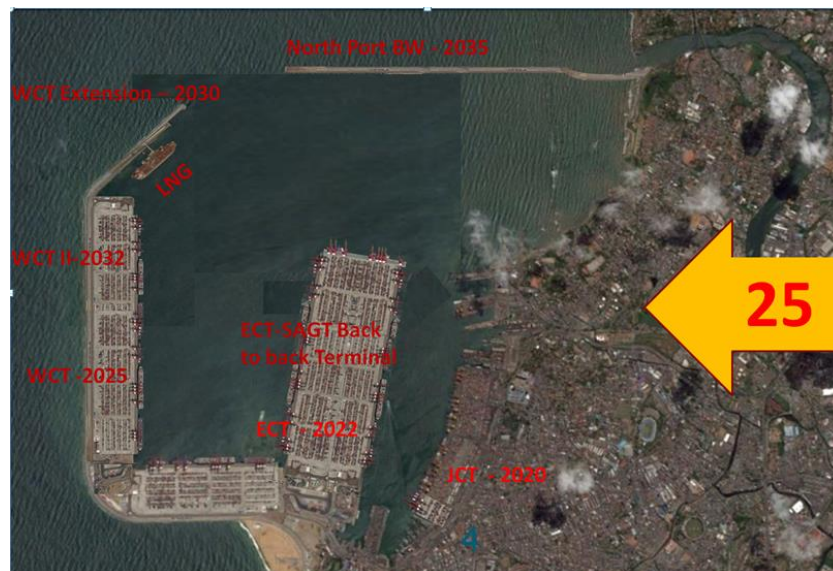
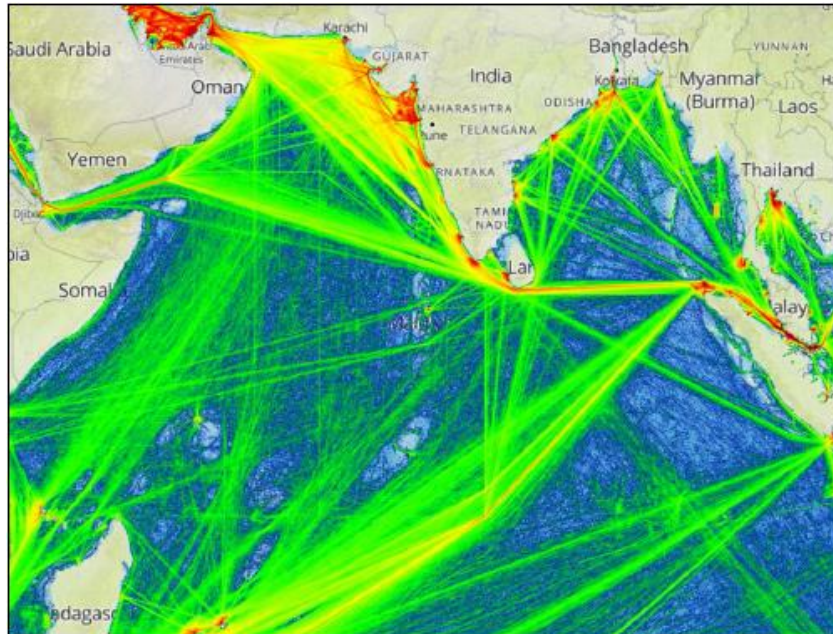


# THE FUTURE OF SLPA WITH ECT

## NECESSITY OF OPERATING EAST CONTAINER TERMINAL

### BY SRI LANKA PORTS AUTHORITY



Report Submitted by Engineers Association - Development of East Container Terminal (ECT) in the Port of Colombo.

