Pvt) Ltd
Lalan Rubbers (Pvt) Ltd

MAC Supply Chain Solutions (Pvt) Ltd
Mabroc Teas (Pvt) Ltd

Neil Fernando & Co. (Pvt) Ltd
Nestle Lanka PLC
Nor Lanka Manufacturing Col.. Ltd

Orient Garments Ltd
Riston Teas (Pvt) Ltd
Romina General Trading Company

Shermans Logistics (Pvt) Ltd
Singworld Lanka (Pvt) Ltd

Tea Tang Ltd
Timex & Fergasam Group (PVT) Ltd
Trans Orbit Logistics (Pvt) Ltd

Van Rees Ceylon Ltd

The Sri Lanka Shippers' Council AGM 2013/2014

Seated from Left to Right

Ms. Manori Dissanayaka, (Secretariat, CCC), Mr. Randolph Perera (The Ceylon Coir Fibre Exporters' Association), Mr. Sujeeva Samaraweera (The National Chamber of Commerce of Sri Lanka), Mr. Sean Van Dort (1st Vice Chairman), Mr. Dinesh De Silva (Chairman), Mr. Nalin Silva (2nd Vice Chairman), Mr. Kumar Seneviratne (Sri Lanka Apparel Exporters' Association), Mr. Tony De Le (Sri Lanka Freight Forwarders' Association), Mr. Rasa Weerasingam (National Chamber of Exporters of Sri Lanka), Ms. Manjula Maldeniya (Secretariat, CCC)

Standing from Left to right

Mr. Tissa Ruberu (The National Chamber of Commerce of Sri Lanka), Mr. Russel Juriansz' (The Ceylon Chamber of Commerce), Mr. Adrian Oswald (The Ceylon Chamber of Commerce – Import Section), Mr. N. Ramanathan (The Ceylon Coir Fibre Exporters' Association), Mr. Shiral Fernando (Tea Exporters' association), Mr. Samanatha Weerakoon (The Ceylon Chamber of Commerce), Mr. Lawrance Paiva (Sri Lanka Association of Air Express Companies), Mr. Stanley Samarakoon (Sri Lanka Logistics Provider's' Association), Mr. B. L. Rohitha (Sri Lanka Logistics Provider's' Association).

OFFICE BEARERS

Sri Lanka Shippers' Council held its 43rd Annual General Meeting on the 14th June 2013. The Chief Guest at the occasion was Sri Lanka Ports Authority Chairman Dr. Priyath B. Wickrama, who delivered the keynote address themed 'Sri Lanka's strengths and avenues for unprecedented opportunities for accelerating growth in diverse sectors due to inter-Asia trade". Mr. Dinesh De Silva was re-elected as the Chairman for the year 2013/2014. Thereafter, Mr. Sean Van Dort and Mr. Nalin Silva were elected as 1stVice Chairman and 2nd Vice Chairman respectively.

HIGHLIGHTS OF 2013/2014 AGM

**Welcoming the Chief Guest, Dr. Priyath B. Wickrama,
Chairman of the Sri Lanka Ports Authority**

Head Table: from left to right: Ms. Manori Dissanayaka (Secretariat, CCC),
Mr. Sean Van Dort (1st Vice Chairman SLSC), Dr. Priyath Wickrama
(The Chief Guest -Chairman, Sri Lanka Ports Authority),
Mr. Dinesh De Silva (Chairman SLSC),
Mr. Nalin Silva (2nd Vice Chairman, SLSC)

ACTIVITIES OF THE COUNCIL

The activities of the Council have been focused on issues faced by shippers on shipping and their operational activities. The Council always performed a lead role in resolving problems and serve as the focal point where various shipping and port, Airport & other authorities' related matters are brought up and discussed. In addition, the Council largely contributes in advising the Government authorities on matters relating to port and shipping whenever its advice is sought after.

The following ten (10) action committees were appointed for better co-ordination and guidance purposes:

- Matters of Surcharges (THC & other charges)
- Freight Rates/ Courier rates
- Customs/Sri Lanka Ports Authority/Maritime Affairs
- Airport Issues
- Education and Seminars
- Membership Drive, Fund Raising & Finances/Accounts
- SLSC Constitution
- ASC/ GSF
- SLSC Website

A detailed description of the activities of the Council appears elsewhere in this report. However, in this section for your easy reference we give below the main topics covered in the report.

- Shipping Surcharges
- Freight Rates & Courier Rates
- Maritime Regulatory Reforms
- Verification of Overweight Containers
- P3 Alliance
- G6 Alliance
- Electronic Data Interchange (EDI)
- Sri Lanka Customs
- Sri Lanka Ports Authority
- Asian Shippers Council (ASC) & Global Shippers' Forum (GSF)
- Education and Seminars

SHIPPING SURCHARGES

Shipping surcharges were continuing as usual from the start of the year. These additional costs have been battering the trade beyond limits and Importers & Exporters were victims in many instances as they had not many options to follow. This was not only locally, it was and it is happening in almost all other countries creating an additional burden on costs. Further, during a study we came across various variety of unfair trade practices & charges (Ad hoc charges) levied by many service providers in the shipping / logistics areas. Accordingly, when the consignees had to obtain their "delivery order" to clear their shipments or when the exporters want to collect their BLs after their export, the additional surcharges were inevitable. As a whole there were many reasons for this caustic situation such as lack of awareness of the proper use of INCO terms, Carriage terms & contract terms. Further, the service providers including sellers and buyers would have been compelled to accept these unfair trade practices knowingly or unknowingly for commercial reasons. However, finally the boiling points were the exporters not been competitive with their products in the global markets or Importers passing the costs to the final consumer which added to the cost of living. Both results had adverse effects on the country's economy as well.

SLSC together with few other associations saw the extent of this problem during time THC was implemented arbitrary when the trade had "ALL IN FREIGHT rates". This council since then continuously lobbied to the then government & to the successive governments against these decisions citing technical examples where the trade attempts were not successful.

Further with the containerization of commercial cargo, importers & exporters were unable to technically deal with FOB terms as shippers / consignees had to deal with container terminals instead dealing with vessel. Accordingly SLSC had many awareness secessions on INCO terms guiding the trade for the use of FCA instead FOB as appropriate.

However, during the past few years the number of surcharges that was added to a transaction got multiplied to a bigger scale ending the consignee paying them without having any other option growing the burden on exporters and importers. During these times, Sri Lanka Shippers Council continuously created awareness amongst the trade to protect the exporters & importers while having a closer dialogue with The Director General of Merchant Shipping (DGMS) as to how this issue should be addressed. As advised by the Council, a database was maintained by the DGMS's office to record and compile suggestions and complaints regarding the various charges and then to identify the parties who are continuously involved in unfair or wrong trade practices to take appropriate action as even large sums of foreign exchange that was possibly draining out of the country which was against the exchange control laws.

The Council also requested DGMS to reactivate the Joint Consultative Committee Meeting with the participation of SLSC, SLFFA and the CASA to come up with a mechanism to look into the complaints received from the trade.

During the period under review, a circular was issued by the Council informing the trade to be vigilant on various charges (ad-hoc charges) levied by 3P service providers and to take up these matters strongly with the relevant service providers /parties. Further, it was also advised to report unresolved matters to DGMS for appropriate action.

At the request made by the Council, the DGMS reactivated the Joint Consultative Committee Meeting with the participation of Sri Lanka Shippers' Council & Sri Lanka Logistics' and Freight Forwarders' Association (SLFFA). At a meeting held at DGMS office on 09th September 2013, it was decided to establish a mechanism to monitor non licensed Freight Forwarders (FFs) through AW system at Sri Lanka Custom. Accordingly, a circular was issued by the DGMS informing the service providers in the trade to register themselves and to obtain license from DGMS. Sri Lanka Customs too stopped service providers operating through Asycuda World (AW) system without a valid License and in turn informed DGMS about them for necessary action.

In view of the above, the office of the Director General of Merchant Shipping in its Circular urge all non-licensed companies carrying businesses as Freight Forwarders and NVOCC Operators to obtain licenses, in order to comply with the Government Extraordinary Gazette Notification No 1717/6 dated 02 August 2011 on or before 31st October 2013.

Subsequent to that a circular was issued by the Council requesting exporters and importers to deal only with licensed freight forwarders with DGMS.

Sri Lanka Shippers' Council also proposed in its budget proposals to Ministry of Finance & Planning to bring regulations to control and manage the unreasonable and adhoc charges including THC imposed by various service providers at various rate levels & to address the unfair trade practices.

The Sri Lanka Shippers' Council together with other stakeholders in the Industry has continuously lobbied requesting THC to be incorporated to the freight rate at every given opportunity and has been a discussion point at many public forums.

As a result of collective efforts, H.E. the president declared in the 2014 Budget speech that

Quote

"I also propose to set up a fully pledge Merchant Shipping Authority by introducing timely amendments to the Merchant Shipping Act. In order to prevent monopoly pricing in the shipping trade, no shipping line will be permitted to levy terminal handling and other charges in addition to freight and specified international charges for container cargo. Relevant prohibition will be made effective through amendments to the Finance Act, effective from January 2014."

Unquote

This bold and pragmatic policy decision was the way forward addressing a very long standing grievance in the industry which suffered due to unfair trade practices being used by various service providers. This directly related to the grievance of the trade which was the imposition of charges levied outside of the freight in the logistic chain. Especially the origin of the THC issue traced back to 1990's where the shipping lines arbitrarily and unilaterally introduced a separate Terminal Handling Charge (THC) which was in fact part of the freight until 1997.

This was a great relief especially for the SME Importers /exporters, Garment exporters and the domestic consumers.

A press release welcoming the Sri Lanka Government initiatives to strengthen the Shipping Economy was issued by the Council. The Asian Shippers' Council and China Shippers'

Association has welcomed the elimination of anti-competitive tools in Sri Lanka. Global Shippers Forum (GSF), which comprises of the National Industrial Transport League of the United States, Canadian Industrial Transport Association and the Freight Transport Association of the UK, The African and South American Shippers, along with European and Asian members have welcomed the Sri Lankan Government budget reforms for fair trading and transparency in the shipping economy.

As indicated in the budget proposal, The Extraordinary Gazette No 1842/16 on Terminal Handling and Other Charges by Shipping Agents, Freight Forwarders, Non-Vessel Operating Common Carriers, Container Operators and Consolidators of Cargo was published by His Excellency the President on 27/12/2013, with effective from 6th Jan 2014. The government acted to strengthen the powers of the Director General of Merchant Shipping to deal with anti-competitive practices, unfair charges and to create greater transparency into shipping charges. According to the Gazette, The Director General of Merchant Shipping has been empowered with the necessary legislative powers to eliminate anti-competitive monopolistic behavior and to establish transparency in shipping allowing the free market conditions to prevail in the supply and demand in future transaction between buyers and sellers

Also the Council subsequently participated at meetings of the "Working Group Meeting" set up by Ministry of Finance & Planning to discuss concerns related to the Gazette notification. Few meetings were convened by DGMS to address the concerns raised by the stakeholders.

