Navigating Cross-Border E-Commerce Regulations in Sri Lanka: Striking a Fair Balance

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1. Executive Summary

As digital technologies reshape commerce, cross-border e-commerce has emerged as both an engine of global economic opportunity and a cause for regulatory reconsideration. Sri Lanka stands to benefit from greater participation in digital trade—especially small exporters who can now reach global consumers with minimal up-front costs. At the same time, local small and medium enterprises (SMEs) risk displacement if foreign vendors can operate under fewer regulatory burdens.

A roundtable discussion entitled "Navigating Cross-Border E-Commerce Regulations: Striking a Fair Balance," organized by the Ceylon Chamber of Commerce (CCC) on 9th April 2025, brought together representatives from government ministries, customs authorities, industry groups, major e-commerce platforms, legal experts, and consumer protection bodies. The dialogue centered on three core themes:

1. **Reviewing the Current Regulatory Landscape**: Identifying gaps in local presence, customs clearance, and consumer protection, particularly for low-value shipments entering Sri Lanka from abroad.
2. **Ensuring Fair Competition and Supporting Local Businesses**: Exploring issues such as the requirement (or lack thereof) of permanent establishment (PE) for foreign digital platforms, as well as the design of a fair and simple taxation model for cross-border goods.
3. **Consumer and Data Protection**: Discussing enforcement of consumer rights, product warranties, and cross-border data flows—particularly as regulated by the **Personal Data Protection Act No. 9 of 2022**.

Participants highlighted the tension between facilitating trade and collecting state revenue while protecting consumer interests. Several practical solutions were raised, such as vendor collection models for collecting taxes, local registration mandates for foreign online marketplaces, and dedicated customs channels. This white paper synthesizes the roundtable's insights with the broader context presented in the Concept Note and subsequent discussions, offering a detailed roadmap that can guide policymakers, regulators, and industry stakeholders.

2. Introduction

2.1 Background and Significance

The rapid advancement of digital technologies has not only changed how consumers shop but also how businesses—particularly SMEs—can export to global markets. According to the discussion, cross-border e-commerce in Sri Lanka has gained momentum since around 2014, evidenced by both local and foreign platforms active targeting local consumers.

Participants at the roundtable noted that Sri Lanka's regulatory framework has not kept pace with the realities of modern digital trade. While the Electronic Transactions Act (No. 19 of 2006, as amended) offers the legal foundation for electronic contracts, it does not address pressing cross-border issues such as customs clearance for low-value shipments, foreign marketplace accountability, and uniform consumer rights. Consequently, the CCC proposed convening stakeholders to formulate a shared perspective on how best to "strike a fair balance" between fostering innovation and protecting local economic interests.

2.2 Objectives of the Roundtable

The roundtable, guided by the Concept Note, set out to achieve four key objectives:

1. **Assessing Trade Opportunities and Challenges**: Understanding how low-value cross-border goods can stimulate consumer choice and SME growth, while also identifying threats to local businesses and potential revenue leakage for the government.
2. **Ensuring Fair Competition**: Highlighting the policies, customs practices, and possible protective measures that need to be introduced to prevent unfair advantages for foreign firms.
3. **Developing Policy Recommendations**: Proposing reforms, from short-term interventions to more comprehensive legislative overhauls, that promote an equitable digital economy.
4. **Streamlining Customs Processes**: Probing how customs clearance can be more efficient and transparent, with minimal administrative burdens that impede speed—a critical factor for e-commerce success.

3. The Evolving Landscape of Cross-Border E-Commerce

3.1 Global Context

Worldwide, cross-border e-commerce has grown exponentially in the last decade. Advances in logistics, warehouse automation, digital payment solutions, and consumer familiarity with online platforms have made it simpler for even small-scale manufacturers to sell locally and internationally. In parallel, major global marketplaces—cited at the roundtable as examples from Southeast Asia, China, and the United States—have developed sophisticated infrastructure to expedite cross-border business to consumer e-commerce shipping and localize consumer experiences.

Participants repeatedly referenced developments in Southeast Asia—where countries like Vietnam, Indonesia, and Thailand have adopted local presence and investment requirements, tiered customs clearance systems, and developed regulation that ensures foreign platforms comply with consumer protection standards. These global precedents offer valuable lessons for Sri Lanka.

3.2 Sri Lanka's Cross-Border E-Commerce

3.2.1 Rise of Digital Platforms

- **Local E-Commerce**: Established players such as Daraz (in operation since 2014) and a growing number of smaller platforms or niche e-stores that cater to domestic consumers.
- **Foreign Marketplaces**: Some actively target Sri Lankan consumers via direct-to-consumer shipping but have no official local presence (no permanent establishment), thus not subjected to the same consumer protection laws or costs as local players.