2020

# Contents

1. Achievements of the Port of Colombo .....	3
2. Challenges and Impacts on Container Terminals due to the Advancements in the Global Shipping Trade .....	3
3. Initiatives Taken to Operate ECT Terminal. ....	4
4. Advantage of ECT Owned and Operated by the Government .....	5
4.1 Location Advantage of ECT .....	5
4.2 Income from a SLPA Owned and Operated Terminal.....	6
4.3 Performance of SLPA Owned Terminal.....	7
4.4 Workforce in SLPA Owned Terminal .....	7
5. Viability of Modernization of Existing Terminals in the Old Port.....	8
6. Foreign Interferences in ECT Development.....	8
7. Negative Effects of Delayed Implementation in Decision Making to Develop Port Infrastructure .....	9
8. Implementation Plan to Operate ECT by SLPA.....	9
8.1 Available Resources for the Immediate Start of Operations.....	9
8.2 Purchasing New Equipment .....	10
8.3 Phase-wise Development of ECT .....	10
9. Conclusions .....	11

## Necessity of Operating the East Container Terminal by Sri Lanka Ports Authority.

Necessity of operating East Container Terminal by SLPA has been analyzed in this report taking into account the national policy framework, cargo forecast, trends in global cargo operation, actual contribution to the national economy, and the national interest.

### 1. Achievements of the Port of Colombo

Sri Lanka Ports Authority could uplift the position of the Port of Colombo to 22<sup>nd</sup> place among the best container ports in the world and also as the leading regional transshipment hub in the Indian Ocean through well planned development strategies and capitalizing strategic location in the East-West route which carries over 60% of the world container seaborne trade. The recorded growth in 2018 was 13.5% and according to the Drewry Port Connectivity Index also ranked the Port of Colombo as the 11<sup>th</sup> best port in connectivity in the world for 2018. Currently, Colombo Port handles above 7 Million Twenty feet Equivalent Units (TEUs) and it has already reached its peak capacity by now.

### 2. Challenges and Impacts on Container Terminals due to the Advancements in the Global Shipping Trade

Shipping companies are continuously adding larger container ships to their fleet to increase cargo carrying capacity in order to get the advantage of economies of scale. New container ships are equipped with capacity such as 24,000 TEU which are calling at fewer hub ports as their port stay time frames have to be minimized. Usually, these Ultra Large Container Ships (ULCS) are 400 m in length and much wider with a beam of 61 m, that maintains more than 16.5 m loaded draught. Larger ships require adaptations of infrastructure, equipment and cause larger peaks in container traffic in ports, with wide-ranging impacts. In order to tackle these challenges, hub ports are forced to timely in their capacity expansion to maintain efficiency in services.