Consequent to the discussion had at the Working Group meetings, The Director General of Merchant Shipping issued a notice informing the trade of a maximum charge of Rs. 6000 per delivery order with effect from 30/04/2014.
The Council will be continuously monitoring the progress in these areas and will continuously have a strong dialog with the relevant authorities in order to protect the trade while conducting more awareness programmes to educate the trade. The Council will also work closely with the Director General of Merchant Shipping to establish a mechanism to handle complaints received from the trade strengthening its capacity.

Structural Change in Surcharges in Air freight Industry – Fuel Surcharge & Security Surcharge on Chargeable Weight

Trade was advised by a few of the airlines during March 2013, about an implementation of a fuel surcharge and security surcharge on chargeable weight. The basis of charging the said surcharge has changed from Gross Weight to Volumetric Weight. The Sri Lanka Logistics and Freight Forwarders (SLFFA) sought the support of the Sri Lanka Shippers' Council (SLSC) on this matter and then constantly lobbied that airlines should either have all-inclusive air freight rates for cargo or to continue on the existing gross weight basis, where some of its members are requesting to the extent that the fuel adjustment factor too has to be incorporated in rate per kilo sighting that methodology applied is becoming irrational.

This proposed charging structure drastically increased the freight cost especially for volumetric cargo by air. It was observed that the impact of this would increase in the freight charges by 10-15% and would have adverse effects on export industry in terms of competitiveness in the global markets. As a result it was highlighted that there are direct effects on wearing apparels, plants, cut flowers, tropical fish, fruits and vegetables, tea bags etc., as these commodities are in the category of volumetric cargo.

Sri Lanka Shippers' Council along with its member Associations took up this issue with the Civil Aviation Authority (CAA) requesting all airlines to refrain implementing the changes. The Council's request to CAA was an all-inclusive rate or go back to the previous system of charging based on the gross weight

As a result of continuous strong lobbying, a directive on Security & Fuel Surcharge for Air Cargo was issued by Director General of Civil Aviation Authority instructing all Airlines Operating into Sri Lanka to practice the use of gross weight as the basis of charging for fuel and Security Surcharge for cargo Carried from Sri Lanka or to implement an all-inclusive rate which will comprise all charges until further notice.

FREIGHT RATES & COURIER RATES

FREIGHT RATES:

The year under review saw freight rates were fluctuating both ways marginally but having an overall effect of a downward trend compared to the beginning of 2013 towards end of March 2014. The main concern was the volatility of the container freight market, which fluctuated within short times which gave difficulty in forecasting for future pricing.

Also within the year, it was observed that several GRIs were planned by some shipping lines but did not have much effect to the trade.

The import rates also have shown marginal fluctuation during the year. At the beginning of the year 2013, the import rates have slightly gone up due to an implementation of a GRI and overall rates largely stagnated or in the down ward trend in many routes. Also within the year 2013, it was observed a reduction in import volumes.

COURIER RATES

With regards to the Courier rates, in the beginning of year 2013, the fuel surcharge was 24% but rates have been fluctuated by +/- during the course of the year. During the first quarter of the year 2014, the rates have come down to 23.5%. The fuel surcharge is linked to the Rotterdam price index.

FUEL SURCHARGE

As you are aware, global fuel prices have been fluctuating for the past few years. It is envisaged that these prices will continue to fluctuate in the foreseeable future, as such, most air express companies have introduced a fuel surcharge to defer part of their increased transportation costs. Most companies use the Monthly average spot price of the United States Gulf Coast Kerosene-type Jet fuel to calculate a fuel surcharge and for easy reference you may click USGC Kerosene-type Jet Fuel Spot Price to access the source data. There may however be marginal differences among the rates applied by our members globally due to time lags in implementation and differing cost structures.

The applicable fuel surcharge charged by various companies will be notified to customers by their respective service providers. Air Express users are encouraged to use this table as a guide to the trend in fuel movements and for better understanding of its application

(Source: SLAAEC)

SURGE IN SHIP ORDERS DELAY MARKET RECOVERY

According to Alphaliner, the recent surge in orders for ultra large container vessels, risks the recovery in container liner shipping beyond 2015. Consequent to a series of orders for large vessels totaling over 600,000 TEU in the 3rd quarter, container ship order book has increased to a 14 month high of 3.67 million TEU or 21.5% of the existing fleet. New deliveries which will reach 1.59 million TEUs in 2014 and 1.42 million TEUs in 2015 represents a capacity growth of 7.6% and 6.5% respectively. However, ship orders to fleet ratio are still low compared to the 2000 – 2013 average of 37.7%.

The latest orders were primarily driven by United Arab Shipping Company's contract for five 18,000 TEU and five 14,000 TEU vessels ordered last month from South Korea's Hyundai Heavy Industries. Mediterranean Shipping Company also booked six 18,000 TEU vessels from South Korea's Daewoo ship yard under a bareboat charter with China Bank of Communications Leasing and Minsheng Leasing. Additionally, CMA CGM turned to Chinese financiers to fund three 16,000 TEU ships ordered at Chinese shipyards and Seaspan ordered 10 14,000 TEU units in South Korea and China under a long-term charter of Yang Ming. The imbalance created by the excess supply could impede the recovery in the liner sector with no sustainable recovery expected until after 2015.

CONTAINER SHIPPING CAPACITY EXCEEDS 17M TEU

Consequent to the delivery of 147 ships representing 938,500 TEU during the first seven months of the year, the box fleet capacity rose above 17m TEU as per the latest figures published by Alphaliner. The deliveries in the year 2014 are expected to exceed 1.5m TEU.
Alphaliner said that increases was partly fuelled by carriers racing to add larger ships to their fleets in order to improve economies of scale and thereby, reducing operational cost. This common theme of reducing operational cost has resulted in 24 ships of over 13,000 TEU being delivered so far this year with 10 more ships due by the end of the year. The report further says that several other carriers are poised to make moves to place new orders, including MOL and NYK which have relied on their respective alliance partners, ultra large container ship tonnage until now, but will need to place orders for their own 14,000 TEU vessels very soon.

CONTAINER PORTS FACING NEW CHALLENGES

Though Drewry's latest annual report on Global Terminal Operations indicates that the sector remains dynamic and profitable, the challenges are numerous. The future demand growth will not be as strong as the boom periods of the 1990s and 2000s and is still is expected to grow at around 5% per annum.

With ultra large container ships coming on stream, shipping lines will rationalise ports of calls. Besides, formation of extra-large operational alliances, notably the P3 alliance between Maersk, MSC and CMA CGM, would place pressure on port tariffs.

CAPACITY REDUCTION FELT BY SHIPPERS

Shippers can expect more cargo to be 'rolled' to later voyages as container liners continue to cut costs by slow steaming and laying up vessels, Drewry Maritime Research said in its latest Container Insight Weekly. Slow steaming and layups allowed carriers to limit effective capacity growth to 22% since 2008, despite introduction of larger ships. Without those measures, capacity would have grown 40%. In 2013 alone, slow steaming and layups reduced available supply by nearly 3 million TEUs." These measure have been relatively successful in reducing voyage costs and raising ship utilisation but are "at times excessive and detrimental to shippers.

Slow steaming and additions to the number of ships in a service loop, first appeared on Asia-Europe trades and since early 2008 have expanded into the trans-Pacific and several north-south routes. Carriers quickly realised the fact that as well as reducing voyage costs, slow steaming offered a way of managing the vessel surplus that was building as demand shriveled. Carriers also use layups as a last resort for matching supply with demand. Before slow steaming, a typical Asia – North Europe service averaged eight ships designed for speeds of 24 to 25 knots. Now a typical service loop has 11 ships sailing at about 17 knots. Twenty two weekly west bound Asia-North Europe services require about 250 ships with average capacities of slightly over 11,000 TEUs.

If slow steaming had never happened and services in that trade were still running with eight ships rather than 11, then only 180 ships would be needed to maintain the same number of loops, meaning carriers have effectively absorbed 70 or so ships in that trade along. The suboptimal use of carriers' biggest assets was essential to reduce voyage costs, but shippers are paying the price with longer transits and delays in peak cargo months.

Source: Drewry Maritime Research

MARITIME REGULATORY REFORMS

COMMERCIAL HUB REGULATIONS

The Government recently announced the establishment of Commercial Hub Regulations under a Gazette Notification titled Commercial Hub Regulation No. 1 of 2013, which optimise Sri Lanka's potential and vision to become a key player in the international market as a gateway connecting the Asian region to the East and the West.

Under the regulations, Sri Lanka's primary sea ports and the four Export Processing Zones are identified as duty free ports and zones which are certain to bring in unprecedented activities and create a new investment climate by increasing trade, expanding logistic services, modernisation coupled with an improved monetary and fiscal regime.

The regulations are likely to give global companies supply chain security and an efficient location for distribution, storage and transshipment through a well-integrated infrastructure network via the largest deep draft ports and two international airports and road connectivity. This will also help companies provide value added services to manufacturing and financial services such as headquarter operations.

REGULATION ON TERMINAL HANDLING AND OTHER CHARGES

The Extraordinary Gazette No 1842/16 Of 27/12/2013 on Terminal Handling and Other Charges by Shipping Agents, Freight Forwarders, Non-Vessel Operating Common Carriers, Container Operators and Consolidators of Cargo was published by His Excellency the President, who is also the Minister of Highways, Ports and Shipping. The move crystalizes one of the several proposals made by His Excellency the President Mahinda Rajapaksa in the Budget 2014 to create greater transparency in the levy of terminal handling and other charges. It will promote productivity growth and competitiveness of imports and exports. Regulation will be enforced by the Director of Merchant Shipping from Monday, 6th January 2014.

LIBERALIZATION OF SHAREHOLDINGS OF FREIGHT FORWARDING COMPANIES

The Government removed the clause relating to the 60/40 restriction on investments in Freight Forwarders and NVOCC industry through a recent Gazette Notification, thus going back to pre-2011 era (prior to Licensing regulations were introduced), where only the Finance Act maintained the same 60/40 restriction, and was exercised through the Exchange Controller. However, the BOI is in a position to overrule this restriction and allow foreign operators to move in with even 100% equity. SLFFA's suggestion to government is to allow minimum foreign investment of US$ 5 million.

DEVELOPMENT OF MARITIME REGULATORY STRUCTURE

The Committee headed by Director General of Merchant Shipping is in the process of developing a new Maritime Regulatory Structure to help serve the industry better and realize its full potential within the proposed Maritime Hub Concept along with the participation of all stakeholders in the Industry.

This process started off when the need for dedicated "Coastal Ships Regulations" were studied. In the process of the said study it has been felt that the entire regulatory structure for Shipping and Maritime affairs of the country based on Merchant Shipping Act 52 of 1971 does not really address current activities or facilitate progress of the maritime activities.

As such the meeting of stakeholders convened by the DGMS to discuss and develop "Coastal Ships Regulations" ended up to become a committee to study a suitable Maritime Regulatory Structure for the entire Shipping and Maritime Industry.

