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NEWS ROUND UP

Wednesday , july 04, 2018

Contents

Cabinet defers decision on second LNG plant in Kerawalapitiya

The Cabinet of Ministers yesterday decided to postpone the decision to award the tender on the second LNG plant in Kerawalapitiya until a Supreme Court ruling was given, highly-placed Cabinet sources revealed.

A Fundamental Rights petition filed by National Movement for Consumer Rights Protection in Sri Lanka Chairman H.W. Ranjith Pushpa Kumara was fixed for support by the Supreme Court on 11 July. The Cabinet decision on the matter has been differed until the outcome of this case, the Daily FT learnt. The Cabinet was to decide on the company to be awarded the tender for the construction of the 300MW HFO/NG fired power plant at Kerawalapitiya on a Build-Own-Operate-Transfer (BOOT) basis after Cabinet appointed a three-member committee to make final recommendations on the matter.

The committee was appointed after a proposal by the Minister Ranjith Siyambalapitiya, recommending a Chinese company as per the Procurement Appeal Board (PAB) decision, came under severe criticism from Cabinet as it overlooked the lowest bidder Lakdhanavi Ltd.

According to reliable sources, when the matter was discussed yesterday at the Cabinet meeting, President Maithripala Sirisena had said that the decision should be postponed till the court delivers its ruling on the matter.

The state-owned entity Lakdhanavi Ltd. was the lowest bidder for the project and was recommended to be awarded the job by both the Cabinet Appointed Procurement Committee and Technical Evaluation Committee.

However, the bid by Lakdhanavi was thrown out at the appeal stage and the Chinese-owned Consortium of GCL, WindForce and RenewGen was recommended based on a nine-page letter written by Power and Renewable Energy Ministry Secretary Dr. B.M.S. Batagoda. This week Finance Minister Mangala Samaraweera also submitted his opinion on the matter, echoing Dr. Batagoda's position on the issue.(DailyFT)

Govt. pledges to solve payment issues on tea exports to Iran

The Government assured it would resolve the payment concerns of tea exports that are dampened by the US sanctions on Iran, as the Central Bank has now begun to negotiate with a couple of international banks to get assistance on payment term mechanism, a top Minister confirmed.

"We are trying to negotiate with the Americans and the Europeans on payment terms. The Central Bank is already having discussions with the stakeholders. There are a couple of German banks that were interested in helping us. I am very confident that it can be worked out very soon," Plantation Industries Minister Navin Dissanayake told Daily FT.

Pointing out that India had already worked out a system, he emphasised that Sri Lanka could also replicate or follow the same to export tea to Iran. The Minister suggested that if Sri Lanka could work out the payment terms, then most of the problems could be sorted out.

"Iran is buying a lot of our tea and we have a bilateral agreement with them. Just because the Americans put sanctions on them, it doesn't mean that they have to impose a sanction on us. Right now our tea is going to Iran, but the problem is with the payment terms," he added.

The Minister stressed that the Government had lobbied America many times that tea is an agricultural good and does not come under sanctions.

Dissanayake pointed out that the US Government should be sympathetic towards Sri Lanka in this situations, as the millions of workers and livelihoods in Sri Lanka should not be affected by the global political situation.

"I have explained this to the American Ambassador in Sri Lanka and he was sympathetic to my thinking," he added. (DailyFT)

Sri Lanka has disregarded the first lesson of economics for politics

The Sri Lankan economy is a victim of politics, where basic principles have been disregarded for expediency at a cost to the people, participants at an economic forum said.

"Thomas Sowell, the American economist said, the first lesson of economics is scarcity," Wickremesinghe said at a conference heldi n memory of Saman Kelegama, a top economist who was head of Sri Lanka's Institute of Policy Studies, a think tank.

"There is never enough of anything to fully satisfy all those who want it.

"The first lesson of politics is to disregard the first lesson of economics."

Suresh Shah, chief Executive of a brewery group and former head of Sri Lanka's largest business chamber said he had been involved in many policy dialogues, but in the end, economic objectives had been sacrificed for political ends in Sri Lanka.

He said that this is the complete opposite of what the Asian Tigers did to become advanced economies.

Successive Sri Lankan governments have extended election goodies to the public towards the end of an election cycle, in order to get elected for another term.

Critics say the current administration, in 2015, enagaged in a massive 'Keynesian stimulus' printing 630 billion rupees, leading to foreign reserve losses, capital flights, currency collapse and high inflation at the beginning of their term and has to now deal with the hangover.