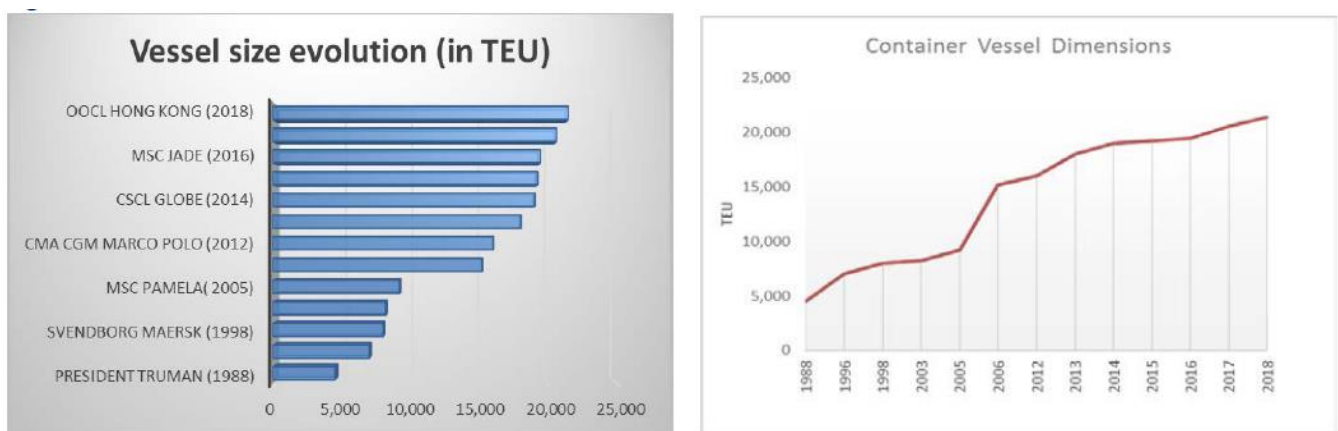


Figure 1: Container Vessel Evolution

### 3. Initiatives Taken to Operate ECT Terminal.

SLPA is continuously committed in capacity expansion and maintaining efficiency in port services to satisfy the ever increasing demand in global shipping trade. Accordingly, existing terminals were modernized and developed to increase the service efficiency and the effectiveness required by its customers. The South Harbour was planned and developed to fulfill the requirements of ever growing size of container vessels that require deep draught terminal infrastructure. The government and the SLPA had decided in principle to develop and operate one terminal out of three terminals in the South Harbour by the SLPA itself since inception of the South Harbour Development project.



Figure 2: Partly Completed East Container Terminal by SLPA

Ports Authority built a part of the ECT adequate to accommodate one mega container ship investing more than US\$ 280 Million and also ordered required cranes before 2015. The next government that came in 2015 stopped equipment procurement but failed to take any pragmatic action to operate the partly completed ECT and as a result, nearly five years lost with three ministers along the way without coming into a concrete decision in this regards. Even today ECT is not operating.

National Policy Framework (NPF) 2019 formulated under the direction of His Excellency President Gotabaya Rajapaksa, has also identified the urgent requirement of operating deep draft container terminals in the Port of Colombo. According to the NPF, ECT operation is to be accelerated by SLPA and the future third deep draft terminal (West Container Terminal), is to be commenced. The purpose is to meet the demand that grows at a rate of 13.5 % for container operation in the Port of Colombo. This requirement is to facilitate the ULCS.

Colombo port suffers capacity shortage in 2020 due to the non operation of the already built ECT, which can handle biggest container vessels carrying more than 18,000 TEUs similar to those are operated at CICT. SLPA has lost more than US\$ 50 Million revenue annually due to non-operating of the ECT for the last five years. Operation of the completed part of the ECT is having a capacity of 850,000 TEUs that would cope up with the urgent capacity shortage. The Figure 3 shows the shortage of capacity at Port of Colombo.