It was identified that the need for changes in Regulatory structure to encompass three major areas of the industry which are hitherto not adequately covered by existing Act and regulations therein; They were,

1. **SHIP OPERATIONS (INTERNATIONAL AND COASTAL TRADING)**
2. **COMMERCIAL SHIPPING**
3. **MARITIME ACTIVITIES**

The Council is actively involved in the committee to draft the Regulatory Structure.

VERIFICATION OF OVERWEIGHT CONTAINERS

The International Maritime Organization's (IMO) safety committee has finally approved amendments to the Safety of Life at Sea (Solas) convention that will introduce a mandatory requirement for the certificated verification of container weights prior to loading onboard an export vessel.

The amendment to Solas still has to be adopted by the IMO's Maritime Safety Committee (MSC) when it sits in November – although this is now seen as rubberstamping – before the new rules enter into force in July 2016.

It has been estimated that up to 20% of the 130 million ocean freight containers traded globally each year have misdeclared weight – indeed, several maritime casualty reports, including the *MSC Napoli* in 2007, highlighted the impact of overweight containers as a contributory factor in the structural failure of ships.

An under-declared weight can be just as dangerous to the stow of a ship as a contributing factor in the collapse of a container stack.

Support for mandatory container weighing came from the majority of container shipping lines, the International Chamber of Shipping, BIMCO, the International Transport Workers Federation and the World Shipping Council (WSC) among others, but terminal operators had mixed views and shippers were generally against the regulation.

Indeed, the Asian Shippers' Council and the European Shippers' Council, which together claim to represent 75% of global trade, were both vocal in their objection to the mandatory weighing of containers, saying it would "merely add to the costs, resulting in undue delays in the supply chain without significantly decreasing the risk of occurrence of such accidents".

However, the WSC, which says its members operate around 90% of global liner capacity, praised the IMO for agreeing the Solas amendments and for its leadership in "trying to ensure the safe transportation of cargo by the international shipping industry".

The WSC also congratulated the IMO's safety committee on issuing implementation guidelines to assist supply chain participants.

P3 ALLIANCE

In June 2013, Maersk Line announced establishing of a new alliance with Mediterranean Shipping Co. (MSC) and CMA CGM, known as the P3 Network.

P3 was planning to operate as an independent network consisting of 255 vessels with a total capacity of 2.6 million TEU serving the Asia-Europe, Transpacific, and Transatlantic (North Europe and Mediterranean) trades.

Maersk Line was planning to contribute with more than 100 vessels, including the new Triple E class, equaling 1.1 million TEU of capacity to the alliance. It was expected that the P3 to commence operations in the second quarter of 2014.

October 22, 2013, The U.S. Federal Maritime Commission Chairman, Mario Cordero, issued a call to fellow regulators in the European Union and the People's Republic of China, to join with him in a Global Regulatory Summit on the proposed P3 Global Alliance of the world's three largest container carriers, Maersk Line, CMA-CGM, and Mediterranean Shipping to discuss their respective regulatory roles in considering the impact of the announced Alliance

The Federal Maritime Commission (FMC) announced in March 20, 2014 that it had concluded an extensive review of the proposed P3 Network Vessel Sharing Agreement, FMC Agreement No. 012230 including the information received from the agreement parties in response to the FMC's request for additional information.

The pending agreement between A. P. Moller-Maersk A/S, CMA CGM S.A., and MSC Mediterranean Shipping Company, S.A. would authorize the parties to share vessels and engage in related cooperative operating activities in the trades between the U.S. and Asia, North Europe, and the Mediterranean allowing the agreement to become effective as scheduled on Monday, March 24, 2014. This was subjected to unprecedented monitoring requirements demanded by the FMC. However, the P3 lines announced that implementation will be delayed to the autumn, largely due to the fact that the Chinese competition authorities have not yet sanctioned the agreement.

The European Commission informed Maersk Line, MSC and CMA CGM on 05th June 2014 that it had decided not to investigate the P3, and its alliance rival the G6, over any antitrust issues.

However, competition commission spokesman Antoine Colombani said: “The commission will follow market developments and will remain vigilant as regards any risks for competition that may arise from the implementation of P3 or G6.”

Having already received the blessing of US regulators in March 2014, the P3 negotiation bandwagon now focuses its attention on Asia, where the Chinese competition authorities are reported to be announcing their decision in June 2014.

It has been revealed that the P3 Alliance only gained approval to operate in the US after Maersk, MSC and CMA CGM agreed they must negotiate separately with terminal operators, stevedores and other port and landside service providers.

However, in Europe, where approval has also just been given, the alliance has had to make no such undertaking.

In Europe, and Asia where the P3 is awaiting a decision from the Chinese authorities, the individual carriers were quick to maintain separate procurement offices from the London-based tonnage centre control.

Maersk Line chief trade and marketing officer Vincent Clerc said, "We will now continue our close co-operation with competition and maritime authorities in, among others, China and South Korea to obtain their approvals."

However, other jurisdictions, such as South Korea, could still delay the commencement of the P3 which has set a revised autumn target start date.

G6 ALLIANCE

The Federal Maritime Commission announced in April 2014 that it has concluded a comprehensive review of the proposed amendment to the G6 Alliance Agreement, FMC Agreement No. 012194-002 including the information received from the agreement parties in response to the FMC's request for additional information. The pending agreement between American President Lines, Hapag Lloyd AG/USA, Hyundiai Merchant Marine, Mitsui OSK Lines, Nippon Yusen Kaisha, and Orient Overseas Container Line would expand the current geographic scope to allow G6 operational cooperation in the trades between the Far East and the U.S. West Coast, and between North Europe and all U.S. coasts. The Commission's unanimous decision will allow the Agreement to become effective as scheduled on Friday, April 4, 2014.

The Commission's decision is based on a determination that the agreement is not likely at this time, by a reduction in competition, to produce an unreasonable increase in transportation cost or an unreasonable reduction in transportation service under section 6(g) of the Shipping Act. The Commission's action on the G6 Alliance is based on an extensive, competitive analysis conducted by the Commission's staff and comments received by shippers and other industry participants. The Commission will continue to review the competitive impact of global alliances. This Alliance will considerably increase available capacity in the expanded geographic scope, and has the potential to generate operational efficiencies and positive environmental benefits.

ELECTRONIC DATA INTERCHANGE (EDI)

Full Implementation of Automated SYstem for CUstoms Data (Asycuda World) System

Since the beginning of 2011 the Sri Lanka Customs department has been gradually introducing automation to various divisions of its services to facilitate trade more effectively. It was started with motor vehicle imports online with Motor Traffic department, followed by mandatory Direct Trade Input system (DTI), online payments of customs charges. The manifesting process is also being implemented with ship agents, SLPA and logistics companies.

The Ministry of Finance has published Gazette Number 1829/39 dated 27/09/2013, as a major reform process is taking placing at Sri Lanka Customs department, to facilitate exports &

imports. The Director General Customs & his team has now placed the system that would expedite the export processing system as well as enhance the clearance process of imports which will result in supply chain efficiency. There was a partial delay in implementation as the legal environment had to be cleared which required an amendment to the Customs Ordinance. This change has been done under amendment no. 103, with the issuance of the above gazette.

The gazette would facilitate the Customs Department to fully implement the ASYCUDA led automated system and most importantly the exporters and the importers will migrate into a minimum paperless environment to deal with Customs processing.

Main objective

The main objective of these changes was to reduce the processing time and cost incurred during the Custom clearance. Through this new processing system the logistic will be handed over by the exporter to the E-CusDec. On the second step it will consider by the ASYCUDA World alone with the scan copies of the export license if applicable and total amount of charges for the declaration will be announced.

Under the Customs custody e-documents, e- warranty will be searched and will be given by the customs. With this system all the export cargo will be centralised in to one place. At the E-CusDec warranting the CusDec without paper copies will be submitted to export office. They will collect the examination fee along with other payments in one instance. The updates are to be submitted by email and SMS to the exporter. If there is dissatisfaction or an error, paper copy may be called for.

Payments of all charges including panel examination fee in one instance and old examination fee will be changed. For FLC charges are Rs. 550 per container and for LCL Rs. 300 per CusDec, while bulk cargo will be charged Rs. 30 per metric ton. There are some obligations of exporter and CHA like sign the proxy and submit e-CusDec with all the required information.

Exports shall warrant the e CusDec and inform the same to declare and exporter by email. When paid, if any amendment is done or in any other relevant case the SMS update shall be sent by the system.

To enjoy the benefits of these changes the exporters are required to appoint their Clearing Agents (Customs House Agents) by submitting a proxy to the Export office of Sri Lanka Customs. A draft proxy and the instruction to register the same with Sri Lanka Customs are available at the Customs Website.

Supply chain effectiveness

This online system is taking place at Sri Lanka Customs Department to make easy the Customs export and import processing system and to enhance the clearance process. This will result in supply chain effectiveness by cutting operation cost and reducing the time. This will reduce the wastage, and unnecessary payments for local exporters and importers. The gazette will also provide the Customs Department to fully implement the ASYCUDA led automated system and most importantly the exporters and the importers will migrate into a minimum paperless environment to deal with customs processing.

Under the old system exporter/importer especially in Colombo will take more than three days while for an outstation person it would take at least three day. With the implementation of this on-line Custom document system it could be processed within one day.

The new gazette will introduce a revised tariff system as the department of Customs will have to facilitate the trade with upgrading of it hardware and software. Overall the international trading environment of Sri Lanka will be taken to a new level with this initiative.

SRI LANKA CUSTOMS

The Council is pleased to announce that the dialogues with the Sri Lanka Customs continued, during the year under review. Concerns of the Importers and Exporters with regard to various policy matters and operational issues were brought to the attention of the DG Customs and received positive responses to solve large number of issues during this period.

SRI LANKA PORTS AUTHORITY

During the course of 2013, SLSC has had very productive round table discussions with the Chairman and other top Directors of SLPA to discuss various issues pertaining to the industry. Some of the issues highlighted were;

- SVAT issue, on SLPA payments
- Full use Port Gate No 7 with required facilities. & opening up more gates for container / cargo traffic.
- SLPA to allow 2 rent free working days instead 48 hours
- SLPA on line payment system to cover all port services
- Multicounty consolidation & entreport facilities
- Waive off SLPA charges on tracing delays.
- Compensations for damages for cargo within SLPA premises
- Extended working hours for Port Warehouses
- Improvements on programming & de-stuffing of containers
- Faster turnaround times in Terminals to reduce long lorry waiting time
- To improve delays in handling loading project cargo
- To improve on vessel berthing delays at JCT
- Improvements on Navis System

SLSC is pleased with the infrastructure development projects and port expansion projects taking place at the SLPA as this would no doubt largely improve on the transaction time in port operation resulting faster import export operations for the trade.

SLPA CARGO MANAGEMENT MODULE

Sri Lanka Ports Authority installed an online system to clear cargo which was expected to centralize the port, yards and Customs for faster clearance reducing many hassles faced by clearing agents. Further, SLPA introduced the cargo management Module in the beginning of year 2012 which would benefit all the clients who work with the port to reduce paper work and expedite the process when doing business with the port. All documentation for export /import cargo is handled only through this newly implemented cargo module system.

