Sri Lanka eyes port potential

A move to increase capacity at Sri Lanka's ports is enabling the island nation to capitalise on its strategic location by serving growing traffic on the international east-west shipping lanes.

Sri Lanka has carved out a niche as a key trade gateway over the years on the back of its access to the Indian Ocean, as it aspires to become a hub like Singapore in East Asia.

However, while the country's ports and logistical capabilities have benefitted from significant investment, industry players say challenges, such as outdated Customs procedures, are weighing on its performance.

Seeing big

Much of Sri Lanka's port and logistics activity is concentrated around the Port of Colombo, which offers a combined annual capacity of 7.5m twenty-foot equivalent units (TEUs) across three terminals, managed by three different operators. This is expected to rise to 10m TEUs once the new East Terminal is completed.

With a capacity of 2.4m TEUs and an expansion project that has more than doubled existing capacity, the Colombo International Container Terminal (CICT) is one of the largest operators at the port.

According to CICT, the deepwater terminal recorded 15% growth in volume in 2014 and can now handle up to 20,000-TEU ships, with a particular focus on larger ships, favoured today by international freight companies. CICT, operated by China Merchants Holdings International, demonstrated its capacity when it berthed its first mega box ship, the 16,650-TEU MSC New York in November, with the port's new facilities expected to give it an edge over rivals.

Colombo is also home to the South Asia Gateway Terminal (SAGT) – operated by conglomerate John Keells and partly owned by international shipping group Maersk – and the Jaya Container Terminal (JCT), owned and operated by the Sri Lanka Ports Authority (SLPA), both of which offer capacity of about 2m TEUs.

Up and beyond

Sri Lanka’s geographical position, along with its advanced deepwater container terminal facilities, have enabled the country to capitalise on opportunities in trans-shipments, which is the core business for all terminals in the Port of Colombo.

According to Tissa Wickramasinghe, general manager of commercial and marketing at CICT, only one-fifth of annual traffic is domestic cargo, with three-quarters of all trans-shipments coming from India. “This 75% represents 24% of India's total cargo, so that tells you where the demand comes from.” Wickramasinghe told OBG.

Traffic volumes in Sri Lanka are set to benefit from continued growth in India. India’s container traffic was estimated at around 10m TEUs in 2013, growing at a CAGR of 15% over the past two decades, according to KPMG. The average number of containers handled per ship per hour equals 15-23 at Indian ports compared with 25 in Colombo and 30 in Singapore.

Sri Lanka is also expected to attract a growing share of trans-Indian Ocean trade. The Asia-Pacific freightforwarding industry is on course to log combined annual growth rates of 12%, according to KPMG, with the Port of Colombo reporting a 15% year-on-year increase in trans-shipments in 2014, official data show.

Going forward, Sri Lanka’s ability to handle large ships will continue to give it an edge, Maersk country manager Arjun Maharaj told OBG. “There is a lot of speculation around the rise of Indian ports and related infrastructure, and what this means for Colombo,” he explained. “While the port of Colombo, with its geographic positioning and superior infrastructure, will continue to play a complementary role for India’s growing economy, currently no Indian port can handle the largest container ships.

Furthermore, infrastructure at the ports has yet to keep pace with current requirements for handling bigger ships, including deeper draughts and crane heights,” he added.

While business remains largely concentrated in Colombo, other facilities, such as those at the Port of Hambantota on Sri Lanka’s south coast, are also expected to maintain growth given their proximity to international sea lanes, though seasonal monsoons in the area could present logistical challenges.

Time to go digital

Other hurdles for the sector include challenging Customs procedures, which industry players are calling to be modernised in line with leading ports in the region. “Sri Lankan Customs procedures are generally less complex compared to some other countries in the region, but we still have room for improvement when compared with Singapore or Salalah in Oman, for example, which allows for online clearance,” GAC Group’s managing director in Sri Lanka, Mahesh Kurukulasuriya, told OBG.

Maersk's Maharaj echoed this sentiment. "Sri Lanka is lagging behind on the use of e-commerce platforms that promote ease of business," he said. "Transactions that could take place on an electronic platform happen through multiple layers of documentation presented to multiple agencies."

Some players have also called for wider industry reforms, citing issues like government intervention in fixing charges, the implementation of market caps, 60% local ownership laws and the Minimum Exchange Control Tariff, which requires each company to pay a levy ratified by the central bank to local agencies, thereby increasing costs compared to regional ports.

Such measures may have had a key role to play during Sri Lanka's development, protecting local firms and bolstering reinvestment of revenues. However, as the country strengthens its foothold on the global logistics stage, calls are growing to provide a more attractive and internationally benchmarked investment environment that will strengthen the industry and the national economy.

See also:

http://www.oxfordbusinessgroup.com/news/sri-lanka-eyes-port-potential