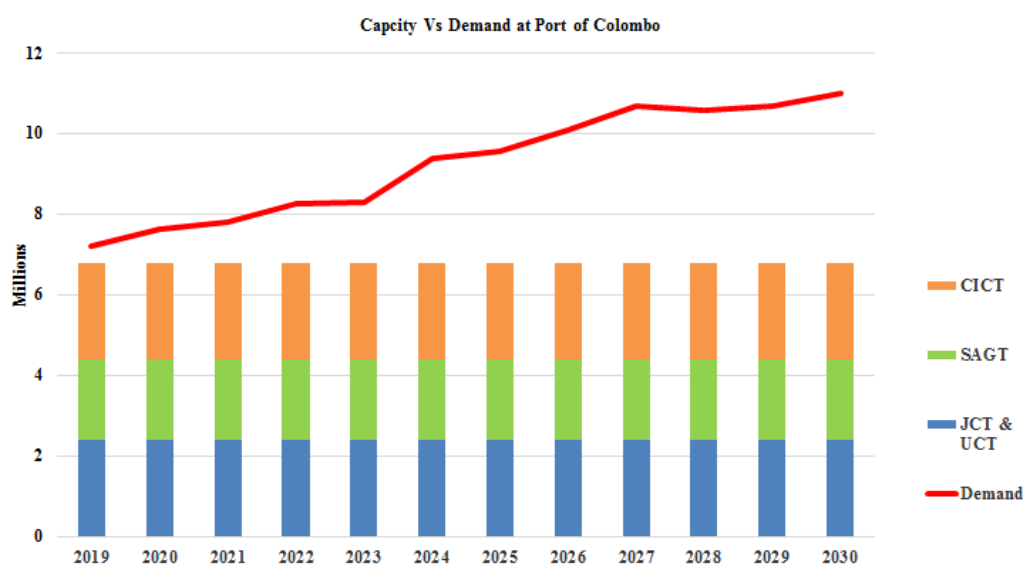


Figure 3: The Immediate Requirement of Capacity at Port of Colombo

#### 4. Advantage of ECT Owned and Operated by the Government

Requirement of a government owned deep container terminal has envisaged by the Government when the South Harbor has planned. Hence, the ECT constructions were started under the direction of Honorable past President Mahinda Rajapaksa’s government considering the real need of such a terminal that is operated by SLPA.

##### 4.1 Location Advantage of ECT

As the ECT is situated in the middle of the new port and the old port of Colombo and therefore, locational facility can provide greater competitive advantage to SLPA, as it is closer to all other terminals (CICT and SAGT). Hence, Inter Terminal Trucking (ITT) operations between ECT and other terminals can be optimized efficiently and effectively making best connectivity which is always demanded by shipping line agencies and also suffering a lesser cost in ITT. ECT will give a significant edge as Inter Terminal Cargo is an important component in transshipment.

The 18 m water depth at the ECT berths allows it to handle ULCS, generating considerable revenue to SLPA by adding value with clear operational advantage.



Figure 4: After Fully Completion of ECT

Further, ECT is adjacent to the SAGT terminal and according to our planning, once the SAGT agreement is expired in next eight years, the ECT – SAGT back to back terminal with few modernizations, would handle the container volume equal to the present handling capacity of the Port of Colombo (7.23 M TEUs). Future development of ECT with the proposed North Port is shown in the Figure 5.



Figure 5: Future Development of ECT as a Back to Back Terminal.

#### 4.2 Income from a SLPA Owned and Operated Terminal

SLPA generates significantly larger incomes from its own terminals than the income obtained from the private operators. SLPA generated an income of US\$ 263 Million in 2019 without the revenues from the private terminal operators. The income from the private terminals is about

US\$ 38 Million in 2019 from the land lease, the royalty and dividends according to the financial statement, 2019. These financial figures show that a significant amount of the income generated in the private terminals are draining out from the country and it is a major loss to the country at large. Further, SLPA is to provide and maintain infrastructure facilities and services to the doorsteps of the private terminals at the expense of SLPA's income.

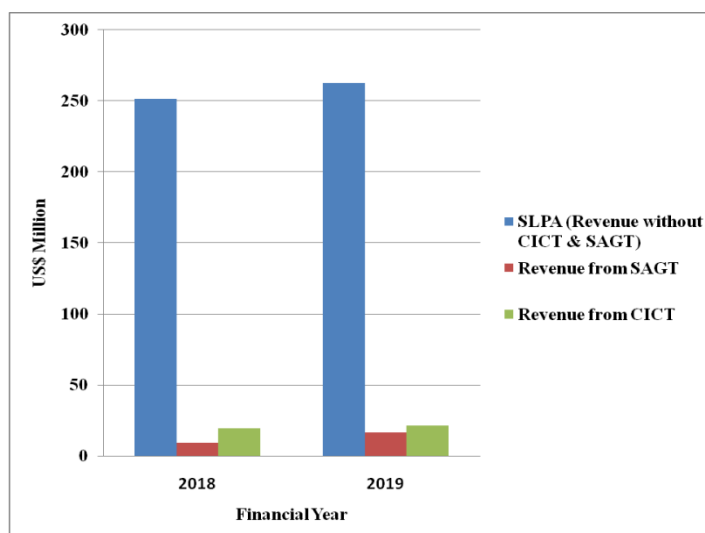


Figure 6: The Revenue of SLPA (SLPA Financial Statements, 2019)

