



Briefing Note

Sri Lanka: A Maritime & Logistics Hub

A COMBINATION OF strategic location, increased investments in infrastructure, efficiency gains and a favourable regulatory environment in a context of peace and political stability has seen Sri Lanka emerge as the potential maritime hub in the Indian Ocean.

Exhibit 1: Ancient shipping routes and location advantage of Sri Lanka

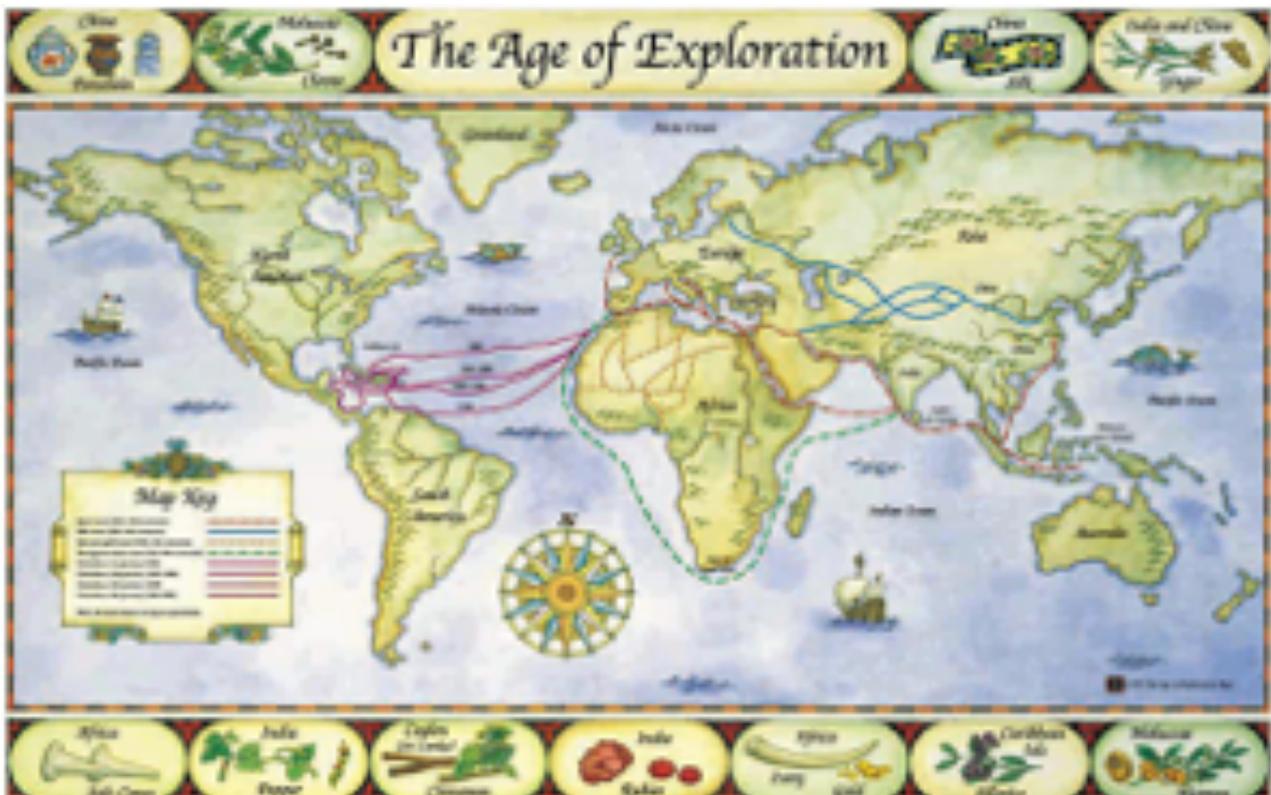


Image source: <http://www.silkroadencyclopedia.com/Images2/MapExplorationRoutes.JPG>

INTRODUCTION: A MARITIME HUB FOR THE INDIAN OCEAN

Many ports in South Asia and East Africa remain relatively under-developed, while others such as Singapore and Dubai do not enjoy Sri Lanka’s strategic location to be able to facilitate trade in the Indian Ocean to the same degree.