3.2.2 Impact on SMEs and Consumers

- **Opportunities for SMEs**: Cross-border e-commerce presents significant potential for Sri Lankan SMEs—such as handicraft sellers and clothing manufacturers—to access overseas markets, particularly in Asia. However, to fully capitalize on this opportunity, SMEs must first develop a strong foothold in the local e-commerce market—gaining experience in meeting customer expectations and refining their products and operations to suit digital retail environments. With these foundations in place, and improvements to international logistics and cost structures, SMEs could more effectively leverage digital platforms to reach global consumers.
- **Challenges**: Local SMEs face intense competition from cheaper imports that may bypass proper customs valuation through questionable use of de minimis thresholds, unregistered operations, or the sometimes arbitrary application of the de minimis rule. Moreover, large foreign online marketplaces often have direct relationships with manufacturers and operate without local cost structures. This allows them to offer products at significantly lower prices, further undercutting domestic sellers.

Participants stressed that e-commerce success is intrinsically linked to speed and efficiency in the supply chain. Traditional customs protocols not designed for large volumes of small parcels and do not suit the model of low value shipments.

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4. Current Regulatory Landscape in Sri Lanka

4.1 Key Legislation and Regulatory Bodies

Sri Lanka's regulatory framework for cross-border e-commerce is currently based on a mix of relevant and outdated laws, which can create uncertainty for market participants. While some foundational statutes exist, they were not designed with the nuances of digital trade or cross-border e-commerce in mind. Key legislation includes:

- **Electronic Transactions Act No. 19 of 2006 (Amended 2017)**:
  This Act provides the legal foundation for electronic contracts and signatures, facilitating the recognition of digital commerce.
- **Consumer Affairs Authority Act No. 9 of 2003**:
  This Act establishes the rights of consumers and outlines dispute resolution

mechanisms and market practices. However, it is primarily tailored for traditional brick-and-mortar trade. It does not account for cases where the seller is based overseas, lacks a local representative, or circumvents local consumer protection norms. According to participants, complaints related to late deliveries, product quality, and unfulfilled warranties—especially in cross-border transactions—have surged in recent years.

- **Personal Data Protection Act No. 9 of 2022**:
  This recent legislation governs the collection, processing, and cross-border transfer of personal data. The Act is in line with global best practices, including elements from the EU's GDPR. Nonetheless, stakeholders pointed out enforcement challenges when platforms have no legal or physical presence in Sri Lanka. Some emphasized the need for foreign platforms to appoint local Data Protection Officers (DPOs) to facilitate accountability.
- **Customs Ordinance and Related Import Regulations**:
  The Customs Ordinance remains the backbone of Sri Lanka's trade regime but was designed for traditional trade. It does not reflect the operational realities of cross-border e-commerce, particularly with regard to the large volume of low-value shipments. Existing express clearance procedures date back to 2003 and are not optimized for B2C e-commerce volumes or for streamlining low-value transactions.
- **Relevant Institutions**:
  Multiple regulatory bodies oversee different components of cross-border e-commerce:
  - **Sri Lanka Customs**: Focuses on import clearance and tax collection.
  - **Inland Revenue Department**: Oversees taxation.
  - **Consumer Affairs Authority (CAA)**: Enforces consumer protection.
  - **Telecommunication Regulatory Commission and Ministry of Finance**: Engage on digitization and trade policy.

4.2 Identified Gaps and Challenges

4.2.1 De Minimis Framework

The de minimis threshold, as per Gazette No. 2005/53 (2017), allows for duty-free imports of goods valued up to LKR 15,000 per person. However, the implementation has been highly ineffective due to the requirement of a Taxpayer Identification Number (TIN) for clearance,

along with an individual customs declaration—even for low-value shipments. This requirement discourages practical use of the de minimis provision, particularly for B2C e-commerce.

Roundtable participants—especially from logistics firms like DHL and e-commerce platforms—highlighted that other countries apply consumption taxes (like VAT or GST) even on low-value imports while waiving customs duties and taxes. For instance:

- **EU and Australia** collect VAT on all goods, regardless of value.
- **Pakistan and Vietnam** offer clearer, functioning de minimis models that reduce administrative burdens while ensuring revenue is captured through consumption taxes.

In Sri Lanka, a unified, simplified model that waives duties but enforces a flat rate (collected at checkout or by courier) was recommended.

4.2.2 Fragmented Oversight and Lack of a Dedicated E-Commerce Body

A consistent theme was the absence of a centralized authority to oversee cross-border e-commerce. Oversight is dispersed among multiple government institutions, with each regulating a specific aspect (customs, taxes, consumer complaints, etc.), creating confusion among both local and foreign operators.

