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 transhipment 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