THE ASIAN SHIPPERS' COUNCIL (ASC) & GLOBAL SHIPPERS' FORUM (GSF)

THE ASIAN SHIPPERS' COUNCIL ANNUAL MEETING

The 9th Annual Meeting of the Asian Shippers' Council (ASC) was held on 9th December 2013, in Shenzhen, China, hosted by the Shenzhen Shippers' Association.

The SLSC was represented by Mr. Sean Van Dort, 1st Vice Chairman at this event.

At the one-day meeting delegates discussed at length the mandatory weighing and verification of containers and its far reaching implications for shippers, the proposed P3 Network which will result in the creation of an alliance of mega proportion, container freight rate volatility, maritime regulatory reform and maritime security.

Mr. Toto Dingantoro, Chairman of Indonesian National Shippers' Council was appointed as ASC Chairman and Mr. Cai Jia Xiang, Chairman of China Shippers' Association was elected as the Vice Chairman and Mr. John Lu, Chairman of the Singapore National Shippers' Council as an Advisor to the ASC for the ensuing year. SLSC was appointed as the Convener for South Asia Region.

A Handover Meeting was arranged on 14th January 2014 in Singapore for Mr. Lu; the ex-Chairman, to brief Mr. Toto Dirgantoro; the new Chairman. The meeting was witnessed by ASC Honorary Advisor; Mr. Ravindra Ratnapla, SLSC Vice Chairman; Mr. Sean Van Dort, SNSC 2nd Vice Chairman; Mr. Ng Kok Lip as well as INSC Secretariat; Mr. Hendra Muliawan.

The meeting on that day gave Mr. Lu the opportunity to share with the participants the history of ASC and its developments. In addition, the discussion has provided us with clear directions for all the outstanding issues.

Following up to the meeting, the handover was basically completed on 28th February 2014 with Singapore submitting the Handover Meeting minutes to the participants and other supporting documents in detail to Indonesia.

The next ASC AGM has been scheduled to be held in October 2014 in Sri Lanka.

GLOBAL SHIPPERS' FORUM (GSF)

GSF ANNUAL MEETING

The GSF annual meeting in conjunction with the IATA World Cargo Symposium was held on 9th-11th March 2014, at Hyatt Regency Century Plaza Hotel in Los Angeles.

The SLSC was represented by Mr. Sean Van Dort, 1st Vice Chairman.

At this event, GSF agreed to organise a new global campaign to confront the imposition of unsubstantiated shipping surcharges, terminal charges and more than 20 other non-negotiable local charges on shippers worldwide.

The campaign is focused on persuading national competition authorities or other appropriate regulatory bodies to introduce new shipping regulations and laws to prevent these local anti-competitive practices. Current widespread malpractices include imposing non-negotiated charges on consignors and shippers for a range of local charges over which the consignor or shipper has no control or influence in their freight rate negotiations with the shipping line, terminal operator, shipping agent, or third party logistics provider. Shippers generally are not party to the contracts in which these fees are set, yet they have no choice but to pay the fees if they want their cargo to be transported.

Discussion at the GSF annual meeting noted that the problem of unsubstantiated charges and surcharges imposed on consignors and shippers without bargaining power in Africa, Asia and South America has been a concern for shippers in these regions for many years. It is only now that the true scale and impact on shippers and trade in these regions is being fully understood and appreciated. The GSF maintains that non-negotiable surcharges and local charges imposed on non-contracting consignors and shippers effectively act as an indirect trade barrier which inhibits international trade. The GSF agreed to take up the matter with the relevant global trade authorities.

As part of a coordinated global campaign, the GSF will take the matter up with the main political, UN and other international agencies such as the African Union, UNCTAD, WTO, OECD, ASEAN and MERCOSUR. In addition we will support the implementation of the kind of national legislation introduced in Sri Lanka to deal with this widespread problem.

FEDERATION OF ASEAN SHIPPERS' COUNCILS (FASC)

There were no significant activities under FASC after the AGM held in New Delhi 2008.

EDUCATION & SEMINARS

There were several productive seminars conducted by SLSC during the year under review. The topics and a brief description of the seminars conducted are as follows;

Awareness Seminar on Avoiding risks on ad-hoc charges in international trade contracts (30th April 2014)

From Left to Right : Mr K. Kanag-Isvaran, PC, Mr. Dinesh De Silva, Chairman-SLSC, Mr. Chula Jayasuriya- Asia Foundation, Mr. Nilam Jumat-HNB

Today there are many trade disputes, where Exporters& Importers lose their profits heavily. The issues are either with their trading partner contracts or with 3p service provider agreements. It is certainly important for the trade to understand these Unfair & unrealistic trade practices.

Due to strict time lines in International trade transactions, the involved parties have to take speedy & correct decisions to run the businesses smoothly & efficiently.

Sri Lanka Shippers Council is continuously working on these areas playing a vital and a leading role to educate the exporters & importers on these matters. In this process, Sri Lanka Shippers' Council took the initiative to hold sessions of this nature enabling the trade to establish safe transactions.

The following areas were covered at the seminar;

- Fundamentals of International Trade Contracts and International Commercial Terms with recent changes – Mr. Dinesh De Silva, Chairman, SLSC
- Trade Contacts and legal Implication - Mr K. Kanag-Isvaran, PC
- INCOTERMS® - Mr. Chula Jayasuriya, Senior Technical Advisor, Local Economic Governance, The Asia Foundation
- Maximizing profitability in trade transaction - Mr. Nilam Jumat, AGM-Trade & International –HNB

Participants

FIELD VISIT to CARGO Village at the Bandaranaike International Airport, via Colombo Katunayake Expressway Project (24th August 2013)

Given the enormous development initiatives in the Roads, Highway and Airport projects that were undertaken during the year, Sri Lanka Shippers' Council conducted a field visit to see the Colombo Katunayake Expressway Project site. Mr. Jerome Nihal Lodiwick, Deputy Project Director of the Site briefed the participants of the developments of the entire project

The tour delegation comprised over 100 participants from member associations of the Council including exporters, importers, freight forwarders, logistics providers, courier companies and shipping lines. The participants were amazed to see the developments that have taken place at the project site.

The visit helped the partici[pants to resolve operational issues encountered when handling air cargo at the cargo village.

At the Colombo Katunayake Expressway Project

TRADE COMPLAINTS

The Council continues to facilitate the trade by assisting in the mediation of trade disputes among the shipping lines, freight forwarders, NVOCC Operators, and shippers.

REPRESENTATIONS

The Council continues to maintain its close association with the Government and Private sector organizations and also with the Trade Associations with a view to have a continued improvement on the required service levels.

Some highlighted direct representations made during the year were as follows;

- EDB Advisory Committee on Trade Facilitation
- Representations at the Leadership of the Approved Associations meetings of the Ceylon Chamber of Commerce
- Representations at the Steering Committee on Ports, Shipping, Aviation & Logistics of Ceylon Chamber of Commerce
- Meeting with Stakeholders of the Shipping Industry, the Ceylon Chamber of Commerce
- Working Group Meeting set up by Ministry of Finance & Planning to discuss the implementation on the Extraordinary Gazette No 1842/16 on Terminal Handling and Other Charges
- WTO Trade Facilitation Committee, The Ceylon Chamber of Commerce

THE CEYLON CHAMBER OF COMMERCE (CCC)

The Chairman of the Sri Lanka Shippers' Council is a member of the Committee of the Ceylon Chamber of Commerce, the oldest Chamber in Sri Lanka with a history of over 175 years. The Council members have had several meetings with the Chamber officials on policy matters relating to port and shipping.

MEMBERSHIP

The membership of the Council is open to all Trade Chambers and Associations engaged in Shipping and Port related activities as well as individual companies in the import/export trade. The membership committee is responsible for developing and increasing the membership of the Council.

During the year under review, the Council approved membership for the following companies/organizations as Individual Members:

1. **Anverally & Sons (Pvt) Ltd**
2. **Control Union Inspections (Private) Ltd**
3. **HDDES Extracts (Pvt) Ltd**
4. **Lafarge Mahaweli Cement (Pvt) Ltd**
5. **Lalan Rubbers (Pvt) Ltd**
6. **Nestle Lanka PLC**
7. **Nor Lanka Manufacturing Col. Ltd**
8. **Romina General Trading Company**
9. **Singworld Lanka (Pvt) Ltd**
10. **Timex & Fergasam Group (PVT) Ltd**
11. **Trans Orbit Logistics (Pvt) Ltd**

FINANCE

The Ceylon Chamber of Commerce manages the Council funds on behalf of the Council.

WEB SITE

www.shipperscouncil.lk

Shippers' Council website was revamped with a new outlook. The site is regularly updated with trade related information and hosts value added services.

SECRETARIAT

The Ceylon Chamber of Commerce provides Secretarial services to the Council. The infrastructure of the Chamber is readily available to the Council.

BY THE ORDER OF THE COUNCIL

Sgd.
Manori Dissanayaka
For Secretary

THE SECRETARIAT
Sri Lanka Shippers' Council
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OVERVIEW OF THE ECONOMY

The economy rebounded to a high growth trajectory expanding by 7.3 per cent in 2013 compared to the 6.3 per cent growth recorded in 2012. Sri Lanka achieved this high growth in 2013 amidst a challenging domestic and external economic environment. Stabilisation policy measures introduced by the Central Bank from early 2012 were gradually eased from December 2012, creating a more conducive environment for economic growth, although the lag in the transmission of monetary policy delayed the economy experiencing the full impact of the easing of monetary conditions during 2013. Meanwhile, the stable macroeconomic conditions that prevailed in the country, with relatively low inflation and interest rates together with the stable exchange rate, impacted positively on growth. Further, favourable weather conditions also supported growth particularly with the significant expansion in high value added hydropower generation. Moreover, the continued infrastructure development programme of the government also contributed to achieve the expansion in economic activity. Externally, the sluggish economic growth in advanced economies impacted negatively during the first half of the year. However, there was a turnaround in external demand during the second half of the year with the gradual improvement in advanced economies including the United States and the European Union, which are Sri Lanka's major export destinations, supporting the high growth in the second half of 2013.

According to estimates from the production approach the Services sector made the largest contribution to growth in 2013. Within the Services sector, the transport and communication sub sector recorded the highest contribution to growth in 2013 reflecting increased demand for transport services with the expansion of economic activities. Wholesale and retail trade activities also improved with higher value added growth in both external and domestic trade activities during 2013. The increase in external demand particularly during the second half of the year, and higher domestic output supported the growth in trade activities. The expansion in the Services sector was further supported by the growth in financial services as well, albeit at a lower rate than during 2012. Meanwhile, the Industry sector continued to maintain a high growth momentum recording the highest sectoral growth in 2013. Within the Industry sector, the construction sub sector continued to expand at a relatively high rate in 2013, although the growth rate moderated compared to the significantly high expansion in the previous year. The manufacturing sub sector also recorded a healthy growth in 2013 supported by strong external demand, from the second half of the year. The higher value added from utilisation of hydropower for electricity generation also contributed to the significant expansion in the Industry sector. Growth in the Agriculture sector also remained positive in 2013 due to the expansion in output of paddy, other food crops and fishing sub sectors despite the decline in coconut and rubber production.