It was proposed that existing regulators, such as the CAA, Registrar of Companies (ROC) and other relevant agencies, to facilitate coordinating cross-border e-commerce oversight. This would include responsibilities such as overseeing foreign marketplace registrations, coordinating cross-agency enforcement, and supporting streamlined policy development. Strengthening the mandate and collaboration among these institutions was seen as a more efficient and feasible solution, avoiding the resource and time constraints associated with establishing a new authority.

4.2.3 Challenges with Foreign Marketplaces

Foreign marketplaces often operate without PE in Sri Lanka, despite having substantial sales volumes. This raises two critical issues:

- **Tax avoidance**: No VAT, customs, or corporate taxes are paid by such entities, placing local businesses at a disadvantage.
- **Lack of accountability**: Without a local presence, these platforms are not bound by Sri Lankan consumer protection regulations.

Participants cited Vietnam's criteria for mandatory PE as a best practice. Vietnam mandates local registration for foreign marketplaces if it meets one of the following conditions:

- It has a domain name under Vietnam's national domain name (.vn)
- It has Vietnamese language interfaces
- It has more than 100,000 transactions annually with consumers in Vietnam
- It uses Vietnamese currency in transactions
- It delivers goods to Vietnam or uses Vietnamese logistics services
- It has a number of visits from Vietnam exceeding a certain threshold set by MOIT
- It conducts marketing and promotion activities targeting Vietnamese consumers

A similar model could be adopted in Sri Lanka to mandate local registration, appointment of legal representatives, and tax compliance.

4.2.4 Consumer Redress Mechanisms

Without a local representative, resolving complaints against foreign sellers and marketplaces and holding them accountable becomes nearly impossible. Key concerns raised included:

- **Non-compliance with local warranty laws**: Electronics sold by local sellers carry a mandatory six-month warranty. Foreign sellers often ignore this obligation.
- **Return and refund difficulties**: Refunds are hard to process for consumers buying from foreign marketplaces, especially when sellers are anonymous or unreachable.
- **Delayed or substandard deliveries**: Multiple complaints to the Consumer Affairs Authority relate to defective goods and late deliveries, often from unregistered sellers abroad.

Roundtable participants stressed that applying the principle of "same service, same regulation" would require foreign platforms to adhere to all local consumer protection laws, just like their domestic counterparts.

5. Ensuring Fair Competition and Supporting Local Businesses

5.1 The “Level Playing Field” Dilemma

One of the most recurring concerns raised at the roundtable was the uneven competitive environment between local businesses and foreign e-commerce platforms operating without a local presence and no local cost structures. Stakeholders described a scenario in which Sri Lankan sellers are subject to extensive regulatory, fiscal, and operational burdens and costs, while overseas sellers can bypass most of these obligations and have no local cost structures.

Key challenges faced by local businesses:

- **Taxation and Regulatory Compliance**:
  Local e-commerce vendors are required to register with the Inland Revenue Department, file taxes, comply with VAT and other levies (e.g., SCL, PAL), and maintain records. In contrast, many foreign platforms avoid these obligations, particularly not establishing a permanent establishment in Sri Lanka.
- **Consumer Protection Requirements**:
  Domestic sellers are mandated to comply with Sri Lankan consumer protection laws, including minimum warranty periods (e.g., six months for electronics), return policies, and service guarantees. Foreign sellers, particularly those without local offices, often provide no after-sales service, making them more competitive on pricing but less accountable.
- **Employment and Operational Costs**:
  Local sellers and platforms bear employment costs, warehouse rentals, utility bills, and contribute to domestic job creation. Foreign e-commerce companies that operate remotely incur no such overheads, and in some cases, benefit from being directly linked to factories (by passing sellers and middlemen) or operate from low-cost jurisdictions. According to roundtable participants, this results in "subsidized" market competition that can displace local entrepreneurs.

- **Marketing Asymmetry**:
  Global e-commerce giants often possess large-scale marketing budgets, allowing them to offer deep discounts, free shipping, or promotional pricing far beyond what local players can sustain. Several participants cited instances where low-value goods were sold at below-market rates due to cross-border platforms' marketing subsidies, severely undercutting domestic businesses.

This unequal landscape creates a disincentive for local innovation and investment, as businesses cannot compete on price or reach. Entrepreneurs instead look to exporting through foreign platforms or seek markets abroad, rather than focusing on developing Sri Lanka's internal digital commerce ecosystem. It is important for local sellers and SMEs to focus on product development and improve their knowledge of e-commerce by first catering to the local consumer market and growing e-commerce in Sri Lanka (there is a large consumer opportunity in Sri Lanka already that MSMEs and sellers should make use of). This effort will enable them to compete globally and fine tune their offering for the global consumer.

