



## **Sri Lankan Prime Minister Visit to India 25-29 April 2017**

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The Sri Lankan Prime Minister Ranil Wickramasinghe was in India for a five day visit from 25<sup>th</sup> to 29<sup>th</sup> April 2017. As part of his working visit he met the Prime Minister of India Mr. Narendra Modi on 26<sup>th</sup> April as well as other Ministers' such as External Affairs Minister Mrs. Sushma Swaraj, Minister of Home Affairs Mr. Rajanath Singh and Road, Transport & Shipping Minister Mr. Nitin Gadkari.

During the talks, both the Prime Ministers reiterated the need for strengthening India-Sri Lanka bilateral relations particularly economic cooperation. A Memorandum of Understanding (MoU) was signed between India and Sri Lanka "for 'cooperation in economic projects', which outlined the agenda for bilateral economic cooperation in the foreseeable future".<sup>1</sup> Both the leaders expressed the hope to conclude the ongoing negotiations on Economic and Technical Cooperation Agreement (ETCA) and India requested continued cooperation from Sri Lankan side on dealing with Indian fishermen crossing the International Maritime Boundary Line (IMBL). Bilateral talks also reiterated India's commitment towards helping Sri Lanka realize its vision of a peaceful, stable and prosperous Sri Lanka.

To implement the decisions taken during the visit, particularly for cooperation in economic projects, the India-Sri Lankan governments will have to work towards clearing various bottlenecks on the way. These include negative perception about India's role in Sri Lanka, addressing the concerns of stake holders in economic projects and linking the development agenda of the Sri Lankan government with the peace and reconciliation process. Given the present resentment and apprehensions about foreign investment in Sri Lanka and domestic political situation, implementation of some of the economic projects such as joint development of Trincomalee oil tank farm, ETCA and resolution of fishermen issue might take a considerable time. These three issues and domestic responses are discussed below.

## **Trincomalee oil tank farm**

Recently Sri Lanka witnessed protests against possible and continuation of Indian investments in developing Sri Lanka's Trincomalee port area and oil farm. Trincomalee harbour was 'handed over by British to Sri Lanka in 1957 and was underutilized'.<sup>2</sup> During the visit of Ranil Wickramasinghe to India as the Prime Minister of Sri Lanka in June 2002, the Indian Oil Corporation (IOC) and Ceylon Petroleum Corporation (CPC) signed a MoU, which allowed the Lanka IOC (LIOC) to take over 100 retail petroleum outlets of CPC. Since then, the LIOC, India's Oil subsidiary in Sri Lanka is the only private oil company other than the state owned CPC that operates/ retail diesel stations in Sri Lanka".<sup>3</sup>

Apart from the above outlets, the LIOC acquired the China Bay tank farm of World War II period as part of the MoU among the IOC, CPC and Sri Lankan government in 2003. The LIOC obtained 35 year lease to develop the 850-acre farm, which has a total of 99 tanks, each with a capacity of 12,000 kilolitres. Currently, fifteen of these tanks are operational. The tank farm was obtained at a cost of US \$100,000 per annum and the payment had been made by India since 2003. However, the lease agreement was not implemented in totality due to various internal political reasons, civil war and opposition to the agreement from Sri Lankan political leaders & parties and procedural issues. For instance, in 2003, 'the government of Mahindra Rajapaksa conveyed to India that, the lease could be finalized if India agrees to set up a joint venture between LIOC and CPC'.<sup>4</sup> The government position was conveyed after India voted against Sri Lanka at the UN in March 2013. The formation of national unity government at the centre and return of UNP to power has helped to revive the agreement. Currently, the Sri Lankan government is planning to take over 10 tanks out of 99 tanks, while the rest, remain on a shared basis with the LIOC and the CPC'.<sup>5</sup>

The Indian Prime Minister Mr. Narendra Modi during his visit to Sri Lanka in March 2015 said that "India is keen to develop Trincomalee become a regional petroleum hub".<sup>6</sup> India's keen interest in developing the tank farm in China Bay has "geo political and strategic significance as it is the largest tank farm located between Middle East and Singapore".<sup>7</sup> The "tank farm connects to the Trincomalee harbour, which is the fifth largest all weather, non tidal natural harbour in the world with 56 km shoreline. This makes the tank farm most effective for fuel receipt, storage and supply".<sup>8</sup> India recognized its importance and therefore, the Indo-Sri Lanka agreement of 1987 clearly mentioned that, "Trincomalee or any other ports of Sri Lanka will not be made available for military use by any country in a manner prejudicial to India's interests and the work of restoring and operating the Trincomalee oil farm will be undertaken as a joint venture between India and Sri Lanka".<sup>9</sup>

The indefinite strike called by all the trade unions of CPC on 25<sup>th</sup> April against India and Sri Lankan governments' interests in operating the Trincomalee tank farm as a joint venture through LIOC and CPC has brought the issue to the surface. The strike call indicates that apprehensions still exists in Sri Lankan society about India's political and economic role in the country. Trade unions have asked the government to revise the proposed MoU with India to maintain the Trincomalee oil tanks and asked the government to give the oil stoking rights to the CPC. The Joint Opposition led by the former President Rajapaksa as well as the parties such as the