According to estimates from the expenditure approach, the growth in Gross domestic product (Gdp) was supported by the expansion in both consumption and investment in real terms during 2013. However, consumption growth slowed during 2013 due to the deceleration in private consumption expenditure while public sector consumption expenditure grew at a higher rate than in the previous year. Meanwhile, expenditure on investment activities recorded a significant growth reflecting increased investor confidence. External sector demand improved with relatively high growth in exports of goods and services while imports of goods and services contracted marginally in real terms leading to an improvement in net external demand.

Gross National Product (GNP) derived from adjusting GDP for net factor income from abroad (NFiA) grew by 6.5 per cent during 2013 compared to 5.3 per cent in 2012. The lower growth in GNP reflects the increase in outflows in the income account of the balance of payments. The increased outflow was mainly due to higher interest payments on Treasury bonds and long term loans of the government together with the interest payments by the Central Bank and other financial institutions. Inflows in the form of Central Bank earnings, from interest on foreign reserves and fixed income securities also remained largely unchanged due to low interest rates prevailed in the international market. Meanwhile, a considerable portion of dividends by non-residents were reinvested in the country, lessening the impact of dividend related outflows in the income account.

GDP per capita was estimated at Rs. 423,467 for 2013 compared to the value of Rs. 372,814 recorded during 2012. The growth of 13.6 per cent in per capita income indicates that real income levels have increased in 2013 as the GDP implicit price deflator recorded a growth of only 6.7 per cent during the year. Meanwhile, per capita GDP in US dollar terms increased as well to US dollars 3,280 in 2013, keeping on track to reach the per capita income target of US dollars 4,000 by 2016.

GDP at market prices, which reflects the value of the total output in the economy at current prices, recorded a lower growth of 14.5 per cent in 2013 compared to the 15.8 per cent expansion recorded in the previous year. As real GDP grew at a higher rate in 2013 the slowdown in GDP at market prices was due to the deceleration in the rise of price levels across the economy as reflected by the GDP implicit price deflator. Further, the total value of the domestic economy was estimated at Rs. 8,674 billion during 2013, which is equivalent to US dollars 67 billion.

Domestic savings improved further to 20.0 per cent of GDP continuing the positive momentum observed during 2012. This was mainly reflected by the continued improvement in the trade balance with the lower growth in imports as in the previous year. The development in domestic savings emanated from the private sector together with the decline in government dis-savings. Measures adopted to rationalise the recurrent expenditure of the government sector resulted in the narrowing of the current account deficit of the government. National savings also improved in 2013 due to the continued growth in workers' remittances, albeit at a lower rate than in 2012. However, the deterioration of NFIA with increased outflows dampened the growth in national savings. Meanwhile, the resource gap, which reflects the level of external sector dependence, narrowed further in 2013.

Port Services

Ports activities showed a turnaround in 2013 despite the challenging global environment. The gradual recovery of foreign trade, attraction of new shipping lines, port efficiency and productivity improvements helped the turnaround of port services in 2013. Total container handling grew by 2.8 per cent to 4.3 million twenty foot equivalent container units (TEUs) in 2013 from 4.2 million TEUs in 2012. Transshipment handling registered a growth of 3.4 per cent compared to a negative growth of 1.5 per cent in 2012. Total cargo handling increased by 2.0 per cent to 66.2 million MT. Although the number of vessels that arrived at the port of Colombo recorded a decline, the gross tonnage of container ships that called during the year increased by 0.6 per cent reflecting the arrival of larger ships. During the year, the financial performance of the Sri Lanka Ports

Authority (SLPA) deteriorated as per the unaudited financial data. The revenue of the SLPA had declined by 2.3 per cent to Rs. 37.2 billion while the operating expenditure increased by 5.8 per cent to Rs. 34.8 billion in 2013. Accordingly, the operating profit of the SLPA had declined by 53.4 per cent in 2013 to Rs. 2.4 billion compared to Rs. 5.2 billion in 2012. The ongoing port development projects would help Sri Lanka to emerge as a maritime hub in the region. The economic stabilisation measures that were implemented in 2012 coupled with the opening of the Colombo South Container Terminal at the Colombo port and the declaration of the Hambantota and Colombo Ports as 'free ports' in mid-2013 helped enhance the activities in the ports sector. Under the Colombo Port Expansion Project, the South Container Terminal was declared open on August 5, 2013 with a range of equipment and facilities that has brought it on par with regional ports. The construction of the second terminal under this project, the East Container Terminal, commenced in May 2013 and is expected to be completed by end 2014. The East Container Terminal will also have a depth of 18 metres which would facilitate the docking of mega ships carrying approximately 18,000 TEUs. The construction of Phase II of the Magam Ruhunpura Mahinda Rajapaksa Port (MRMRP) commenced and is expected to be completed by end 2015. In the meantime, the construction of fourteen tanks at MRMRP with a total capacity of 80,000 cubic metres for storing and blending of marine fuel, aviation fuel and Liquid Petroleum Gas (LPG) has been completed and the pre-commissioning and testing of the bunkering facilities are now underway. In the first and second round of 'Request for Proposals' (RFP) for industries to be located

at the port, cabinet approval has been granted to twelve investors, of which three have already signed agreements. The remaining investors are expected to finalise their agreements during the course of 2014. In order to facilitate the growing economic activity along the Eastern Coast, the Oluvil Port was declared open on September 01, 2013 and this port will serve as a commercial and fisheries harbour. The Trincomalee port has been earmarked to serve as a centre of growth for the North Eastern region of the country and a RFP was called for business ventures in the vicinity of the port. The Galle Port is to be developed as a leisure port in line with the development of Sri Lanka as a 'tourism hub' in the region. The meantime, the construction of fourteen tanks at MRMRP with a total capacity of 80,000 cubic metres for storing and blending of marine fuel, aviation fuel and Liquid Petroleum Gas (LPG) has been completed and the pre-commissioning and testing of the bunkering facilities are now underway. In the first and second round of 'Request for Proposals' (RFP) for industries to be located at the port, cabinet approval has been granted to twelve investors, of which three have already signed agreements. The remaining investors are expected to finalise their agreements during the course of 2014. In order to facilitate the growing economic activity along the Eastern Coast, the Oluvil Port was declared open on September 01, 2013 and this port will serve as a commercial and fisheries harbour. The Trincomalee port has been earmarked to serve as a centre of growth for the North Eastern region of the country and a RFP was called for business ventures in the vicinity of the port. The Galle Port is to be developed as a leisure port in line with the development of Sri Lanka as a 'tourism hub' in the region. Several initiatives have been taken to

improve the attractiveness and competitiveness of the ports sector. The declaration of the Ports of Colombo and Hambantota as 'free ports' will help enhance the competitiveness of the port in international trade and is expected to attract investors to set up businesses to exploit the benefits of the demarcated duty free zones in these ports. In a move to reduce the cost of shipping and attract more shipping lines to the ports as proposed in the Budget 2014, terminal abolished. As a result, from January 2014, shippers are expected to pay an all-inclusive freight rate. Measures are also being taken to minimise non-operational time at the container terminals thereby creating new berth window capacity. Vessel productivity was also improved further during the year with procurement of new ship-to-shore gantry cranes, rubber tyred gantry cranes and yard tractors. The SLPA has been granted Cabinet approval to set up two Dry Ports at Peliyagoda and Thelangapatha as inland ports. This is expected to improve integration with the maritime terminals and thereby provide inbound and outbound traffic with more efficient access to the inland market. A warehouse complex is also to be constructed at Peliyagoda to minimise the traffic congestion on roads in Colombo and to enable the provisioning of an increasingly efficient service to SLPA's stakeholders.

Chart 3.5 Container Handling, Transshipment Volume and Ship Arrivals

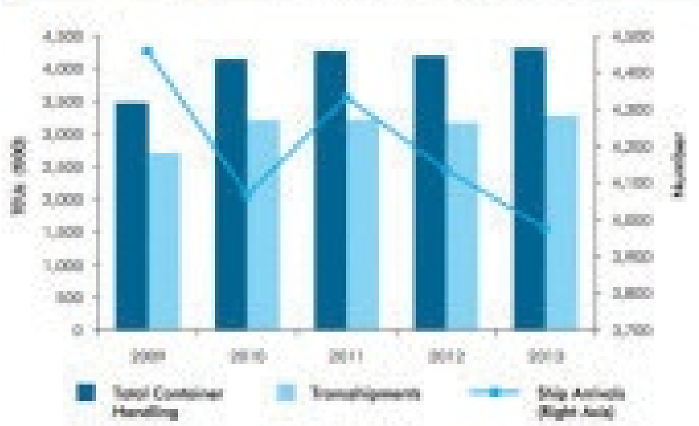


Table 3.7 Performance of Port Services

Item	2012	2013(a)	Growth Rate (%) 2012	Growth Rate (%) 2013(a)
1. Vessels Arrived (No.)	4,134	3,976	-4.6	-3.8
Colombo	3,870	3,667	-6.2	-5.2
Galle	69	36	-5.5	-47.8
Trincomalee	161	134	27.8	-16.8
Hambantota	34	139	277.8	308.8
2. Total Cargo Handled (MT '000)	64,970	66,343	-0.2	3.0
Colombo	61,669	63,482	-0.6	2.9
Galle	422	207	-9.1	-50.9
Trincomalee	2,859	2,435	11.1	-14.8
Hambantota	20	119	33.3	495.0
3. Total Container Traffic (TEUs '000) (b)	4,187	4,306	-1.8	2.8
4. Transhipment Container (TEUs '000)(b)	3,167	3,274	-1.5	3.4
5. Employment (No.) (c)	10,200	9,886	-7.3	-3.1
Colombo	9,373	9,081	-7.3	-3.1
Galle	391	379	-9.7	-3.1
Trincomalee	436	426	-6.4	-2.3

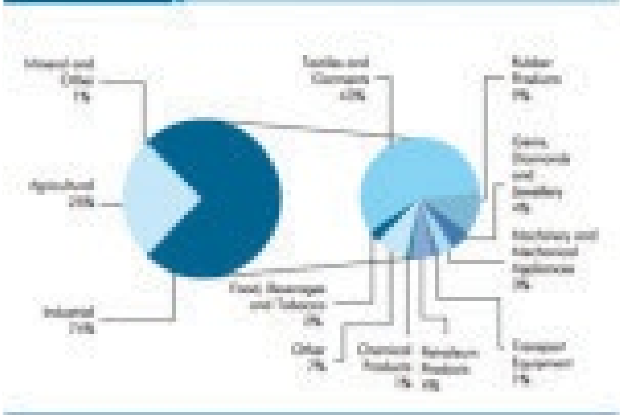
(a) Provisional
(b) TEUs = Twenty-foot Equivalent Container Units
(c) Only for Sri Lanka Ports Authority

Source: Sri Lanka Ports Authority

Export Performance

Exports recovered in 2013, with the moderate recovery in the global economy. Earnings from exports recorded a positive growth from June 2013 following 15 months of contraction. Export earnings grew by 6.4 per cent to US dollars 10,394 million in 2013 in contrast to a decline of 7.4 per cent to US dollars 9,774 million in 2012. Exports recorded an impressive growth from the second half of 2013 with the recovery in Sri Lanka's traditional markets, such as USA and the EU. The expansion in domestic economic activities, a favourable investment climate and conducive external trade policies also supported the growth in exports in 2013.