Moreover, the lack of regulatory parity weakens consumer trust and undermines the integrity of domestic e-commerce markets.

5.2 Policy Proposals and International Benchmarks

In addressing the challenges of fair competition, participants highlighted several policy measures and referenced international examples, particularly from Southeast Asia. The goal is not to restrict cross-border trade but to ensure that foreign platforms contribute equitably to the local economy.

1. Mandatory Local Registration / Permanent Establishment (PE)

A critical recommendation was to mandate local presence for foreign marketplaces exceeding defined operational thresholds. This would include:

- Registration of a local entity, legal representative and customer service representative.
- Establishment of a local office or fulfillment center.
- Compliance with consumer laws, tax requirements, and data protection standards.

Benchmark – Vietnam:
Vietnam requires foreign platforms to register locally if the platform fulfills one or more of thresholds/factors which are listed in section 4.2.3. above.

Such rules provide a strong foundation for enforcement of taxes, consumer rights, and local accountability.

Policy Suggestion for Sri Lanka:
Adopt a similar framework where crossing thresholds in revenue, volume of orders, or market targeting triggers the requirement for a Permanent Establishment and full regulatory compliance.

2. Local Investment Requirements

Several roundtable participants proposed linking market access to local value creation. For instance:

- Foreign marketplaces must invest a minimum capital (e.g., USD 300,000 to 1 million) if they surpass certain thresholds.
- Establishment of local customer support centers, logistics hubs, or warehouses as a condition for maintaining operations.

Such requirements ensure job creation, investment, technology transfer, and a more equitable distribution of e-commerce gains.

3. Refined De Minimis and Taxation Policy

Participants recognized that the existing de minimis threshold (LKR 15,000) lacks clarity and is poorly implemented, particularly due to restrictions like the TIN requirement for small shipments. The recommendation was two-fold:

- **Short-term**:
    - Harmonize the gazette and Departmental Orders.
    - Remove the TIN requirement for very low-value goods.
    - Remove the requirement for individual customs declarations

    - Mandate collection of a flat rate even on low-value shipments (as practiced in the EU, Australia, and Indonesia), to avoid revenue leakage while facilitating speedy customs clearance.
    - Provide de minimis incentives only to registered platforms that meet regulatory standards and a flat rate for non-registered foreign platforms (this will provide a short-term solution to leveling the playing field).
- **Long-term**:
    - Introduce a multi-tier de minimis system:
        - E.g., Goods < LKR 5,000 – No duties, VAT only.
        - Goods LKR 5,000–15,000 – Simplified VAT regime.
        - Goods > LKR 15,000 – Full customs procedures.

This would reduce misuse and create fairness between local and foreign sellers and platforms.

4. Vendor Collection Model

An innovative taxation mechanism discussed was the vendor collection model, where foreign e-commerce platforms collect and remit taxes on behalf of the consumer at checkout.

Benefits:

- Seamless consumer experience—no surprise duties at delivery
- Ensures government revenue is protected
- Reduces customs processing delays
- Low administration costs.

Global Benchmark – EU's Import One-Stop Shop (IOSS):

- Centralized platform for VAT collection on goods up to €150, collected by the seller or marketplace and remitted to the relevant member state.

Applicability in Sri Lanka:

- Customs authorities and payment platforms can collaborate to implement this system using existing fintech channels, starting with voluntary pilot programs with major platforms like Daraz or AliExpress.

5. Digital Infrastructure and Third-Party Logistics (3PL)

Ensuring a competitive logistics landscape is also central to supporting local businesses. Key proposals included:

- Establish shared warehousing or fulfillment hubs for SMEs to reduce logistics and storage costs.
- Improve 3PL coverage to reduce the need for small firms to depend on large platforms with high commissions.
- Encourage platforms to onboard local SMEs, especially in rural or underserved areas.

6. Support for Local Startups and SMEs

The roundtable emphasized the need for government and platform-led initiatives to build SME capacity, including:

- Training programs on digital storefront setup, product listing, cross-border shipping, packaging, and online marketing.
- Public-private partnerships to digitize small producers and artisans.
- Facilitation of access to regional digital commerce ecosystems, such as India's ONDC (Open Network for Digital Commerce).

Startups should not be forced to rely solely on dominant platforms. By building a more decentralized and SME-friendly ecosystem, Sri Lanka can unlock broader economic participation in the digital economy.