Janatha Vimukthi Peramuna (JVP) extended their support to the strike. The Pivithuru Hela Urumaya (PHU) asked 'the government to hold a referendum and seek the people's consent before signing any agreement to handover the Trincomalee harbour to India'.<sup>10</sup>

According to the JVP, Sri Lankan government's attempt to hand over the benefits to India's LIOC, is not a correct decision taken for the interests of the country. The JVP has been insisting that 'the Trincomalee oil tank farm could be utilized for distribution of oil in Eastern and Northern districts of Anuradhapura, Jaffna, Batticaloa, Vavuniya and others. The JVP asserts that, it would save Rs. 618 million annually and CPC can manage the tanks', rather than distributing oil from Kolonnawa and Muthurajawela oil storage tanks situated in Northwestern part of Sri Lanka.<sup>11</sup>

Even though the LIOC and CPC signed the MoU in 2003, implementation of the MoU was marred with reservations expressed by the CPC on the procedural aspects of implementation and against providing exclusive right to LIOC to run the oil tank farm. For example, in the past, taking over of 100 petroleum stations by LIOC by 'down payment of just US\$2 million was questioned, 'as the actual value of the stations after assessment conducted with the help of Emst & Young in Sri Lanka was around \$100 million'.<sup>12</sup> The CPC had also objected to the Sri Lankan government's decision in the past to continue the license to LIOC to import, sell, and supply or distribute petroleum products in 100 filling stations against the initial license of six months given to LIOC'.<sup>13</sup> Despite the various reservations expressed by the CPC and opposition, the LIOC continues to operate in Sri Lanka and it has the market share of nearly 43%. Over the last 14 years it 'has invested LKR 4400 million and spent around 7000 million to develop its various facilities'<sup>14</sup>. According to LIOC, its turnover for the financial year 2015-16 stood at LKR &71.306 billion.<sup>15</sup>

Sri Lanka has been witnessing protests against foreign investments in Sri Lanka in recent months. In January this year the foundation laying ceremony of the industrial zone in Hambantota, mostly financed by China, witnessed protests. Protests broke out due to the displacement it caused particularly for small business community and over the land allocation to Chinese company. The government has been insisting that, 'Chinese investors are ready to invest US\$5 billion in the next few years'.<sup>16</sup> The government is planning to allocate 1255 acres of land for the industrial zone which is expected to create 100,000 jobs in the future. Sri Lankan government's openness to Chinese investments is also related to the country's debt to China which is around US \$8 billion. The Sri Lankan political parties such as JVP and the Joint Opposition are mobilizing people on grounds that, the "government is selling the country to China".<sup>17</sup> According to Rajapaksa, his government followed a different approach in dealing with the Hambantota Port. According to him, 'the port was offered on a Supply-Operate-Transfer (SOT) basis, only for the terminal. Even for the terminal Chinese company had to pay for the land'.<sup>18</sup> This approach was in contrast to the approach the present government is following, as it offered land to China near Hambantota Port. The Sri Lankan government has postponed the formalization of the 99 year port lease agreement to Chinese company China Merchant Port Holdings, due to public opposition and currently the government is renegotiating the deal with China.

In this context, the Sri Lankan government has given the assurance that, ‘no agreement will be signed regarding the China Bay oil tank farm in Trincomalee during the Sri Lankan Prime Minister’s India visit’.<sup>19</sup> In line with the position taken, agreement on Trincomalee oil farm was not signed and only a broad agreement on cooperation on economic projects was agreed upon between India and Sri Lanka. The government of Sri Lanka also gave an ‘assurance to the trade unions that for the MoU to become a legal document the government will consult all the relevant parties’.<sup>20</sup> Sri Lankan Petroleum Minister Chandima Weerakkody also assured the trade unions that he will submit a report on the development of the Trincomalee oil tank to the Cabinet Committee. Following these assurances, the trade unions called off the strike on 25<sup>th</sup> April. Above developments indicate that both Sri Lanka and India are willing to give time to each other in formalizing economic agreements acceptable to all. This is an important step, given the sensitivities involved in bilateral relationship.

### **ETCA**

Another issue is the signing of ETCA. Here again there is considerable opposition in Sri Lanka and the opposition parties are claiming that opening of service sector through ETCA to India will hit the service sector and employment within the country. Negotiations on ETCA framework are in the process and leaders hope that it would upgrade the current India-Sri Lanka Free Trade Agreement (ISLFTA), operational since 2000. Third and fourth round of negotiations took place on ETCA one in January and recently the ETCA negotiations were held in New Delhi ahead of Sri Lankan PM’s visit. These negotiations were inconclusive.