This briefing note outlines the key factors that make Sri Lanka a maritime hub in the region;

- Strategic location and strong connectivity to international shipping routes
- Shifts in global shipping trends – a higher proportion of world trade has shifted towards Asia and larger vessels preferring to call only fewer hub ports
- Increased investment in Sri Lanka’s logistics infrastructure – new terminals with the capacity to handle the largest categories of vessels
- Expanding preferential trade access



- Improved air connectivity for facilitating multi-modal transport
- Enabling technology, processes and legislation – adopting digitised systems, favourable regulatory changes and better inter-institutional integration with reduced bureaucracy

Background

Sri Lanka has been a strategically important country that has facilitated cross border trade for millennia. Its location at the centre of the Indian Ocean and the maritime silk route between China and Europe, made it a hub for trade since 8th century BCE. Sri Lanka is endowed with natural harbours that were trading hubs during different periods of time, such as Manthai (3rd century BCE to 11th CE) in the northwest, Godawaya

(1st century BCE to 10th CE) in the south, and Gokanna in the east.¹ Merchants from Arab, Asia (China, India) and later from the West; the Dutch, the Portuguese and the British came to Sri Lanka mainly due to its geographical location; its strategic positioning in the midst of major sea routes.

The thirty-year conflict impeded Sri Lanka from reaping the full benefits of its strategic location. The associated security concerns were a major constraint that prevented the country from emerging as a maritime and logistics hub in Asia. With the end of the conflict in 2009, the country is now in a position to benefit from its strategic location. Recent developments in international maritime shipping, international trading patterns and domestic factors all support the country's vision of becoming a maritime hub.



Image source: <https://en.wikipedia.org/wiki/Hambantota>



Strategic location

SRI LANKA IS at the centre of international shipping lanes connecting East and West. Sri Lanka's location enables the country to provide quick and efficient global and regional connectivity to move cargo to and from Asia to the rest of the world. This is largely because, as shown in the map below, the country is at the centre of all major sea routes connecting Asia to the rest of the world. Further, its proximity to all major ports in the Indian sub-continent, especially those of India, makes Sri Lanka a prime location that is able to provide fast and easy connectivity to the Indian sub-continent through its feeder network.

