

SECTOR OVERVIEW

A. Background

1. Sri Lanka is an island nation with a 1,340 kilometer (km) coastline. It is strategically located in the Indian Ocean, just north of the main east–west shipping route that carries maritime trade from the People’s Republic of China and East Asia to Europe, Africa and the Middle East. Sri Lanka’s location enables it to serve as a gateway connecting South Asia, East Asia, the Middle East, and Africa.¹

2. **Sri Lankan ports.** Over 90% of global trade is carried out by sea, and maritime transport remains the most cost-effective way to move goods and raw materials.² The world’s shipping industry is transforming rapidly, with investments in larger ships and vessels, and increased use of containerized cargo to achieve economies of scale.³ Accordingly, there is a need to (i) enhance seaports and terminals to increase capacity and the ability to accommodate larger vessels; and (ii) cater to the needs for necessary repairs and maintenance, both for large vessels and supporting boats such as tugs that are needed for ships to call in ports.

(Confidential information redacted under para. 97(v) of ADB’s Public Communications Policy)

3. Sri Lanka’s fisheries sector plays a critical role in the country; it contributes up to 2% of gross domestic product and is a source of livelihood for nearly 300,000 fishermen. Fish exports to the European Union dropped by 34% in 2015 as a result of a ban on imports from Sri Lanka. Prior to the ban, Sri Lanka was the second largest exporter of fresh and chilled swordfish and tuna to the European Union. Sri Lanka’s fisheries exports in 2014 totaled 26,320 tons, which fell to 17,461 tons in 2015 due to the ban on imports. The European Commission lifted the ban in June 2016 following successful reforms undertaken by Sri Lanka to reform its fisheries governance system, including amendments to its legal framework, strengthening of sanctions on illegal fishing, and improved control of its fishing fleet (footnote 6). Confidential information deleted.

(Confidential information redacted under para. 97(v) of ADB’s Public Communications Policy)

B. Policy and Regulatory Framework

4. **Sri Lanka Ports Authority.** The Port of Colombo was formerly administered by the Colombo Port Commission, beginning in 1918; the Port Commission was a government department, and tasked with supplying and maintaining cargo handling equipment, docking, slipping, and pilotage services. In 1958, the Port Cargo Corporation was established to take over the stevedoring and shore handling operations then handled by several operators. In 1967, the Port Tally and Protective Services Corporation was established to perform on-board tallying and watchmen services.⁴

5. The Sri Lanka Ports Authority (SLPA) was constituted on 1 August 1979 by the Sri Lanka Ports Authority Act No. 51 of 1979 (subsequently amended by Act Nos. 7 and 35 of 1984), which merged the Colombo Port Commission, Port Cargo Corporation, and Port Tally and Protective Services Corporation into a single organization. This created a unified and autonomous body

¹ Ministry of Highways, Ports & Shipping. 2014. *2014 Annual Performance Report*. Sri Lanka.

² International Maritime Organization. 2016. *IMO Profile Overview*. <https://business.un.org/en/entities/13>

³ Ministry of Highways, Ports & Shipping. 2014. *2014 Annual Performance Report*. Sri Lanka.

⁴ Sri Lanka Ports Authority. 2016. *History and Milestones*. <http://www.slpa.lk/port-colombo/slpa>

under a single line of command to better coordinate and direct port activities and their future development, thus eliminating problems of dual control, overlapping functions, and lack of coordination.⁵ SLPA remains state-owned and operates and regulates several major ports in Sri Lanka. It is tasked with providing efficient services for stevedoring, shipping, and transshipping; landing and warehousing; wharfage; the supply of water, fuel and electricity to vessels; handling petroleum, petroleum products and lubricating oils to and from vessels, and between bunkers and depots; for pilotage and mooring of vessels; and for diving and underwater ship repairs.⁶ SLPA provides regional barging services, towing and salvage, stevedoring, and heavy lift operations. SLPA is also responsible for pilotage and mooring of vessels in all Sri Lankan commercial seaports, for which it has deployed a fleet of twelve harbor tugs; it intends to strengthen the fleet with two additional 65-ton bollard-pull harbor tugs.

6. **Ceylon Fishery Harbours Corporation (CFHC).** The CFHC was established in 1972 to deliver quality fishery-harbour related services. CFHC operates in 19 harbours (including Mutwal) around Sri Lanka and has one under construction. CFHC is currently implementing an expansion program to upgrade existing harbours, build new fishery harbours, and to develop new business opportunities, such as marinas, leisure activities, amongst others.

7. **The Board of Investment Authority.** The Board of Investment (BOI) of Sri Lanka was created in 1978 as the central facilitation point for investors in the country. BOI companies employ nearly 500,000 workers and account for nearly 65% of Sri Lankan exports and 86% of the country's industrial exports.⁷ In line with the government's policy to promote the country's development through five major service-related hub activities (naval, aviation, commercial, energy, and knowledge), the BOI has given special emphasis to promoting investments in hub-related export service sectors, including ship repair and shipbuilding industries.⁸ (Confidential information redacted under para. 97(v) of ADB's Public Communications Policy)

D. ADB Interventions

8. The Asian Development Bank (ADB) has been engaged in Sri Lanka's port sector through its public and private sector operations. These interventions include: (i) technical assistance totaling \$1.9 million, of which \$1.5 million will be financed on a grant basis by the Japan Fund for Poverty Reduction and administered by ADB to help the government of Sri Lanka develop a national master plan for its port sector, and a restructuring of the Sri Lanka Ports Authority;⁹ (ii) a loan of up to \$300 million for the Colombo Port Expansion Project that included dredging, breakwater construction, and other works to accommodate three terminals (footnote 14); and (iii) an equity investment of up to \$7.4 million and a loan of up to \$36.1 million for South Asia Gateway Terminals to develop the Colombo Port's Queen Elizabeth Quay into a 1 million TEU-per year container terminal.¹⁰ Currently, the ADB's Office of Public Private Partnerships is advising SLPA to develop the East Container Terminal of Colombo Port through a public-private

⁵ A. G. de Alwis. 2003. Lalith—The Architect of the Sri Lanka Ports Authority. *The Island*. 20 April. <http://www.island.lk/2003/04/20/featur04.html>

⁶ Sri Lanka Ports Authority. 2013. *Notes to Financial Statements 2013*. Sri Lanka.

⁷ BOI Sri Lanka. Profit from Asia's Emerging Miracle. http://www.investsrilanka.com/about_us

⁸ ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Democratic Socialist Republic of Sri Lanka: Colombo Port Expansion Project*. Manila

⁹ ADB. 2016. *Technical Assistance Report: Democratic Socialist Republic of Sri Lanka: National Port Master Plan*. Manila.

¹⁰ ADB. 1999. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to and an Equity Investment in South Asia Gateway Terminals (Private) Limited for the Colombo Port Development Project in the Democratic Socialist Republic of Sri Lanka*. Manila.

partnership framework.¹¹

¹¹ Asian Development Bank. 2016. ADB to Help Sri Lanka Expand Colombo Port Operations Using PPP. *News from Country Offices*. 23 February. <http://www.adb.org/news/adb-help-sri-lanka-expand-colombo-port-operations-using->