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6. Consumer and Data Protection

6.1 Consumer Rights in a Digital Marketplace

As cross-border e-commerce becomes a significant channel for consumer goods, ensuring digital consumer rights is no longer optional—it is a foundational requirement for a trusted digital economy. Participants at the roundtable unanimously agreed that consumer protection

mechanisms in Sri Lanka have not evolved fast enough to accommodate the challenges posed by digital trade**,** especially transactions involving foreign entities with no local presence.

Key Issues Raised:

- **Lack of Uniform Application of Consumer Law**:
  Domestic sellers are bound by requirements such as minimum six-month warranties (e.g., for electronics), clear return policies, and dispute resolution mechanisms enforced by the CAA. However, foreign e-commerce platforms and sellers are not subject to these rules, creating an unequal consumer experience.
- **Dispute Resolution Gaps**:
  The CAA receives an increasing number of complaints involving cross-border sellers, particularly concerning:
  - Non-delivery or late delivery of goods.
  - Quality mismatches (goods not as described).
  - No ability to return or seek refunds.
  - Lack of accountability when something goes wrong.

  Without a local legal representative or physical presence, foreign platforms can simply ignore consumer grievances, leaving Sri Lankan buyers without recourse.

- **"Same Service, Same Regulation" Principle**:
  A consistent theme from the roundtable was the demand that consumer protection laws should apply uniformly**,** regardless of whether the seller is domestic or foreign or online or offline. This principle was seen as essential to restore trust and fairness, particularly in sectors such as electronics and cosmetics, where product faults can have serious consequences.

Proposals and International Comparisons:

- **Amending the Consumer Affairs Authority Act to explicitly include foreign sellers and platforms, either by:**
  - Requiring them to appoint a local legal and customer service representative**,** and

    - Establishing mandatory local registration for platforms exceeding transaction and other thresholds.
- **International Best Practice**:
    - Several countries (e.g., Malaysia, Singapore, the EU) extend their domestic consumer laws to foreign sellers operating within their jurisdiction.
    - In the EU, cross-border platforms are liable under the same consumer directives as local ones if they target EU consumers.

By applying a consistent regulatory approach and mandating foreign sellers and platforms actively targeting local consumers to respect local rules, Sri Lanka can restore accountability and protect consumer welfare.

6.2 Data Privacy

With e-commerce platforms collecting sensitive consumer data—such as addresses, phone numbers, payment details, and behavioral insights—data protection has become a critical dimension of consumer rights**.** The Personal Data Protection Act No. 9 of 2022 provides Sri Lanka with a modern legislative foundation, but enforcement and operational clarity remain pressing concerns.

Key Observations from the Roundtable:

- **Enforcement Gaps**:
  While the Act sets out responsibilities for Data Controllers and Data Protection Officers (DPOs)**,** most foreign platforms fall outside the effective jurisdiction of Sri Lankan authorities. Without a permanent establishment, enforcement is limited.
- **Low Awareness and Institutional Readiness**:
  A show-of-hands survey during the roundtable revealed that only around 30–35% of organizations had appointed a DPO or taken concrete steps to comply with the Act. This suggests that even within Sri Lanka, awareness and readiness are low, particularly among smaller firms.

Recommended Measures:

- **Mandate foreign e-commerce platforms** that process personal data of Sri Lankan consumers to appoint a local DPO or legal representative, and
- **Promote awareness** among businesses (especially SMEs) of their obligations under the Data Protection Act.
- **Encourage industry-led privacy programs** that:
    - Train staff on compliance.
    - Integrate privacy protection into e-commerce operations.
    - Prepare organizations for international partnerships, especially with the EU and other privacy-conscious markets.

Amendments to the Act (as noted in the discussion):

- The original law restricted public entities from transferring data out of Sri Lanka without regulator approval.
- The 2024 amendment liberalized these conditions, allowing both public and private entities to engage in cross-border data transfers if specific safeguards and compliance mechanisms are followed**.**

This evolution was praised by participants as a flexible, enabling framework, balancing privacy rights with commercial practicality.

6.3 Cybersecurity and Trust

In a digital commerce environment, cybersecurity is fundamental to consumer trust and systemic resilience. However, as noted during the roundtable, Sri Lanka lacks a comprehensive cybersecurity law, even as internet penetration exceeds 40% and e-commerce continues to expand.

Core Concerns:

- **Absence of a Cybersecurity Framework**:
  Participants emphasized that Sri Lanka currently does not have a dedicated

cybersecurity law or a functioning national cybersecurity agency. This leaves both consumers and businesses exposed to:

  - Phishing attacks.
  - Fraudulent transactions.
  - Platform hijacking and impersonation.