Exhibit 2: Shipping lanes around Sri Lanka

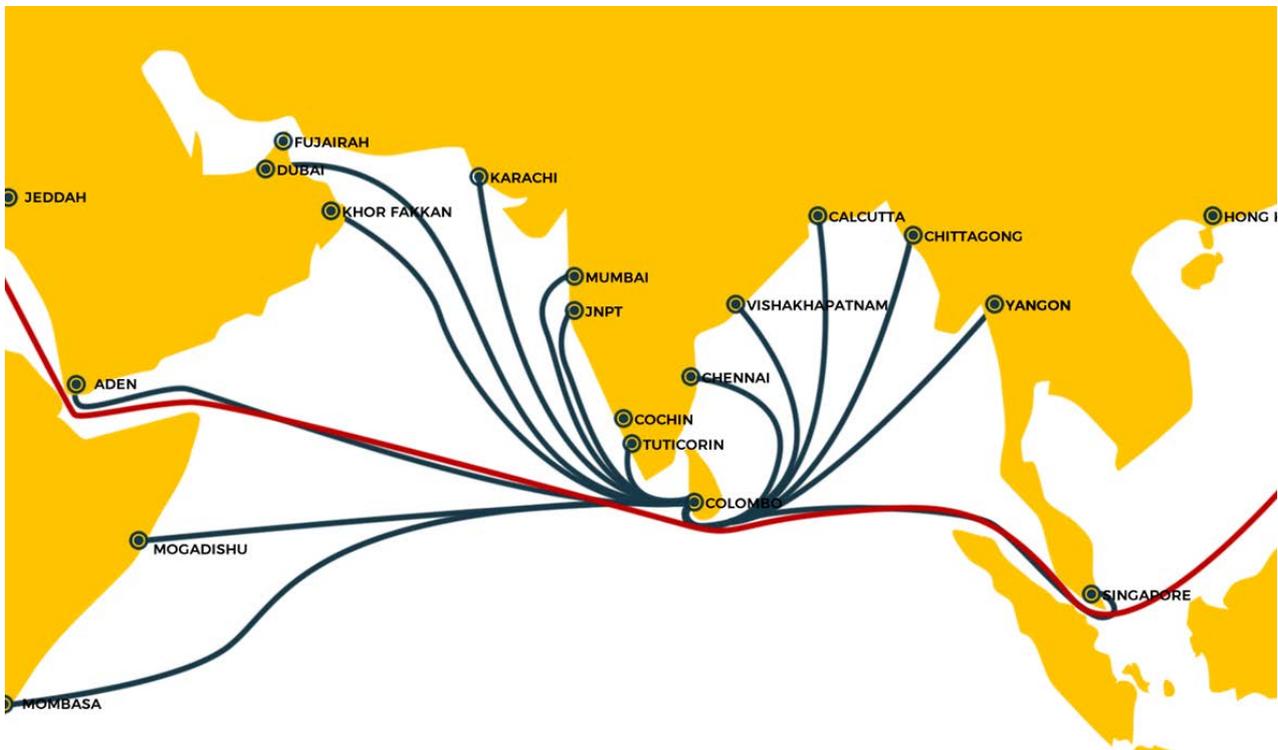


Image source: Sri Lanka Ports Authority <http://www.slpa.lk/location.asp?chk=1>

INTERNATIONAL MARITIME CONNECTIVITY

Central positioning allows Sri Lanka to serve vessels with a significantly lower deviation time compared to other ports in the Indian Ocean

Owing to its strategic positioning, Sri Lanka has been at the centre of trade between the East and the West, supplying markets across the world throughout history. Sri Lanka still continues to be surrounded by vital sea-lanes that carry raw materials, finished goods and energy to and from some of the world's largest economies. Lying in the middle of major trade routes, Sri Lanka serves as a gateway to the Indian subcontinent, as shown in Exhibit 2.

The island sits approximately halfway between the Suez Canal and the Strait of Malacca, the key maritime choke points to the East and West, and along routes from the Strait of Hormuz, through which most of Asia's energy supplies transit. In addition to energy, the sea-lanes surrounding Sri Lanka are also the main route for all other goods being shipped through the Suez Canal. Typically, raw materials will be shipped to Asia via the Suez along these routes, and then finished goods such as garments and electronics are shipped back.

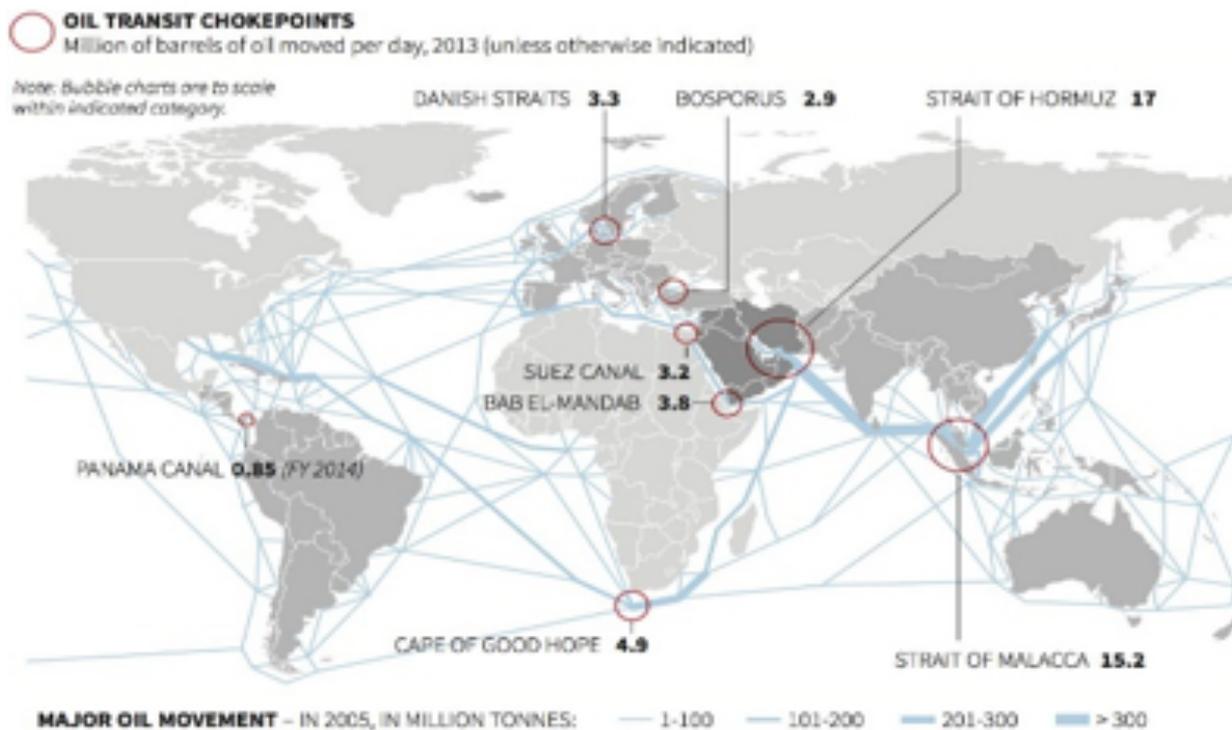
A string of islands blocks large ships from passing through the Palk Bay, preventing India's southern coast