Chart 5.3 Exports by Commodities - 2013



The largest contribution to the growth in export earnings came from industrial exports, which accounts for around three fourths of total export earnings. Earnings from industrial exports increased by 5.1 per cent to US dollars 7,749 million in 2013 mainly due to the better performance in textiles and garments, which contributed 43.4 per cent to total export earnings in 2013. Earnings from textile and garment exports increased by 13 per cent to US dollars 4.5 billion in 2013, surpassing the US dollars 4 billion target set by the apparel industry. Garment exports to the EU and USA, which are major export destinations, recorded a significant growth of 6.8 per cent and 21 per cent, respectively in 2013, benefiting from the recovery in those economies. Market diversification, acquisition of expert knowledge, vertical and backward integration and greater emphasis on activities at the higher end of the value chain contributed to the robust performance in the textiles and garments industry. The increase in value addition has reduced import dependence in the industry as reflected in the decline in import of textiles and textile articles in 2013. Accordingly, the average import dependency ratio for the entire garments industry declined to 45 per cent in 2013 from 57 per cent in 2012.

Earnings from export of other industrial products recorded varied performance in 2013. Earnings from export of rubber products increased by 3.3 per cent to US dollars 888 million in 2013, making it the second largest contributor to the growth in industrial exports. An increase in export of surgical and other gloves and tyres, as a result of the decline in natural rubber prices and increasing external demand from advanced economies such as USA and EU, mainly contributed to the growth in export of rubber products. Export of leather products increased by 38.7 per cent to US dollars 77 million in 2013, mainly due to a more than two fold increase in footwear exports. The industry was supported by the government through duty free import access to leather machinery in addition to the continuous support provided by the EDB, the Industrial Development Board and the Ministry of Industry and Commerce. Export of machinery and mechanical appliances including transformers, static converters, accumulators, weighing machines and other home appliances increased in 2013. However, export earnings from gems, diamonds and jewellery declined significantly by 20.3 per cent to US dollars 446 million in 2013 mainly due to declining global demand and a sharp fall in gold prices in the international market. Export earnings from petroleum products declined by 7.6 per cent to US dollars 428 million, as a result of rising competition from regional ports and a decline in international bunkering prices. Earnings from food, beverages and tobacco exports declined by 17.3 per cent to US dollars 235 million, mainly due to a reduction in wheat flour exports as a result of restrictions imposed on import of wheat flour by a major trading partner. Export of transport equipment, declined by 11.3 per cent to US dollars 146 million in 2013 due to a reduction in export of road vehicles such as bicycles and cars, although the export of rowing boats and other floating structures increased significantly during the year.

Agricultural exports which account for nearly one fourth of total export earnings contributed around 40 per cent to the overall increase in export earnings in 2013. Earnings from agricultural exports increased by 10.7 per cent, year-on-year to US dollars 2,581 million in 2013. Earnings from tea exports increased by 9.2 per cent to reach the highest-ever annual earnings of US dollars 1,542 million in 2013, mainly due to the high price obtained for Ceylon tea owing to its superior quality and the rise in international demand for orthodox teas. The average export price of tea rose by 9.3 per cent to US dollars 4.82 per kg in 2013 from US dollars 4.41 per kg in 2012. Export volumes of tea, however, remained at 320 million kilograms in 2013 as in 2012. Earnings from raw rubber exports declined by 43 per cent in 2013, largely due to increased usage of rubber in the domestic market to produce value added rubber products. However, higher production in major natural rubber producing countries exerted downward pressure on rubber prices throughout the year. The average export price of rubber declined by 9.7 per cent to US dollars 3.02 per kg in 2013 from US dollars 3.35 per kg in 2012. Total earnings from coconut exports declined by 2 per cent to US dollars 205 million in 2013, despite earnings from coconut kernel exports increasing by 7.6 per cent to US dollars 86 million as export earnings from non-kernel products such as yarn and coconut shells declined.

Export earnings from other agricultural products such as spices, vegetables, unmanufactured tobacco, minor agricultural products and seafood increased substantially in 2013, contributing to the overall growth in agricultural exports. Earnings from the export of spices increased by 38.8 per cent to US dollars 355 million in 2013. This was mainly on account of an increase in earnings from export of pepper by 82.9 per cent to US dollars 128 million and an increase in earnings from export of cloves by 169.4 per cent to US dollars 50 million. An increase in planting due to favourable prices and incentives given through the 'Gama Neguma' programme as well as improved extension services provided by the Department of Export Agriculture contributed to the significant growth in export of spices during the year. Meanwhile, earnings from export of unmanufactured tobacco and minor agricultural products increased by 12.9 per cent and 33.3 per cent, respectively in 2013, mainly due to favourable weather conditions. Export earnings from seafood increased by 18.1 per cent during the year to US dollars 234 million, with increased earnings from processed fish, frozen fish as well as molluscs.

Import Performance

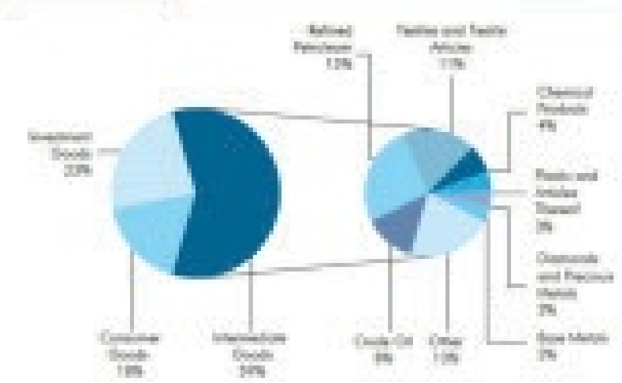
Expenditure on imports, which declined continuously from April 2012, on a year-on-year basis continued to contract during most of 2013. Expenditure on imports in 2013 declined by 6.2 per cent to US dollars 18,003 million, from the previous year, reflecting the impact of policy measures adopted in 2012 to rationalise imports, lower expenditure on fuel imports as well as subdued commodity prices in international markets. All major categories of imports except consumer goods, declined significantly. The anaemic recovery in major economies around the world moderated international commodity prices, including petroleum prices leading to an overall decline in import expenditure. Expenditure on nonfuel imports in 2013 declined by 3.2 per cent to US dollars 13,695 million.

The largest contribution to the decline in overall import expenditure came from the reduction in expenditure on intermediate goods, mainly due to lower expenditure on fuel, textiles and textile articles, fertilizer, and diamonds and precious stones. In value terms, expenditure on intermediate goods imports, which accounts for around 59 per cent of total imports, declined by 8.8 per cent to US dollars 10,554 million in 2013. Expenditure on fuel imports, which accounts for around one fourth of total import expenditure, declined by 14.6 per cent to US dollars 4,308 million, mainly due to lower usage of thermal power for electricity generation during the year and a decline in petroleum prices in international markets. The average import price of crude oil declined to US dollars 109.84 per barrel in 2013 from US dollars 114.00 per barrel in 2012. As a result of the increase in local production, imports of textiles and textile articles declined by 9.7 per cent to US dollars 2,046 million in 2013, raising the value addition in the garment industry. Expenditure on fertilizer imports declined substantially by 23.3 per cent to US dollars 239 million. The decline in the volume of fertilizer imports was partly of gold to contain imports. However, the surcharge was removed with effect from November 2013 and the customs duty was increased to 7.5 per cent. Import expenditure on other categories of intermediate goods, such as chemical products, plastics, paper and paperboard, agricultural inputs, food preparations and mineral products increased during the year.

Expenditure on import of investment goods declined by 7.3 per cent to US dollars 4,253 million in 2013, led by a decline in importation of transport equipment as well as machinery and equipment. Responding to policy measures taken in 2012 to rationalise imports, expenditure on transport equipment declined by 32.7 per cent to US dollars 668 million in 2013. Import expenditure on all categories of transport equipment, except ships and boats and aircraft, declined during this period. Import expenditure on machinery and equipment, which comprise mainly engineering equipment, electronic equipment, telecommunication devices, office machinery, medical and laboratory equipment and machinery and equipment parts declined by 5.7 per cent to US dollars 2,222 million in 2013. However, the import of building materials which comprise mainly cement, iron and steel, aluminium articles and mineral products, increased by 9.7 per cent to US dollars 1,357 million, to meet the increasing demand from the mega infrastructure development projects being undertaken by the government and the private sector.

With respect to consumer goods imports, expenditure on food and beverages as well as non-food items increased considerably in 2013. Overall import expenditure on consumer goods, which accounts for around 18 per cent of total imports, increased by 6.3 per cent to US dollars 3,182 million in 2013 from US dollars 2,995 million in 2012. Import expenditure on food and beverages increased by 4.9 per cent to US dollars 1,368 million due to higher expenditure on the importation of vegetables, seafood as well as oils and fats. However, expenditure on the importation of sugar and confectionery products, dairy products, beverages and cereals and milling industry products declined during the period under review. An increase in the Cess imposed on the importation of butter, yoghurt and dairy products, with a view to encouraging domestic dairy production, mainly contributed to the 5.3 per cent reduction in import expenditure on dairy products. Meanwhile, expenditure on import of non-food consumer goods increased by 7.3 per cent to US dollars 1,814 million, largely due to the increase in the importation of motor vehicles by 17.6 per cent. Import of other categories of non-food consumer goods, such as medical and pharmaceutical products, clothing and accessories, telecommunication devices and rubber products also increased during the year.

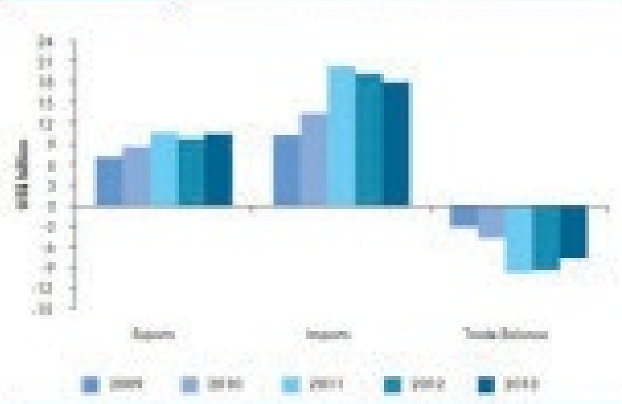
Chart 5.4 Imports by Commodities - 2013



Trade Balance

The trade deficit contracted sharply in 2013 with the pickup in export earnings and declinein import expenditure. Accordingly, the trade deficit narrowed by 19.2 per cent to US dollars 7,609 million in 2013 from US dollars 9,417 million in 2012. As a percentage of GDP, the deficit in the trade account declined to 11.3 per cent in 2013 from 15.9 per cent in 2012.