#### 4.3 Performance of SLPA Owned Terminal

SLPA operated container terminals have performed well above the competing SAGT terminal amidst the limited and restricted deep draught berths in JCT. SLPA owned JCT terminal handles 2.28 Millions TEUs out of the total container handling in the Port of Colombo (7.23 Million TEUs). JCT terminal has two numbers of deep draft berths (14.25 m draft) in 660 m quay wall and the SAGT terminal has three berths in a straight quay wall of 940 m (14.25 m draft). SLPA employees attached to JCT terminal have shown their dedicated and efficient service with old container handling equipment at JCT purchased in the year 1998.

#### 4.4 Workforce in SLPA Owned Terminal

SLPA manage all the terminal operations and maintenance without outsourcing any work by around 1700 employees attached to the JCT terminal. We have noted that outsiders are wrongly interpreting that all 9990 employees of SLPA is working for the JCT. The workforce other than in JCT, are involved in operations and maintenances of all the ports under SLPA, providing navigation services to all ports, warehousing (LC and MCC cargo), liquid bulk (crude and refined oil), dry bulk (grains and cement), general cargo handling, water bunkering, port security, planning and development works, firefighting, harbor dredging, RoRo operation, facilitating cruise ships, etc.

Number of employees in private terminal operators is around 1000, but they have outsourced core functions such as prime mover operations, yard maintenance, etc. Therefore, it is clear that JCT terminal has occupied the optimum workforce compared to the private operators.

## 5. Viability of Modernization of Existing Terminals in the Old Port

Modernization of JCT terminal is not a viable option at this time as it cannot cope with the urgent capacity shortage and is not possible to accommodate ULCS. Rate of return on investment to modernize the JCT is not convinced and investment in ECT is the appropriate and right decision to survive in the trade. According to the global shipping trade analysis, JCT and SAGT terminals in the old port will cease in operation within 10 to 15 years as these terminals cannot handle mega ships with draft more than 14.25 m. These two terminals were unable to handle 374 numbers of such ships with draft more than 14.25 m arrived in 2019.

Container Terminal Operator	No of ships Arrival			Total
	Less than 10m Draft	10m - 14.25m Draft	More than 14.25m Draft	
SLPA	816	539	-	1355
SAGT	317	699	-	1016
CICT	271	588	374	1233

Figure 7: Container ships Arrival at Port of Colombo – 2019 (Draught wise)

Existing harbor basin requires high expenditure for improving and maintain nautical accessibility to receive large container ships, by deepening the harbor basing beyond 15 m (rock blasting required), ship maneuverability within the confined harbor, deepening the access channel, and widening the harbor entrance, proposed extending JCT quay wall by 120 m, purchasing new container handling equipment, etc. Further, construction works at JCT would obstruct the operation of both JCT and SAGT and will lose the existing shipping lines.

Even though it is required to implement proposed JCT V expansion project as planned, it is not the time to implement this project spending approximately US\$ 32 Million. We strongly suggest prioritizing ECT development by SLPA as it is the right investment to survive both the SLPA and the Port of Colombo in long run. JCT V is also a vital requirement and it shall be implemented as soon as ECT operation realized or SLPA has adequate funds to develop both terminals simultaneously.

## 6. Foreign Interferences in ECT Development

It was noted that Indian influences on ECT is controversial. A deep water container terminal with 4 million capacities in Vizhinjan International Port in Kerala is coming in operation in October 2020, funded by Adani Group. This will be a real competitor to Port of Colombo and we do not understand why Indian involvement in development of ECT. This involvement may lead to conflict of interest and against the national interest. It is important to note that during evaluation of bidders to South Container Terminal, it was cancelled on the ground of **national interest** and CICT was successful in the second round as the only bidder.