Exhibit 3: Main oil transit chokepoints and major oil movement routes

Oil transit chokepoints

About half of the world's oil production is moved by tankers on fixed maritime routes. The blockage of a chokepoint, even temporarily, can lead to substantial increases in total energy costs. Oil transit chokepoints are therefore a critical part of global energy security.



Sources: U.S. Energy Information Administration, International Tanker Owners Pollution Federation
 Staff, W. Foo, 26/02/2015

REUTERS

Image source: <http://www.businessinsider.com/worlds-eight-oil-chokepoints-2015-4>

from becoming a regional shipping hub and making Sri Lanka's ports the stopover points for international routes. Exhibit 3 shows the movement of vital energy resources in the world.

In comparison to other ports in the region, Sri Lanka is in very close proximity to the major maritime routes between the east and the west. This hugely benefits vessels visiting the Port of Colombo as they experience lesser hours of deviation from the main trade routes as opposed to extended hours of deviation when visiting other ports in the region. Exhibit 4 compares the deviation hours from the major maritime routes to the different ports in the region. This declined level of deviation hours not only saves time but also is cost-cutting.

Exhibit 4: Ports in the region and deviation hours from trade routes

Port	Deviation Hours
Colombo, Sri Lanka	8
Tuticorin, India	20
Mumbai, India	31
Chennai, India	35
Khor Fakkan, UAE	65
Karachi, Pakistan	90
Chittagong, Bangladesh	100

Source: Sri Lanka Ports Authority



REGIONAL MARITIME CONNECTIVITY

Sri Lanka is a gateway to India, effectively becoming the most centrally located port to reach other ports across the subcontinent

Sri Lanka is situated in the middle of the Indian Ocean, off the Southern coast of India. It is bordered by the Indian Ocean, the Gulf of Mannar in the Laccadive Sea, and the Palk Strait, which separates Sri Lanka from India. The shortest distance between the two countries, Talaimannar in Sri Lanka and Dhanushkody in India, is 29km.

In addition to Sri Lanka’s proximity to major sea routes, Sri Lanka has an extensive feeder network with-

in the region. Cargo from large vessels is transhipped via Sri Lanka where smaller vessels carry the cargo to other ports in the region. The extensive feeder network makes it faster and cheaper to distribute goods within the region.

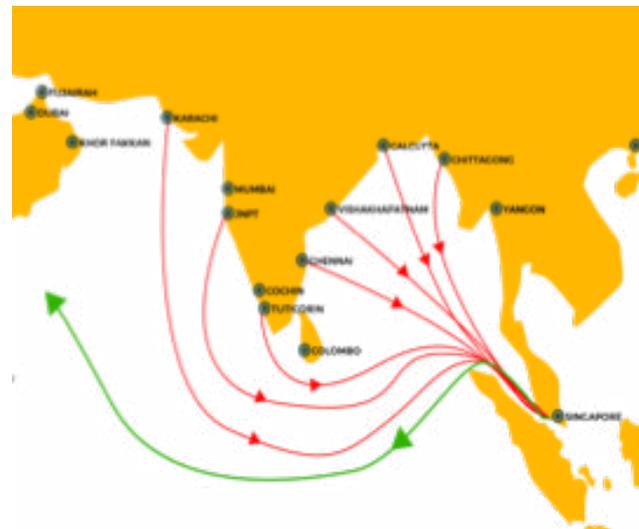
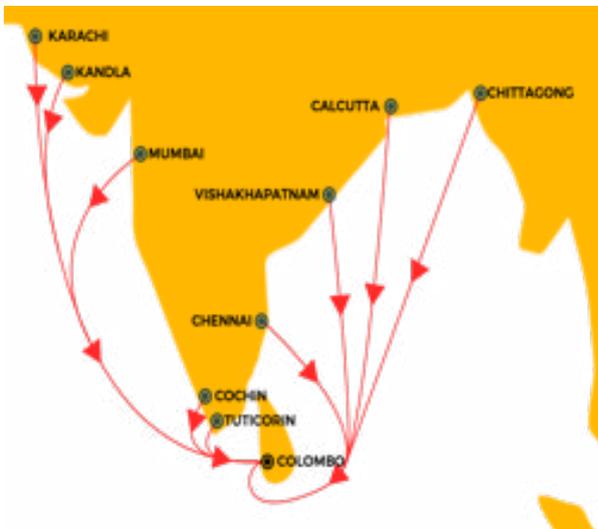
Further, transporting goods destined to Europe and America via the Colombo Port saves time compared to transporting via Singapore. Cargo destined to Europe from Bangladesh (Chittagong) and India (Calcutta, Chennai) can save around 5 days of time spent in transit when shipped via Colombo as opposed to Singapore, as shown in Exhibit 5 and 6.