- **Need for a Coordinated National Strategy**:
  Speakers pointed out that other countries in Asia (e.g., Vietnam, Indonesia, Malaysia) have enacted dedicated cybersecurity frameworks that mandate:
  - Secure digital identity verification.
  - Encryption standards.
  - Breach reporting obligations.
  - Penalties for failure to protect consumer data.
- **Digital Equity and Trust**:
  A compelling case study shared during the roundtable was Sri Lanka's implementation of the National Fuel Pass system in 2022, which combined digital identity, platform security, and public service delivery. Participants cited it as a rare success story where consumer trust and digital governance converged, saving the government nearly USD 270 million per month in potential misuse.

Recommendations:

- **Enact a dedicated Cybersecurity Act** to:
  - Establish a central cybersecurity agency**.**
  - Introduce cybercrime prevention and breach notification protocols**.**
  - Set national standards for digital platforms operating in Sri Lanka.
- **Collaborate with regional partners** to adopt best practices and harmonize cybersecurity regulations (e.g., ASEAN frameworks, EU GDPR security standards).
- **Public education campaigns** on:
  - Safe online practices.
  - Recognizing fraudulent e-commerce sites.
  - Securing personal information and payments.

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7. Customs Processes and Trade Facilitation

7.1 Streamlined Clearance

One of the most consistently raised points during the roundtable was that customs clearance procedures in Sri Lanka remain fundamentally geared toward traditional trade and courier services, and have not adapted to the speed, and scale of e-commerce, particularly cross-border B2C transactions.

Challenges Identified by Stakeholders:

- **Legacy Procedures**:
  The express clearance process currently in place dates back to 2003 and was originally designed for courier services—not for the high volume, low-value nature of B2C e-commerce parcels. As a result, shipments are subjected to complex clearance procedures and often face delays, increasing costs for businesses and dissatisfaction among consumers. Additionally, Sri Lanka's existing tax and duty structure is geared toward commercial shipments, yet it is applied to personal imports as well—creating inefficiencies and cost burdens that do not align with the nature of e-commerce transactions.
- **Manual Bottlenecks**:
  Logistics providers and trade experts noted that despite trade related policies and tools for personal imports being theoretically available (e.g., de minimis, CPC codes and block declarations), these are either underutilized or restricted by additional requirements—such as the TIN clause in the de minimis scheme—that discourage practical usage.
- **Lack of Real-Time Visibility**:
  Customs officials acknowledged that they lack up-to-date data flows**,** making it difficult to identify abuse, revenue leakage, or compliance patterns in real time. This, in turn, fuels the perception that de minimis policies lead to misuse, without concrete evidence.
- **System Limitations:**
  Existing digital systems such as ASYCUDA and ASYHUB frequently crash and are not well-optimized to handle the high volume and complexity of B2C low-value personal import clearances. These platforms are not operationally friendly when

processing thousands of line items, leading to delays, inefficiencies, and increased administrative burden.

Proposed Solutions and Examples:

- **Tiered Risk-Based Clearance Channels**:
  Inspired by models used in Vietnam, Singapore, and the EU, several participants advocated for the adoption of a Green-Yellow-Red clearance framework**:**
  - **Green**: For pre-cleared, locally present/registered compliant platforms with strong track records – minimal inspections.
  - **Yellow**: For moderately trusted platforms – selective inspection.
  - **Red**: For high-risk or unknown shipments – full scrutiny.

  This approach would increase efficiency for compliant platforms while ensuring that customs maintains control over risk-prone consignments.

- **Dedicated E-Commerce Clearance Gateways**:
  Some countries have set up specialized e-commerce customs lanes, distinct from standard B2B imports. These allow for:
  - Faster declaration procedures.
  - Consolidated batch clearance of small parcels (block declarations).
  - Pre-arrival processing via electronic data interchange (EDI) with courier systems.

  Sri Lanka's customs authority was encouraged to develop such gateways, starting with pilot programs involving platforms and major courier services.

7.2 Technology Integration

Improving inter-agency coordination and digitization was seen as essential to reduce the administrative burden of customs and enhance regulatory oversight.

Key Gaps and Observations:

- **Fragmented Systems**:
  Customs, Inland Revenue, and the Consumer Affairs Authority operate separate digital systems, which limits information sharing. Stakeholders argued that this silos important data—such as shipment value, seller identity, or tax status—making enforcement difficult and increasing manual work.
- **Underutilization of Existing Tools**:
  Several participants noted that while some mechanisms (e.g., Customs CPC codes for expedited clearance) do exist, their application is inhibited by policy inconsistencies or outdated implementation practices**.**
- **Barriers to Real-Time Decision-Making**:
  Without digital dashboards or consolidated analytics, customs officers rely on outdated or paper-based documentation, which slows down clearance and opens room for discretionary delays.

