

## **Colombo Port Setback for India - East Container Terminal**

### **Why in news?**

Sri Lanka has unilaterally pulled out of a 2019 agreement with India and Japan for developing the strategic East Container Terminal (ECT) at the Colombo Port.

### **What is the project on?**

- In 2019, India and Sri Lanka signed a memorandum of understanding (MoU) for “co-operation on economic projects”.
- The development and operation of the container terminal was one of the projects in the MoU:
  - a Container Terminal in Colombo Port as a Joint Venture
  - includes Indian investments considering that majority of transshipment in Colombo Port is related to India
- The MoU did not mention the Eastern Container Terminal.
- Nevertheless, India and Sri Lanka had already been in discussion for its development and operation.

### **What are the challenges in this regard?**

- India and Sri Lanka have seemingly friendly ties and much cultural affinity and people-to-people contact.
- However, the relationship is complex.
  - The majority Sinhala-Buddhist public opinion is layered with the memory of Indian intervention in the Sri Lankan ethnic conflict.
- So, unlike Chinese projects, big projects by India have always faced opposition in Sri Lanka.

### **Why was Japan roped in?**

- It was for the above reason that India had roped Japan into at least two of the projects:
  1. the East Container Terminal (ECT)
  2. an LNG Terminal/Floating Storage Regasification Unit (FSRU) in Kerawalapitiya/Colombo with a piped gas distribution system along with retail outlets for CNG etc
- Japan was also the biggest donor to Sri Lanka through the years of conflict.

- The Geoffrey Bawa-built Sri Lankan parliament, which came up at the height of the conflict, was funded by Japan.
- It continues to give Sri Lanka substantial financial support even now.
- However, the old relationship between Sri Lanka and Japan has undergone changes as China's footprint over Colombo has grown.
- Late in 2020, the Rajapaksa government unilaterally cancelled a Japanese project for a commuter rail in Colombo.

### **What are the terms of the agreement?**

- The Sri Lanka Ports Authority (SLPA) would have 100% ownership of the ECT.
  - This is as per a Memorandum of Cooperation (MoC) signed by the previous Maithripala Sirisena-Ranil Wickremesinghe administration.
- The Terminal Operations Company (TOC) conducting all ECT operations was to be jointly owned:
  - Sri Lanka retaining a 51% stake
  - the joint venture partners 49%
- A 40-year loan at an interest rate of 0.1% from Japan was expected to fund the development of the ECT.
  - The envisaged Japanese loan carries one of the best loan terms Sri Lanka has obtained.
  - The 51% stake is also one of the best in SLPA joint ownership endeavours.
  - SLPA's majority ownership in the new TOC represents a significant step in prioritising national interests.

### **What are the contentious from the start?**

- The Sri Lanka port trade unions have been demanding to cancel the ECT agreement.
- As many as 223 Sri Lankan trade unions and civil societies groups were backing this demand.
- Sri Lanka's former President Maithripala Sirisena too was opposed to an Indian stake in the ECT project.
- That was one of the flashpoints in the breakdown between Sirisena and Wickremesinghe, who was pushing for it.
- Just before the 2020 elections, port workers were striking against the agreement.
- They ended their protest only after (now Prime Minister) Mahinda Rajapaksa assured them that there would be no Indian involvement in the port.

### **What is the recent stance?**

- Recently, when India's External Affairs Minister visited Colombo, the PM and President in Sri Lanka sent out differing messages on its commitment to implementing the MoC on the ECT.
- However days after the Indian Minister's visit, President Gotabaya Rajapaksa assured port workers that -
  - the ECT was not going to be sold or leased
  - there would be an "investment" in the ECT by the Indian Adani group
- Clearly, this did not appease the trade unions resisting the development.

### **What is Sri Lanka's consolation offer?**

- PM Rajapaksa announced the Sri Lankan government decision that the ECT would be developed and operated as a "wholly owned container terminal of the SLPA.
- After this, a cabinet meeting approved a proposal to develop the West Terminal at the Colombo Port as a Public Private Partnership with India and Japan.
- This is seen as a bid to compensate for taking away the ECT.
- India has not yet commented on this offer.
- The Sri Lankan side believes the offer can persuade India and Japan that the West terminal is strategically no different from the East, and commercially even better.
  - Developers could hold as much as 85% stake in the West terminal as opposed to just 49% in ECT.
  - It is said that this would be a much better option for Adani.
- The unions are said to be on board the proposal to invite India and Japan to participate in the development and operation of the west terminal.

### **How significant is ECT for India?**

- India had been offered the Western Container Terminal earlier, but had refused.
- The ECT is already operational, while the WCT has to be built from scratch.
- For India, the ECT deal was important as 60%-70% of transshipment that takes place through it is India-linked.
- The ECT is also considered more strategic than any other in Colombo Port.
- It is located next to the Colombo International Container Terminal (CICT) project, a joint venture between China Merchants Port Holdings Company Ltd. and SLPA.

### **How have India and Japan reacted to the withdrawal?**

- Japan has called Sri Lanka's decision to pull out from the agreement

“regrettable”.

- India’s response was that Colombo should not be taking a unilateral decision on an existing tripartite agreement.
- The commitment of the Government of Sri Lanka in this regard has been conveyed several times in the recent past.
- Sri Lanka’s Cabinet also took a decision to implement the project with foreign investors.
- Given these, all sides should continue to abide by the existing understandings and commitment.

**Source: The Indian Express**