Exhibit 5: Time at sea from Colombo, Sri Lanka to the busiest ports of Europe

Port	Colombo	Singapore
Rotterdam, Netherlands	20 days	25 days
Antwerpen, Belgium	20 days	25 days
Hamburg, Germany	21 days	25 days
Amsterdam, Netherlands	21 days	25 days

Source: SeaRates.com

Exhibit 6: Feeder Network from Colombo Port and Singapore Port





Changing global trends in shipping & trade

LARGER VESSELS, FEWER PORTS

Growth in vessel size and decline in number of ports of call improves Sri Lanka's value proposition

Colombo is the only deep-water commercial port in South Asia, and the only hub port between Singapore and Dubai that can accommodate the new generation of large vessels.

The average size of container ships has doubled within the last ten years. At present, the percentage of ships above 5,000 TEU capacity is over 50%. Further, the larger the size of the ship, the fewer port calls that ship would make. The number of port calls per ship is on the decline, although the size of the call, i.e. number of containers loaded and unloaded per call, has increased. For example, the largest ship in service in 2001 would generate an average of 2,200 moves per call. However, the largest ship in 2013 would generate an average of 3,850 moves per call, marking an increase of 75%.² Therefore, in addition to port depth and port efficiency, the in terms of how many moves can a port handle and how quickly, also plays a key role in attracting vessels to visit the port.

Sri Lanka is South Asia's most efficient port

Sri Lanka is becoming a regional leader in terms of terminal productivity and in terms of successfully handling mega ships. Sri Lanka's first private container terminal operator, South Asia Gateway Terminals (SAGT) has a berth productivity performance of 113 container moves per hour and an average of 34 container moves per hour per crane, ranking it among the best in the world. The Journal of Commerce, USA ranked SAGT's terminal productivity as 1st in South Asia and 4th in the world.³

The new deep-water terminal (Colombo South Ter-

minal) has a capacity of 2.4 million TEUs by way of equipment and manpower and its average productivity benchmark is currently at 35 moves per hour on ultra large carrier container ships. This is considered to be one of the highest among global ports. Further, the new terminal has generated 69 per cent of its volumes from vessels larger than 10, 000 TEUs.⁴

SHIFT TO ASIA

Asia's share of world trade is increasing

The 21st century is widely referred to as the Asian century. In 2014, Asia accounted for 44% of world trade.⁵ Out of total global seaborne trade, 56% is unloaded to and 43% is loaded from Asia.⁶ China has long been the growth centre of Asia and India is expected to grow faster than China in the next decade. Sri Lanka is ideally located to facilitate trade in Asia, especially trade with India, a fast growing market of 1.2 billion people.

Emergence of Asian value chains has increased demand for transport and logistics services

Asian value chains refer to fragmentation of production chains across different countries in Asia. In this process, parts and components of a product are manufactured and assembled across several countries. The emergence of value chains has increased the demand for shipping and logistics services and enhanced the importance of hub ports that can facilitate movement of components and parts across different borders in a faster, cheaper highly reliable manner. As labour costs in East Asia keep rising, the investments have been moving southwards, to South-East Asia (Vietnam, Cambodia, Myanmar) and towards South Asia (Bangladesh, India) where costs of labour are lower. This change has created the potential for Sri Lanka to become a key hub in providing shipping and logistics services to support Asian value chains.