During the ETCA talks held in December 2015, Sri Lanka’s proposed framework envisaged exclusion of professional labour liberalization by Sri Lanka other than in two subsectors, viz., ship builders and IT professionals. And ‘for better market access to the Indian market, Sri Lankan side highlighted number of issues that local exporters face in the Indian market’.<sup>21</sup> To increase the awareness about the ETCA, ‘a workshop was organized by India in Colombo on 4th March 2016 about Indian Standards and Regulations and to resolve the perception about application of Non-Tariff Measures by India against Sri Lankan exports’.<sup>22</sup> To address the ‘apprehensions of trade and professional organizations the Sri Lankan government offered to include representatives of these organizations in ETCA negotiations in 2016’.<sup>23</sup> Official level talks on ETCA took place on 24 and 25<sup>th</sup> April in Colombo. The ETCA agreement both the countries believe will enhance the capacity building in IT sector and in ship building. The ETCA agreement according to reports “seek to boost cooperation in technical areas, scientific expertise and research amongst institutions, boost standards of goods and services able to compete on the global market and improve opportunities for manpower training and human resource development”.<sup>24</sup> However, political parties such as JVP and Joint Opposition continue to oppose the agreement on grounds that it is not favorable to Sri Lanka.

However, the data shows that the ISFTA has been favorable to Sri Lanka. According to the Ministry of Commerce, Government of Sri Lanka, Sri Lanka’s major import destination in 2011-2015 was India. And in the same period India was the third largest export destination to Sri Lanka after the USA and UK. According to the Ministry of Development Strategies and International Trade, Government of Sri Lanka, ‘nearly 70% of Sri Lanka’s exports go to India via the FTA. Thus

they benefit from the zero tariffs granted by India and Sri Lanka has been using the FTA more than India'.<sup>25</sup> Table below provides the information on Sri Lanka's exports and imports under India-Sri Lanka Free Trade Agreement (ISFTA) with India.

Year	Exports (US\$ Mn)		Imports (US\$ Mn)	
	Total Exports to India	Under the ISFTA	Total Imports From India	Under the ISFTA
2011	521.59	391.5	4349.43	579.6
2012	566.37	379.5	3517.23	156.4
2013	543.37	368.77	3092.67	393.4
2014	624.81	375.8	3977.76	540.1
2015	643.03	407.2	4273.30	253.3

(Source: Ministry of Commerce, Government of Sri Lanka)

### **Fishermen Issue**

Another issue is the fishermen issue and since long both the sides have been unable to find a practical solution. The Joint Working Group on Fisheries involving various stakeholders is trying to come out with a solution acceptable to all. India-Sri Lanka Ministerial level talks were held in January 2017. And both sides agreed to a set of Standard Operating Procedures (SOPs) to expedite the release and handing over of fishermen in each other's custody.<sup>26</sup> In line with the decision taken at the meeting, 77 Indian fishermen and 12 Sri Lankan fishermen were repatriated by both governments in March 2017. The Arrests of Indian fisherman crossing the International Maritime Boundary Line (IMBL) continues almost on a daily basis and on 25<sup>th</sup> March 2017, twenty four Indian fishermen were arrested by the Sri Lankan Navy. In April around 6 Indian fishermen were arrested. Continuation of arrests of fishermen indicates that, there is an urgent need to find an amicable solution. Therefore, during the visit both the leaders stressed on the need for encouraging deep sea fishing on the Indian side. In this context, India took a decision to construct a new fishing harbor in Ramanathapuram district of Tamil Nadu and also conducted capacity building programmes for fishermen in Chennai and Kochi.

### **Conclusion**

The bilateral issues discussed and the responses to these issues within Sri Lanka point out that concluding an economic agreement and its implementation is going to be a complex process. Even though India and Sri Lankan governments are keen to enhance economic cooperation, there are apprehensions about India- Sri Lanka relations due to the troubled past, particularly in Sri Lankan society which will have to be addressed first by both the governments before concluding the proposed economic cooperation projects. The trust deficit exists despite the fact that India has been contributing significantly to the economic development of Sri Lanka through

development assistance and infrastructure development particularly in building roads, railways, housing projects in the country and preferential trade access to Sri Lanka exports.

At the same time, success of negotiations between India and Sri Lanka on economic projects will also depend upon internal political developments in both countries. The UN has given two years to Sri Lanka to implement reconciliation measures as recommended by the UN. The internal state of peace and stability will depend on the progress the Sri Lankan government is willing to show in implementing UN recommendations and domestic responses to implementation. In the process economic issues are going to be entangled with political issues due to active opposition. In this context, the government of Sri Lanka needs to follow a prudent approach to handle the situation emerging out of party politics. This can be possible through talks with opposition parties, organizing awareness workshops on the benefits of investments with the business community and most importantly the government has to reach out to the majority population more proactively, to address the fear factor. The Indian Prime Minister's visit to Sri Lanka in May 2017 might also address some of the apprehensions expressed by opposition parties in Sri Lanka.

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Disclaimer: The views expressed are that of the Researcher and not of the Council.

## **Endnotes**

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