Chart 5.5 Exports, Imports and Trade Balance



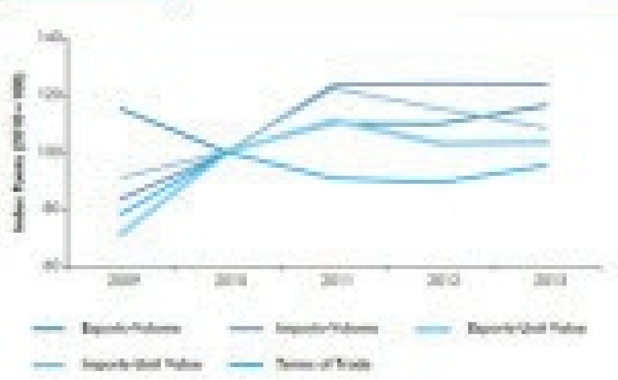
Terms of Trade

The significant reduction in import prices and a marginal increase in export prices resulted in an improvement in the terms of trade in 2013. The export price index increased marginally by 0.4 per cent to 103.5 index points, while the import price index declined significantly by 5.9 per cent to 108.4 index points. Accordingly, the terms of trade improved by 6.7 per cent to 95.5 index points in 2013 from 89.5 index points in 2012.

Despite the significant price reduction in key commodities in the international market, the overall export price index increased marginally. The increase in the average price of textiles and garments and tea, the two major export items which account for more than 58 per cent of total exports, raised the export price index. The export price of textiles and garments, increased by 2.4 per cent, while the average export price of tea increased by 7.5 per cent. Higher value addition in the garment industry with the acquisition of modern technology and innovation and increasing shift to supplying niche markets resulted in an increase in the unit price of textiles and garments. Although tea prices in Kolkata and Mombasa auctions declined considerably in 2013, the average export price of Ceylon tea increased significantly as a result of an increase in demand for high quality Ceylon tea. However, the price of petroleum products, gems, diamonds and jewellery and base metals categorised under industrial exports and the price of rubber, coconut, seafood and vegetables categorised under agricultural products, recorded a decline in 2013. Accordingly, while the average export price index of agricultural and mineral exports increased by 4.6 per cent and 10.8 per cent, respectively, the export price index of industrial exports declined by 0.8 per cent.

The import price of all major import categories remained lower than in the previous year, reflecting the moderation in global commodity prices due to a slower than expected recovery in advanced economies and a slowing down of emerging market economies. The significant reduction in petroleum and fertilizer import prices, mainly contributed to the decline in the overall import price index. On average, petroleum and fertilizer prices declined by 6.8 per cent and 15.9 per cent, respectively during 2013. The rapid expansion of unconventional oil production as well as lower demand from USA and Europe contributed to the decline in oil prices. In the food and beverages category, the price of sugar declined by 12.3 per cent due to the weakening of the Brazilian Real and excess production. The price of investment goods imports declined, due to a fall in the price of almost all sub categories. Accordingly, the average import price index of consumer, intermediate and investment good categories declined by 0.3 per cent, 5.3 per cent and 8.2 per cent, respectively in 2013.

Chart 5.6 Terms of Trade and Trade Indices

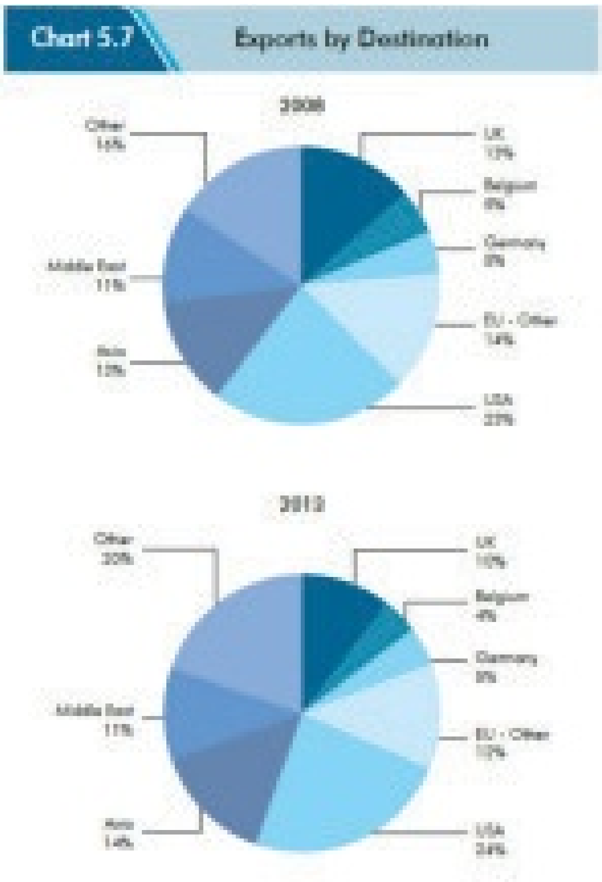


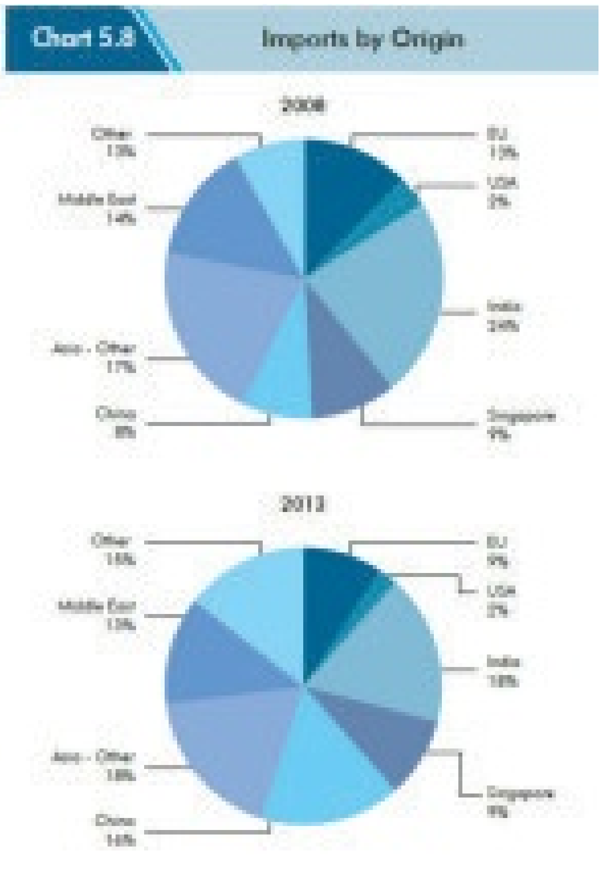
Direction of Trade

Industrialised countries continued to be the major destination for Sri Lankan exports in 2013, while Asian countries accounted for a major share of imports into the country. USA remained the largest export destination in 2013 followed by the UK and India, while India remained the largest source of imports followed by China and Singapore. India remains the leading trading partner of Sri Lanka with bilateral trade in 2013 exceeding US dollars 3.7 billion.

USA which is the major export market for Sri Lanka accounted for around 24 per cent of total exports, followed by the UK (10.4 per cent) and India (5.2 per cent). Textiles and garments remained the largest export to USA and UK. With the recovery of these economies total exports to USA and UK increased by 17.3 per cent and 1.8 per cent, respectively. The major exports to India were spices, transport equipment, machinery and mechanical appliances and animal fodder. In 2013, apart from UK, the other leading export destinations in Europe were Italy, Germany and Belgium-Luxemburg, representing 4.9 per cent, 4.5 per cent and 4.3 per cent of total exports, respectively. Exports to Italy and Germany comprised mainly garments, accounting for 14 per cent of total garment exports. Almost 42 per cent of Sri Lanka's gems, diamonds and jewellery were exported to Belgium, one of the world's leading trading centres for diamonds. Tea exports to the Middle East and CIS countries accounted for nearly 46.3 per cent and 24.1 per cent, respectively, of total tea exports in 2013, making them the main destinations for Ceylon tea.

India continued to be the largest source of imports in 2013, accounting for nearly 17.6 per cent of Sri Lanka's imports. However, imports from India declined by 12.9 per cent to US dollars 3,171 million in 2013. The main imports from India were petroleum products, textiles and textile articles and building materials. Price competitiveness has enabled India to secure a significant market share for these items, although most of these items do not have duty free access under the ISFTA. China and Singapore followed as the second and third largest import sourcing countries, accounting for 16.4 per cent and 9.3 per cent of total imports, respectively. Imports from China grew by 10.7 per cent to US dollars 2,953 million, while imports from Singapore amounted to US dollars 1,682 million. The main imports from China comprised machinery and equipment, textiles and textile articles and building materials. The major imports from Singapore consisted of petroleum products and machinery and equipment. United Arab Emirates remained the fourth largest import source accounting for a share of 6.6 per cent of total imports. Imports from Oman increased by more than six fold, year-on-year, in 2013, making it the fifth largest import sourcing country, due to a shift of crude oil imports from Iran to Oman.





(Source: Central Bank of Sri Lanka Annual Report 2013)

SRI LANKA SHIPPERS' COUNCIL

FINANCE STATEMENTS
FOR THE YEAR ENDED
31 MARCH 2014

KPMG
(Chartered Accountants)
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INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THE SRI LANKA SHIPPERS' COUNCIL

Report on the Financial Statements

We have audited the accompanying financial statements of the Sri Lanka Shippers' Council ("the Council"), which comprise the statement of financial position as at 31 March 2014, and statements of comprehensive income and retained earnings, cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Executive Committee's Responsibility for the Financial Statements

Executive Committee is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standard for Small and Medium Sized Entities ("SLFRS for SMEs"). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Council maintained proper accounting records for the year ended 31 March 2014 and the financial statements give a true and fair view of the financial position of the Council as at 31 March 2014, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standard for Small and Medium Sized Entities.

KPMG

CHARTERED ACCOUNTANTS

3 June 2014
Colombo

SRI LANKA SHIPPERS' COUNCIL
STATEMENT OF FINANCIAL POSITION

As at 31 March,	Note	2014 Rs.	2013 Rs.
Assets			
Non current assets			
Investment in debentures	2	387,790	372,383
Total non current assets		**387,790**	**372,383**
Current assets			
Inventory		5,683	6,078
Short term investments	3	1,845,544	2,029,318
Membership subscription receivables		5,000	-
Other receivables	4	402,678	4,950
Prepayment		24,683	22,217
Current account with The Ceylon Chamber of Commerce	5	207,294	644,802
Total current assets		**2,490,882**	**2,707,365**
Total assets		2,878,672	3,079,748
Accumulated fund and liabilities			
Retained earnings		2,801,672	2,948,084
Total funds		**2,801,672**	**2,948,084**
Current liabilities			
Subscription received in advance		10,000	20,000
Income tax payable	6	-	28,805
Accrued expenses	7	67,000	82,859
Total current liabilities		**77,000**	**131,664**
Total accumulated fund and liabilities		2,878,672	3,079,748

The financial statements are to be read in conjunction with the related notes, which form an integral part of these financial statements.