Investing in upgrading physical infrastructure

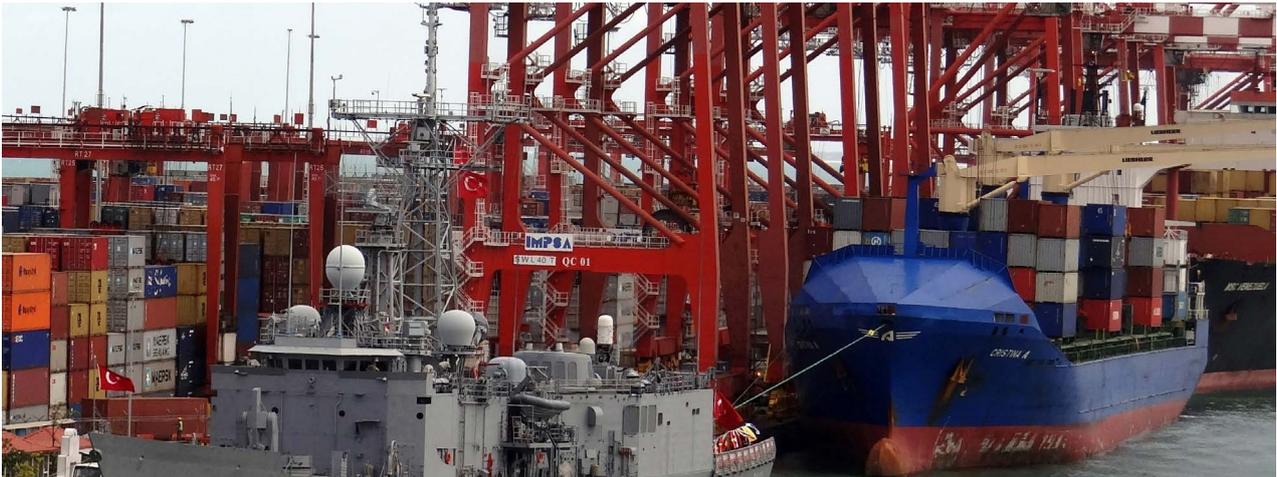


Image source: [https://commons.wikimedia.org/wiki/File:TCG_Gemlik_\(F-492\)_docked_at_the_port_in_Colombo..jpg](https://commons.wikimedia.org/wiki/File:TCG_Gemlik_(F-492)_docked_at_the_port_in_Colombo..jpg)

Sri Lanka's recent and continuing infrastructure investments are making it a globally competitive logistics destination

The Colombo Port Expansion Project (CPEP)

The Colombo Port Expansion Project (CPEP) will facilitate the construction of the Colombo South Harbour (CSH). The CSH will be situated to the west of the existing Colombo Port and comprise an area of approximately 600 hectares. Under the project, three new terminals will be built; each terminal will be 1,200m in length and a capacity of 2.4 million TEUs with facilities to accommodate 3 berths alongside.

The first of these terminals, the South Container Terminal has been completed and already commenced operations. This is the first terminal in South Asia that can accommodate a mega-sized vessel. The East Container Terminal (ECT) is due for completion in 2018, while the West Container Terminal is expected to be operational by 2023.⁷

Once all terminals are in operation, the container handling capacity of the Colombo Port will increase to about 12 million TEUs per year, making it one of the world's largest container ports.

Hambantota Port in the South

The port is located 10 nautical miles off the world's busiest east-west shipping lane with a hundred thou-

sand ships passing through each year (approximately 290 ships a day).⁸ Phase I of the project to provide bunkering, ship building and crew change facilities commenced in January 2008 and was completed in December 2011. Currently, terminal operations are ongoing in the Phase I terminals.

Hambantota's prime location among major manufacturing bases for automotive parts and markets in Asia and Africa makes it ideal as a centre for vehicle assembly and value addition. Hambantota has a competitive edge over other ports with its automotive roll-on roll-off (RO-RO) and trans-shipment operations. The port contains a dedicated RO-RO yard of 11 ha, and 25 ha of heavy-duty yards for expected container and other cargo operations. Carmakers from Japan, Korea and India are increasingly using Hambantota as a nexus for transshipping vehicles built in India, Thailand, Japan and China to markets in Africa, the Middle East, Europe and the Americas.