## **7. Negative Effects of Delayed Implementation in Decision Making to Develop Port Infrastructure**

JCT 1 & JCT 2 berths were completed by 1988 and volume jumped from 100,000 TEUs to 600,000 TEUs and, according to World Bank reported in May 1988, SLPA is a success story. But indecision from then up to 1992 kept volume stagnant near 600,000 TEUs. JCT 3 & JCT 4 berths came up by 1998 and volume jumped to 1,700,000 TEUs. Again stagnant without expansion at 1998 and port congestion appeared about 12 hours to get a berth sometimes a day or more. On these grounds, competing ports were emerged: Port Kelang, Salalah, Aden were some of them. World Bank warned and suggested privatization. Lloyd's List (1998) reported "Colombo fights to retain container traffic." After stagnation for over 5 years near 1,700,000 TEUs, privatization came and SAGT appeared. Volume increased, but again no expansion until 2011, until CICT terminal start operation in 2013 with development of the Colombo South Harbor. Vallarpadam, Cochin with Dubai Ports was another threat where our local shipping community shivered. Cochin Port Trust Chairman reported in Exim News Service in September 2006 that Cochin Port racing ahead to wean away Colombo's transshipment cargo. In a few years, Cochin Port is set to give Colombo hub a run for its money.

History again repeated even if SLPA has timely developed ECT terminal, as it is not in an operational condition due to delayed in decision making. Lose of ECT would not only ruin SLPA with its 9990 employees and their dependents, but the government would lose the tariff control, national security of the port and the best use of the competitive advantage of being in a economically strategic location.

## **8. Implementation Plan to Operate ECT by SLPA**

ECT phase 1 has completed with 440 m long berth in a 660 m quay length with a 18 hectare container yard and related facilities to operate a mega ship. Already Completed part of ECT can accommodate 850,000 TEUs meeting the capacity shortage in the Port of Colombo. Full development of the terminal is suggested to be taken place in three different phases within a span of five years to have a straight quay wall of 1320 m with a yard of 75 hectares (please refer figure 8). Investment cost is around US\$ 500 million including civil construction work cost and the cost of the equipment for the complete development.

### **8.1 Available Resources for the Immediate Start of Operations**

The Ports Authority under the present government has taken a timely decision well in advance to unload the newly arrived gantry cranes at the partly developed ECT to overcome lapses done since 2015. Other essential terminal infrastructure such as terminal management system and yard equipment which are currently being underutilized at UCT Terminal operated by SLPA, are planned to put in operation in the ECT. SLPA engineers have already taken actions to mobilize the yard cranes (RTGs) to ECT from UCT. Existing operation and technical staff and the resources are adequate enough to operate the ECT phase 1.

We are proud to highlight that SLPA has got expert engineering and operational staff who take the responsibility without any hesitation to develop and operate such a mega terminal.

### 8.2 Purchasing New Equipment

Four numbers of quay cranes and 12 numbers of yard cranes (Rubber Tyred Gantry cranes) are required to be purchased while the terminal is operated with the available cranes. Cost of new equipment is approximately US\$ 65 million and the required funds are available with SLPA.

### 8.3 Phase-wise Development of ECT

Fast track, phase-wise development of ECT terminal is assured with SLPA funding arrangement and the experience staff who are having work experience of similar capacities. It is worthwhile to note that the SLPA has serviced all the capital and interest to the lending organizations successfully until now.

SLPA Engineers along with the local contractors are confident in developing and managing the terminal at a lower cost as suggested with required time target. SLPA Engineers could plan and execute the ECT Phase 1 successfully without any foreign consultations.

Required government support to realize the above phase wise development is highly expected and honoured.