Recommendations for Digitization and Interoperability:

- **Develop a Single Window for Cross-Border E-Commerce**:
  A fully integrated Single Window System—shared among Customs, IRD, and CAA—would:
  - Enable real-time sharing of shipment data and tax statuses.
  - Reduce the risk of undervaluation and false declarations.
  - Improve risk profiling using machine learning or AI-based tools.
- **Courier System Integration**:
  Direct API integration between courier platforms and customs could allow for:
  - **Pre-arrival manifest submission**.
  - Automated classification of parcels based on declared value, item category, and origin.
  - **Electronic duty/tax assessment** before arrival, smoothing the final mile clearance process.
- **Digital Auditing and Revenue Forecasting**:
  By digitizing all cross-border parcel flows, authorities could generate real-time analytics on:
  - Monthly parcel volume.

- Sector-wise import patterns.
- Estimated revenue loss from exemptions or under-invoicing.

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8. Recommendations and Policy Roadmap

This section consolidates the roundtable's insights and evidence-based proposals into a sequenced policy roadmap. The intent is to provide policymakers, regulators, and private sector actors with a clear action plan that balances trade facilitation, regulatory fairness, and consumer protection. Each phase addresses different layers of reform—starting with urgent fixes and progressing to structural modernization.

8.1 Immediate (Short-Term) Actions

Clarify and Enforce De Minimis Rules

The first priority is to address the operational ambiguity surrounding the de minimis threshold (LKR 15,000), which currently suffers from inconsistent application due to the need for individual customs declaration, TIN requirement and lack of clarity on VAT treatment.

Actionable steps:

- Remove the Taxpayer Identification Number (TIN) requirement for shipments below a nominal value (e.g., LKR 5,000), to promote formal usage and reduce informal channel dependence.
- Issue updated circulars that unify customs, revenue, and trade directives into a single, enforceable guideline—providing transparency to both importers and logistics providers.
- Clarify that even if customs duties are waived**,** VAT or other flat rates may still apply to low-value shipments, in line with international best practices.

Mandate Local Representation for Foreign E-Commerce Platforms

To ensure that cross-border sellers and platforms are subject to local law, foreign platforms exceeding certain thresholds (e.g., sales volume, local interface features) must be required to:

- Register with the relevant Sri Lankan authority.
- Appoint a local legal representative for dispute resolution and regulatory correspondence.
- Comply with taxation**,** data protection**,** and consumer redress obligations.

This can initially be enacted via a ministerial directive or circular under the Ministry of Trade, and later codified in legislation.

Expand Awareness and Capacity Building

- Launch joint government–private sector awareness campaigns to educate SMEs on the regulatory requirements of cross-border e-commerce, including:
    - Consumer protection compliance.
    - Tax filing responsibilities.
    - Safe data management practices.
- The Consumer Affairs Authority should develop simplified consumer guidance on:
    - How to file complaints for cross-border purchases.
    - What rights exist when dealing with foreign platforms.
    - Which sellers are registered and verified.
- The Consumer Affairs Authority Act could be amended to explicitly extend its applicability to foreign sellers targeting Sri Lankan consumers, thereby strengthening enforcement and consumer protection in the cross-border digital space.

Such actions would raise compliance and empower both buyers and sellers with better decision-making tools.

8.2 Medium-Term Initiatives

Implement a Vendor Collection Model

Introduce a vendor-based tax collection system**,** where foreign e-commerce platforms collect local taxes at the point of sale and remit them directly to Sri Lankan authorities.

Benefits:

- Eliminates the need for consumers to pay taxes during delivery.
- Reduces processing time and burden on customs officers.
- Ensures a consistent tax stream from high-volume sellers.

This model should be piloted with willing platforms and payment gateways (e.g., Daraz, PayPal, card issuers), with the goal of full implementation for platforms that exceed defined sales volumes.

Benchmark: The EU's Import One-Stop Shop (IOSS) system, where platforms remit VAT for all goods under €150, offers a replicable model for Sri Lanka.

Strengthen Cross-Border Consumer Protections

- Amend the Consumer Affairs Authority Act to explicitly cover cross-border e-commerce transactions.
- Require foreign sellers to:
    - Honor local warranty norms for specified product categories (e.g., electronics).
    - Offer returns or refunds that meet minimum local standards.
- Develop a public registry of compliant platforms and verified sellers to promote safe cross-border shopping.