Hambantota also has sufficient real estate for expansion of port related activities providing opportunities for logistics-related services to enter the market. Initially, over two thousand (2000) hectares of land was made available for logistics and free zone activities around the Hambantota port. The port is also well connected with the newly built Southern Highway, the railway lines and the Mattala Airport.



Expanding preferential trade access

SRI LANKA already enjoys trade preferences to regional markets and is further expanding into new markets. In addition to the strategic location, Sri Lanka has numerous preferential trade agreements, which strengthens its position as an attractive base for trading with the rest of Asia.

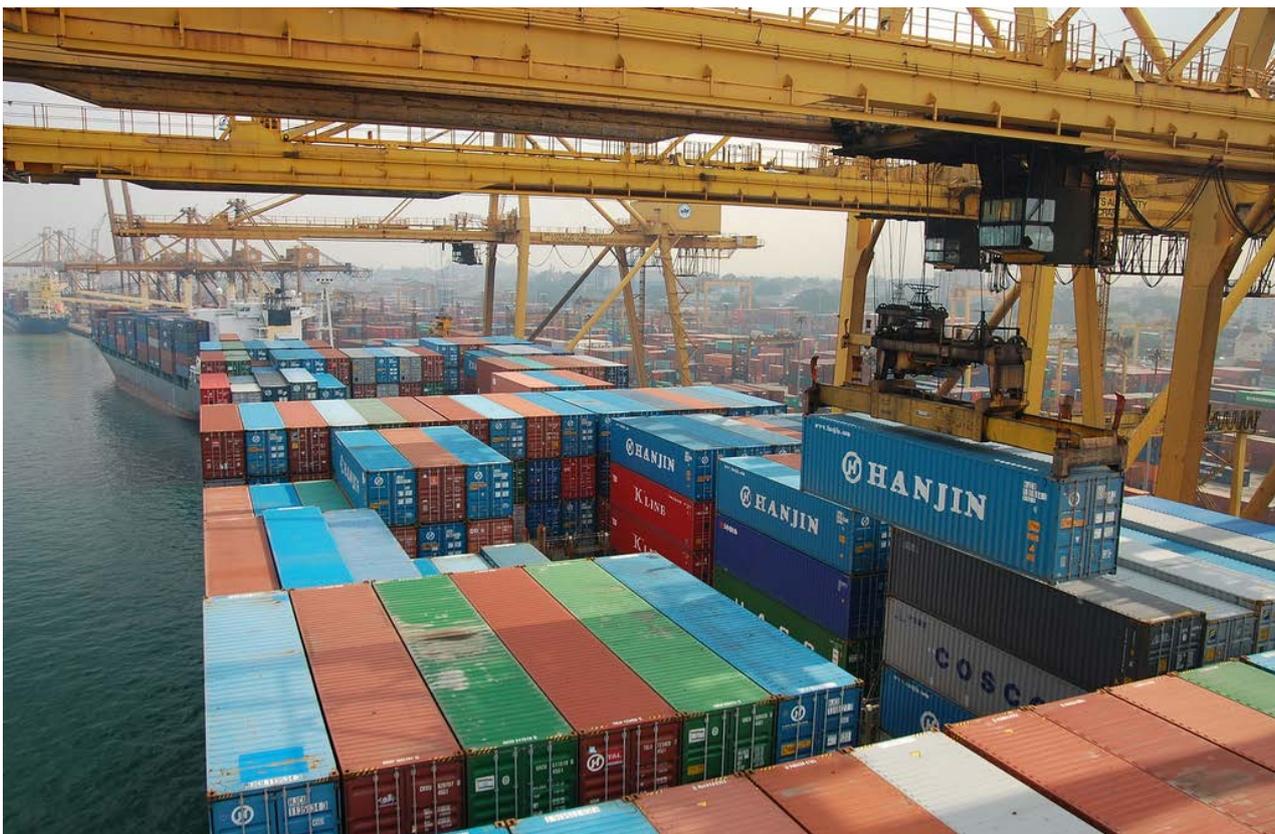


Image source: <https://www.flickr.com/photos/jgmorard/3378917734>

Sri Lanka is a member of two bilateral trade agreements with the two largest economies in South Asia; India and Pakistan. It is a member of two regional trade agreements, the South Asian Free Trade Area (SAFTA) and the Asia Pacific Trade Agreement (APTA). The member countries of SAFTA are Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, India, Pakistan and Sri Lanka. The member countries of APTA are Bangladesh, China, India, South Korea, Laos and Sri Lanka.