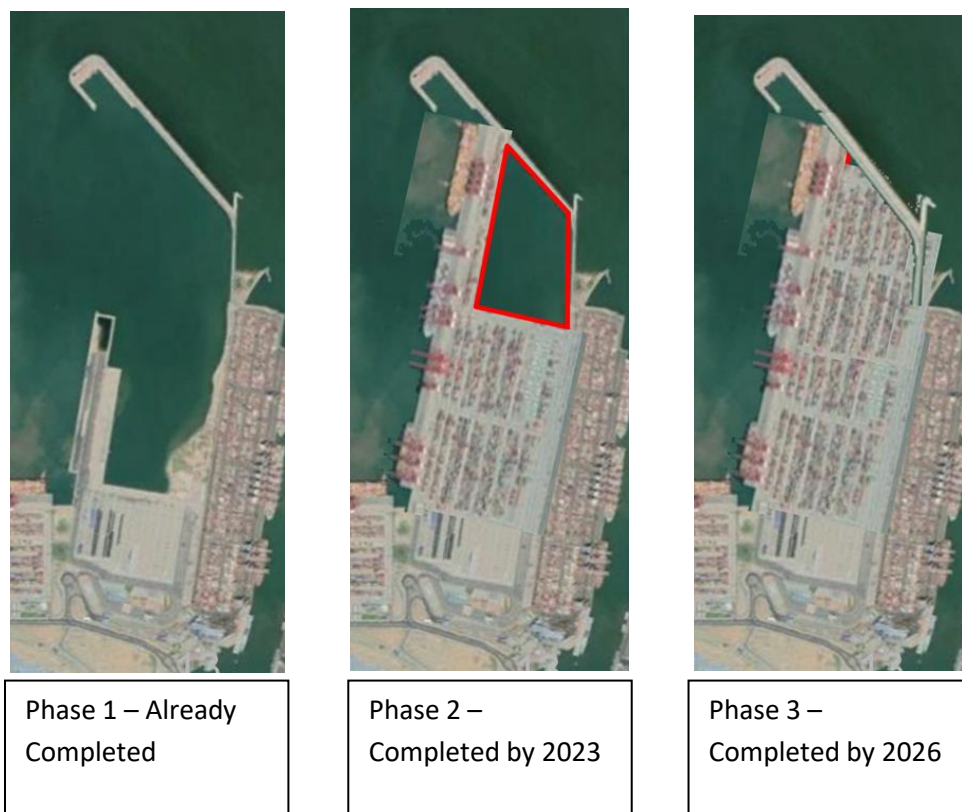


Figure 8: Phase wise Development of ECT Terminal by SLPA

## 9. Conclusions

We, as the SLPA Engineers Association, strongly recommend and advise the followings to operate the ECT as a government terminal and trust the government will positively support the endeavor.

1. SLPA shall be given opportunity to operate the ECT terminal as a government owned terminal for the **national interest**. ECT is the only economically viable option considering the capacity enhancement required to meet the present and future global cargo trade demand and to take the maximum benefit to the country and to maintain the long term sustainability in the business as a government operator. Operation of the ECT as a government owned terminal is a vital requirement to support the country's economy and to flourish the unprecedented benefits to the Nation enhancing the contribution towards GDP of Sri Lanka.
2. SLPA shall take prompt actions to operate ECT phase 1 within 2020. As a short term measure, ECT phase 1 shall be operated with newly purchased three quay cranes with available yard equipment, terminal operating system and available human resources. It shall be noted that newly purchased quay cranes are capable to handle more than 70% of mega ships (those unable to handle by JCT and SAGT in the old port) arrived to the Port of Colombo in 2019.
3. Prompt actions are required to purchase new container handling equipment to ECT as planned in 2015 while carrying out the operation as explained above. SLPA has got fund allocations to purchase the required equipment fleet.
4. Balance part of ECT shall be developed phase- wise with the SLPA funding arrangements and the experienced staff.
5. Prior to the implementation of the proposed JCT Phase V expansion project, the operation of the ECT Terminal should be carried out under the Sri Lanka Ports Authority. The approximately allocated amount of US \$ 32 million for JCT Phase V can be scheduled for further developing of the ECT Terminal, and then it is more benefited than JCT Phase V.

Required government support to the same is highly expected and honoured.

President  
Engineers Association of  
Sri Lanka Ports Authority