Commercial Hub Regulation and the Free-Port Concept: A Timely Step in the Right Direction

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A hub is the effective centre of an activity, region, or network. Therefore Commercial hub can be identified as the effective centre, region, or network of an activity involving or relating to the buying and selling of goods. A free port is a port that opens to all traders and it can be explained as a port area where goods are exempt from customs duty. The "dictionary.reference.com" defines it as a port or special section of a port where goods may be unloaded, stored, and shipped without payment of customs duties and a port open under equal conditions to all traders. The Government of Sri Lanka has embarked on a development agenda based on the Mahinda Chintanaya with the objective of converting the country to a Naval, Aviation, Commercial, Energy and Knowledge hub in Asia. New and lucrative investment opportunities have been introduced in keeping with the objective of converting the country to these hubs. The new developments are therefore based on the Commercial Hub Regulation No. 1 of 2013 of Gazette (Extraordinary) of the Democratic Socialist Republic of Sri Lanka - No. 1818/30 of 11 July 2013.

The Investment Opportunities

The above Gazette notification further explains that it gives effect to the following Provisions provided for in PART IV of the Finance Act, No. 12 of 2012 (Principal Act) as amended by the Finance Act, No. 12 of 2013.

(1) Any new enterprise which is established or incorporated in Sri Lanka and engaged in any one or more of the following business activities, where at least Sixty Five percent (65%) of its total investment has been from foreign sources including and transfers from a Foreign Currency Banking Unit of a licensed Commercial Bank operating in Sri Lanka, and of which the total turnover is from export of goods and or services, shall be exempted from the application of Provisions of the Customs Ordinance (Chapter 235), the Exchange Control Act (Chapter 423), the Imports and Exports (Control) Act, No. 1 of 1969, and acts referred to in schedule referred to in the Principal Act as amended by the Finance Act, No. 12 of 2013.

(a) Entreport trade involving an import, minor processing and re-export ;

(b) Off-shore business where goods can be procured from one country or manufactured in one country and shipped to another country without bringing the same into Sri Lanka ;

(c) Providing front end services to clients abroad;

(d) Operations of the Headquarters of leading buyers for the management of the finance supply chain and billing operations;

(e) Logistic services such as a bonded warehouse or in the case of operation of multi-country consolidation in Sri Lanka

Further, if an Enterprise engaged in Entrepot trade in manufacturing a product, as defined in the Principal Act and having considered the importance of availing such product in the domestic market in the interest of the national economy, such Enterprise may be permitted domestic sales up to a certain percentage payable in Sri Lanka Rupees, and permission for such sales shall be given by the Board, with prior concurrence of the Minister of Finance and in such case the turnover of such domestic sale shall be treated as turnover from deemed exports, in the hand of such Enterprise.

What is Entrepot trade?

The businessdictionary.com has defined Entreport trade as the trade in which imported goods are re-exported with or without any additional processing or repackaging. Accordingly, if goods are imported from one country with the purpose of re-exporting to another, it is generally called Entrepot trade. Import duty is not levied on these goods. The important centers for entrepot trade at present are considered London, Hong Kong, Amsterdam and Singapore. The common features includes (i) No import duty is imposed on such goods (ii) Goods are processed and re-packed for re-export (iii) Goods are kept in the Bonded warehouses until they are Re-exported. Entrepot trade is allowed under the circumstances such as when adequate banking facilities are not available in the importing country, when the volume of trade does not justify having regular foreign trade, and when it is difficult to establish direct link between the exporting country and the consuming country.

Geographic context of Sri Lanka creates barriers for certain modes of connectivity. To be more specific, Sri Lanka has no overseas logistics link via road or rail. The air transport has the least geographical barriers but has other logistical constraints such as high costs. Experts from various fields believe that the country is located strategically along the "Silk Route. The main sea route that the East o world connects to the West runs very close The shipping density is very high near the sou part of Sri Lanka and this factor actually make fundamental difference of logistics perform of Sri Lanka. This is considered the busiest Route in the world with a staggering hun thousand ships passing by this area each realizing nearly 290 ships a day. Being an is and given the other comparative advantages sea transport has realized the best option in Sri Lankan context. Therefore in a nutshell ideal transport mode in international trade fo Lanka is the sea transport. According to Sri La Ports Authority following Warehouse areas available for Bonding of Cargo.