Sri Lanka is also in the process of negotiating a free trade agreement with China. By 2017, Sri Lanka is poised to secure duty-free access to the European Union through the Special Incentive Arrangement for Sustainable Development and Good Governance, popularly referred to as GSP Plus. It is also exploring potential FTAs with the United States, South Korea, Singapore, Australia, South Africa and Japan.⁹



Improved air connectivity for facilitating multi-modal transport



Image source: <https://www.flickr.com/photos/lakpura/15633406670>

Sri Lanka's main airport, the Bandaranaike International Airport (BIA) connects to over 100 destinations and has 100 flights per week to India

Sri Lanka is well connected with the world and the region not only by sea but also by air. Flights to and from Colombo connect Sri Lanka to over 100 destinations around the world. It is also well connected within the region with frequent flights to India including daily flights to Mumbai, Delhi, Bangalore, Kochi, Chennai, Tiruchirapally and Thiruvanthapuram.¹⁰

BIA expansion

The country is not only investing in upgrading seaport infrastructure, it is also expanding and upgrading its airport infrastructure. The airport currently has a capacity of 6 million passengers per annum but handled 8.5 million passengers in 2015. With the assistance of the Japan International Cooperation Agency (JICA), the government has planned to expand the airport

by building another terminal. The new terminal will increase airport capacity to 15 million passengers per annum. It will be well connected to the city with a rapid exit to the Colombo-Katunayake Highway. A second runway will also be built to meet the growing demand in the pipeline. At a cost of JPY 45.4 billion, the expansion will be completed in 2019.

Mattala International Airport

Sri Lanka has built a second international airport in Mattala, in the Southern part of the country, which is located 24 km away from the Hambantota port. It includes a cargo terminal of 5,000 sq. m with a range of facilities including; an export cargo section, an import cargo section, customs, airline offices, plant and animal quarantine, two cool rooms, a special vault for high value items, 20 ha for cargo logistics, 50 ha for industrial developments and space for bonded warehousing.



Enabling technology, processes & legislation



Image source: https://en.wikipedia.org/wiki/Expressways_of_Sri_Lanka

Shifting to electronic platforms, streamlining regulations and special incentives for investment

Sri Lanka has moved to reduce the costs and time spent on border and documentary compliance. According to the Ease of Doing Business Index, 2015, Sri Lanka was more competitive than South Asian countries in border compliance and documentary compliance, and was as equally or more competitive than countries of East Asia and the Pacific.

Trade facilitation

Sri Lanka is continuously improving technology and processes to facilitate and further improve ease of trading. One such development was the Single Window of Customs. The Single Window initiative recently launched by the Customs of Sri Lanka enables traders to connect with Customs electronically. Key agencies such as banks, the Inland Revenue Department and the Sri Lanka Tea Board are already connected to the system, and other agencies are in the process of being connected.

The Sri Lanka Ports Authority (SLPA) is currently automating its systems and processes. The new extension of the NAVIS' system, terminal operating system, at the SLPA will benefit the import and export trade community. The system will allow all port users to access this

system in stages for various facilities, after registration with the SLPA. Users will be able to make payments through Internet banking for port charges on exports, imports and subsequently for other port facilities.¹¹

Commercial Hub Regulations

The government of Sri Lanka has identified special business opportunities that have immense potential, as specified in the Commercial Hub Regulation. The Commercial Hub Regulation issued in accordance with the Finance Act of 2012 extends benefits and incentives to companies setting up value added logistics businesses. Benefits and incentives include exemptions from the application of provisions of the Customs Ordinance, Exchange Control Act, Imports and Exports Act and other tax and levy acts.

The benefits extended to logistics providers through the act is given in detail in the "Investment Guide to Commercial Hub Activities" published by the Board of Investment of Sri Lanka available at: http://www.investsrilanka.com/images/publications/pdf/Investment_Guide_2014.pdf.

Through the Commercial Hub Regulation, the government has announced plans to setup Free Ports and Bonded Areas to create trade related infrastructure for facilitating the import and export of goods and services.



Useful contacts

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Endnotes

¹ Post Graduate Institute of Archaeology, 'International Trade with Lanka, from Ancient Times', (3 February 2011), available at: <http://lakdiva.org/muse04/exhibit/start.html> ,[accessed on: June 2016].

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