The Executive Committee is responsible for the preparation and presentation of these financial statements in accordance with SLFRS for SMEs.

Approved and signed for and on behalf of the Executive Committee:

Mr. Dinesh De Silva
Chairman
Sri Lanka Shippers' Council

Mr. Sean Van Dort
Vice Chairman
Sri Lanka Shippers' Council

3 June 2014
Colombo

SRI LANKA SHIPPERS' COUNCIL
STATEMENT OF COMPERHENSIVE INCOME AND RETAINED EARNINGS

For the year ended 31 March,	Note	2014 Rs.	2013 Rs.
Income		340,000	265,000
Other income	8	1,323,943	2,572,467
Total income		**1,663,943**	**2,837,467**
Administration expenses	9	504,976	438,372
Other operating expenses	10	1,281,711	1,769,784
Total expenditure		**1,786,687**	**2,208,156**
(Deficit)/ Surplus before tax expense		**(122,744)**	**629,311**
Tax expense	11	(23,668)	(52,280)
(Deficit)/ Surplus for the year		**(146,412)**	**577,031**
Accumulated fund at beginning of the year		**2,948,084**	**2,371,053**
Accumulated fund at end of the year		**2,801,672**	**2,948,084**

The financial statements are to be read in conjunction with the related notes, which form an integral part of these financial statements.

SRI LANKA SHIPPERS' COUNCIL
STATEMENT OF CASH FLOW

For the year ended 31 March,	Note	2014 Rs.	2013 Rs.
Cash flows from operating activities			
(Deficit)/ Surplus before income tax expense		(122,744)	629,311
Adjustment for:			
Interest income		(268,265)	(182,604)
Net cash flows before working capital changes		**(391,009)**	**446,707**
Adjustment for working capital changes			
Decrease in inventory		395	995
(Increase)/ Decrease in subscription receivable		(5,000)	8,500
(Increase)/ Decrease in other receivable		(397,728)	55,650
(Increase)/ Decrease in prepayments		(2,466)	11,715
(Decrease)/ Increase in subscription received in advance		(10,000)	15,000
(Decrease) in accrued expenses		(15,859)	(51,782)
Cash (used in)/ generated from operations		**(821,667)**	**486,785**
Withholding tax paid		(52,473)	(22,050)
		(874,140)	**464,735**
Cash flows from investing activities			
Interest received		236,632	174,945
Net investments during the year		200,000	(1,000,000)
Net cash flows generated from/ (used in) investing activities		**436,632**	**(825,055)**
Net decrease in cash and cash equivalents		(437,508)	(360,320)
Cash and cash equivalents at the beginning of the year		644,802	1,005,122
Cash and cash equivalents at the end of the year (Note 6)		**207,294**	**644,802**

<u>Note A</u>

Analysis of cash and cash equivalents at the end of the year

Current account with The Ceylon Chamber of Commerce	**207,294**	**644,802**

The financial statements are to be read in conjunction with the related notes, which form an integral part of these financial statements.

1. Accounting policies

1.1 Corporate information

Sri Lanka Shipper's Council ("the Council") is an affiliated Association of The Ceylon Chamber of Commerce. The registered office is located at No.50, Nawam Mawatha, Colombo 02.

1.2 Principal activities and nature of operations

The Council facilitates its customers to be more competitive in their business logistics; performance and cost, by the following;

(i) Being the APEX Body, protect the interest of customers and being a strong advocate to the Government.

(ii) Ensuring cost effective strategies are developed and implemented in the logistics and value chain to make our members more competitive.

(iii) Facilitating greater efficiencies in logistics by reducing logistics barriers and simplifying trade.

(iv) Acting as the mediator in resolving conflicts amongst our customers (members).

(v) Facilitating a level playing field by developing and promoting a code of conduct/ ethics for our customers (members).

(vi) Establishing a centre for excellence for information sharing and to upgrade competencies of members to compete globally.

(vii) Leveraging regional and global partnerships and facilitating global best practices in logistics in Sri Lanka.

1.3 Basis of preparation

(a) Basis of preparation

The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

(b) Functional and presentation currency

These financial statements are presented in Sri Lankan Rupees, which is the Council's functional currency.

(c) Use of estimates and judgments

The preparation of financial statements in conformity with Sri Lanka Accounting Standard for Small and Medium Sized Entities (SLFRS for SMEs) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgment about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only the financial year or in the period of the revision and future periods if the revision affects both current and future financial years.

1.4 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Certain comparative amounts in the financial statements have been reclassified to conform with the current year's presentation.

(a) Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. The cost includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

(b) Investments

Investments comprise of fixed deposits and debentures are recognized at amortized cost.

(c) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturity of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Council in the management of its short-term commitments.

Cash flow statement

Cash flow statement has been prepared using the indirect method.

(d) Liabilities and provisions

Liabilities are recognized in the statement of financial position when there is a present obligation as a result of past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits.

A provision is recognized if, as a result of a past event, the Council has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(e) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Council and the revenue can be reliably measured on an accrual basis. Revenue is measured at the fair value of the consideration received or receivable.

Revenue represents entrance fee, membership subscription and event income, which are recorded on accrual basis.

Investment income on fixed deposits is recognized using effective interest rate applicable for the period.

(f) Expenditure

All expenditure incurred in the operations of the business and in maintaining the capital assets in a state of efficiency have been charged to income in arriving at the Council's deficit/ surplus for the year.

(g) Taxation

The liability for taxation has been computed in accordance with the Inland Revenue Act No. 10 of 2006 and its amendments thereto.

Taxation for the current and previous periods to the extent unpaid is recognized as a liability in the financial statements. When the amount of taxation already paid in respect of current and prior periods exceed the amount due for those periods the excess is recognized as an asset in the financial statements.

(h) Comparative information

Where necessary, comparative figures have been rearranged to conform to the current year's presentation.

(i) Events occurring after the reporting date

All material post reporting date events have been considered, disclosed and adjusted where applicable.

(j) Commitments and contingencies

Contingencies are possible assets or obligations that arise from a past event and would be confirmed only on the occurrence or non-occurrence of uncertain future events, which are beyond the Council's control.

Commitments and contingent liabilities are disclosed in Notes to the financial statements.

As at 31 March,

	2014	2013
	Rs.	Rs.
2 Investment in debentures		
Sri Lanka Savings Bank	387,790	372,383
	387,790	**372,383**
3 Short term investments		
National Development Bank PLC	1,040,517	1,020,907
National Development Bank PLC	304,481	507,157
Sampath Bank PLC	500,546	501,254
	1,845,544	**2,029,318**
4 Other receivables		
Reimbursement of GSF Meeting expenses	402,678	-
Awareness seminar AW application	-	4,950
	402,678	**4,950**

5 Current account with The Ceylon Chamber of Commerce

All the receipts and payments of the Council are done through the current accounts of The Ceylon Chamber of Commerce. Therefore the balance reflects the Council's cash and cash equivalents.

	2014	2013
6 Income tax payable		
Balance as at 1 April 2013	28,805	(1,425)
Over provision in respect of previous years	-	8,602
Income tax paid during the year	(28,805)	(8,787)
Provision for the year	-	30,415
Balance as at 31 March 2014	**-**	**28,805**
7 Accrued expenses		
Tax advisory service	12,000	29,209
Audit fees	55,000	52,000
Awareness seminar expenses	-	1,650
	67,000	**82,859**

For the year ended 31 March,

	2014	2013
	Rs.	Rs.
8 Other income		
Investment income	268,265	182,604
Income received in connection with:		
- Sponsorship for Annual General Meeting/ Participation fee	261,000	166,500
- Awareness seminar - Fumigation - Participation/Sponsorship	-	150,800
- Quiz sponsorships write off	-	20,000
- Web Sponsorship	-	58,000
- Seminar on AW application	-	889,350
- Hambantota field visit	-	235,000
- 2nd visit to Hambantota	-	870,213
- Adhoc charges seminar	266,000	-
- Field visit to Katunayake -2013	126,000	-
- Reimbursement of GSF Meeting expenses	402,678	-
	1,323,943	**2,572,467**

For the year ended 31 March,	2014 Rs.	2013 Rs.
9 Administration expenses		
Printing and stationery	26,539	31,551
Secretarial fees	440,682	386,396
Postage, telegrams, telex and faxes	1,755	2,425
Communication cost	36,000	18,000
	504,976	**438,372**
10 Other operating expenses		
Annual General Meeting	423,791	312,786
Field visit to Katunayake -2013	68,470	-
Adhoc charges seminar	50,121	-
Quiz sponsorship refund	20,000	-
GSF Meeting expenses	402,678	-
Awareness seminar AW application	-	286,037
ASC annual meeting in HongKong	113,800	151,341
Hambantota field visit	-	156,489
2nd visit to Hambantota	-	599,652
Tax advisory service	7,081	12,131
Audit fee	63,367	56,110
Entertainment and refreshments	39,003	21,215
Awareness seminar - Fumigation expenses	-	77,803
Sundry expenses	37,767	20,200
Website maintaining	40,000	26,667
Web domain renewal fee	15,633	41,250
Use of MMP at meetings	-	8,103
	1,281,711	**1,769,784**
11 Income tax expense		
WHT expense	23,668	13,263
Current tax expense	-	30,415
Over provision in respect of previous years	-	8,602
	23,668	**52,280**

11.1 The Council is liable for income tax expense under the Section 101(2) of the Inland Revenue Act No. 10 of 2006 at the rate of 10%. Accordingly, the Council is liable for income tax on business profit or investment income whichever is higher.

12 Employee benefits

12.1 Defined contribution plan

No contributions have been made to Employees' Provident Fund and Employees' Trust Fund since the Council has not employed any employees during the year.

12 Employee benefits *(Cont.)*

12.2 Defined benefit obligation

No provision for gratuity has been made since the Council has not employed any employees during the year.

12.3 Number of employees

Number of employees of the Council as at 31 March 2014 is 0 (2013: 0).

13 Comparative information

The Council has been preparing and presenting Statement of Receipts and Payments with The Ceylon of Chamber of Commerce up to the date of 1 April 2009 and decided to prepare and present financial statements comprising the balance sheet, statement of income and expenditure, statement of changes in funds, cash flow statement and notes to the financial statements from the year ended 31 March 2010 onwards. However corresponding figures were not presented for the same period due to inadequate information. Therefore the opening balances as at 1 April 2009 were not audited. This effect will continue for the current year and future periods.

14 Commitments and contingencies

The Council does not have contingent liabilities and commitments that require provisions or disclosures in the financial statements.

15 Events occurring after the reporting date

There were no material events occurring after the reporting date which require adjustments to or disclosure in the financial statements.

16 Litigations and claims

There are no litigations and claims against the Council as at the year end.

17 Executive Committee's responsibility for financial reporting

The Executive Committee is responsible for the preparation and presentation of these financial statements in accordance with SLFRS for SMEs.