Facilitate Digital Infrastructure and Logistics Ecosystems

- Support the development of shared e-commerce fulfillment hubs that allow SMEs to store, process, and ship products efficiently.
- Simplify customs clearance processes at these hubs through:

    - Dedicated green-lane processing.
    - Predictable and simple duty/tax collection models.
- Incentivize public–private partnerships in logistics infrastructure, focusing on last-mile delivery and rural accessibility.

Enhance Cybersecurity Legislation

- Enact a comprehensive Cybersecurity Act with provisions for:
    - Platform security requirements.
    - Breach notification timelines.
    - Criminal penalties for phishing, fraud, or unauthorized data use.
- Promote adoption of minimum cybersecurity standards among both local and foreign e-commerce actors.

8.3 Long-Term Vision

Formal E-Commerce Legislative Framework

Sri Lanka should adopt a standalone E-Commerce Act, or substantially revise existing laws (e.g., Electronic Transactions Act) to reflect the complexity of modern digital trade.

Key features should include:

- Recognition of digital contracts, signatures, and invoicing.
- Provisions for cross-border taxation**,** data localization**,** and platform registration**.**
- Alignment with UNCITRAL Model Laws and global norms.

This framework would provide legal certainty to domestic entrepreneurs and foreign investors, while fostering a healthy, competitive ecosystem.

Empower Existing Regulatory Agencies for E-Commerce Oversight

Leveraging and strengthening the mandates of existing regulatory bodies to oversee e-commerce activities. This approach aims to utilize current institutional frameworks to enhance efficiency and avoid redundancy.

For example:

- Department of the Registrar of Companies (ROC) can include the registration of foreign online platforms operating within the country.
- Consumer Affairs Authority (CAA) can oversee consumer protection in the digital marketplace, ensuring fair trade practices and addressing consumer complaints related to e-commerce transactions.
- Inland Revenue Department (IRD): Can oversee the taxation aspects of e-commerce, ensuring that both local and foreign entities comply with tax obligations.
- Sri Lanka Customs: Can enhance monitoring and enforcement related to cross-border e-commerce, ensuring compliance with import regulations and appropriate taxation.

By empowering these existing agencies with clear mandates and fostering inter-agency collaboration, Sri Lanka can effectively regulate the e-commerce sector without the need to establish a new regulatory body. This strategy promotes efficient use of resources and leverages existing institutional expertise to address the evolving challenges of digital commerce

Regional Cooperation and Digital Trade Agreements

- Develop bilateral or multilateral MOUs with major e-commerce partners (India, China, ASEAN) to:
    - Recognize digital standards and certifications.
    - Facilitate faster customs clearance via mutual trust systems.
    - Harmonize consumer protection norms and cross-border data flows**.**
- Engage in regional dialogue (e.g., under SASEC or BIMSTEC) to share best practices and explore digital commerce facilitation corridors.

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9. Conclusion

Sri Lanka stands at a crucial crossroads in its journey to embrace digital trade. Cross-border e-commerce presents a unique opportunity to unlock new markets, empower small businesses, and enhance consumer choice. Yet, as emphasized throughout the roundtable and this white paper, the current regulatory environment risks undermining these benefits if key gaps remain unaddressed.

Key Takeaways:

1. Level the Playing Field

Foreign platforms must no longer operate under regulatory asymmetry. Applying the **"**same service, same regulation**"** principle through mandatory registration and investment—whether it pertains to taxation, warranty obligations, or dispute resolution—is essential for:

- Ensuring competitive neutrality.
- Protecting domestic SMEs**.**
- Ensuring cost structures in consumer target markets.

2. Streamline Customs and Taxation

Modernizing the customs regime to accommodate high-volume, low-value shipments is no longer optional. This includes:

- Clarifying and simplifying de minimis thresholds and policy and provide de minimis as a benefit or incentive to locally invested e-commerce platforms
- Introducing a vendor collection model**.**
- Adopting technology-driven clearance frameworks with real-time data sharing.

These reforms would reduce delays, improve compliance, and enhance trade facilitation.

3. Secure Consumers and Data

Consumer trust is the foundation of digital commerce. To safeguard that trust, Sri Lanka must:

- Extend legal protections to cross-border purchases.
- Enforce the Personal Data Protection Act with respect to foreign entities.
- Build cybersecurity infrastructure and awareness**.**

Only then can consumers transact confidently in a global digital marketplace.

4. Foster Local Growth and Participation

Policy should not only regulate cross-border flows—it must also equip local businesses to thrive in the digital era. This means:

- Investing in logistics and fulfillment hubs.
- Building SME capacity for digital selling.
- Encouraging foreign platforms to invest in local ecosystems, from warehousing to workforce development.