Sri Lanka's economy then slowed as the state was forced to raise taxes to pay higher salaries and subsidies.

Some economists say Sri Lanka's economic problems started with the setting up of a central bank in 1951, which printed money, creating non-existent nominal wealth and called for the re-creation of an East Asia style currency board.

The first recipients of the printed money (usually state workers or users of subsidized fuel) then acquired goods and created excesss demand, leading to a currency collapse which made everyone poorer.

The currency shortages also led to trade controls, high import duties, and import substitution and a politically powerful group of domestic busnesses that exploited consumers through tariff protection.

Successive governments also borrowed, running large budget deficitsandpushing up the debt burden. Due to chronic currency depreciation, Sri Lanka's nominal interest rates are also much higher than countries with stronger exchange rates.

Sri Lanka's President Maithripala Sirisena had spoken out in favour of business lobbies that want to sell high priced goods at the expense of poorer consumers.

Sri Lanka's United National Party wants to reduce tariff protection and phase out so-called 'parataiffs' by 2020.

Sarath Rajapathirana, an economic advisor of President Sirisena, said faster liberalization would bring early benefits.

"We are going to reduce parataiffs over of 3 years," he said. "My personal opinion—I'm not talking about the government's—is we're too slow.

We have to signal to the stakeholders in the economy of our country, people who are interested in industry in Sri Lanka, that we're serious about doing these things."

Rajapathirana refused to comment on how his market oriented policy advise is being received by President Sirisena.

President Sirisena became increasingly involved in blocking pro-poor reforms amid chaotic United National Party policy-making in 2015 and 2016.

Sri Lanka tea industry was also hit by ad hoc policy making, after President Sirisena suddenly banned glyphosate, a weedicide amid questionable scientific evidence. (DailyFT)

Sri Lanka's CPC loses Rs11.1bn up to April 2018

Sri Lanka's state-run Ceylon Petroleum Corporation has lost 11.1 billion rupees in the first four months of 2018, against an operating profit 3.55 billion rupees in 2016, a finance ministry report said.

A collapsign rupee had also generated 9.1 billion rupees in losses to the CPC compared to 5.62 billion rupees last year.

The CPC also has dollar borrowings.

Total bank borrowings had was 375.49 billion rupees.

"The operational and financial shocks of the CPC is temporary absorbed by the government owned two commercial banks i.e. Bank of Ceylon and Peoples Bank," the report said. "

Brent Crude prices were 66.95 US dollars a barrel in 2018 up from 53.96 dollars last year.
In May 2018, the CPC raised retail fuel tarriffs.

However, the CPC accumulated losses of 218.6 billion rupees and a negative net worth of 218.6 billion rupees, the report said.

Other loss-making state entirites like SriLankan Airlines and Ceylon Electricity Board also owe the CPC billions of rupees of arrears.(Economy Next)

China rejects debt trap charge; says making Sri Lanka logistics hub

China has rejected charges of creating a debt trap in Sri Lanka despite gaining a 99-year lease on a port, which is much longer standard commercial deals, in return for cash to repay debt, and said the island will be made into a logistics hub.

China's foreign ministry spokesman Lu Kang said building a port in Hambantota was an aspiration of successive governments in Sri Lanka.

"The Chinese financial institutions, in light of the needs of the Sri Lankan side, provided support for it to bridge the financing gap," Lu said.

"With the advancement of the project, China adjusted the assets allocation against all odds according to the aspiration of the Sri Lankan side. These moves are all conducive to our commercial cooperation.

"I can tell these people that China and Sri Lanka will stay committed to advancing the cooperation on the project of the Hambantota Port in a bid to make Sri Lanka the logistics hub of the Indian Ocean."

Lu comments came after a New York Times report on 'How China got Sri Lanka to cough up a port'.

The report said Sri Lanka leased the port to China, because the island was unable to repay the Chinese debt taken to build it and there was not enough revenue.

The report alleged that the loans had been given despite feasibility report showing the port to be unvialble. In any case the port did not make enough money to repay the loan, burdening the port agency.

"As to the people who fabricated the lie of the so-called “debt trap”, if they are unable to offer tangible assistance to the developing countries, they can at least try to put the sincere cooperation between other countries in perspective," Lu said.

China got a 99-year lease on the entire Hambantota port, much higher than a 30 to 40 year lease on terminals that are the international norm.

China had also got a standard commerical lease on a terminal in Colombo port, where it has grown volumes and is paying concession fees to the port agency.

Analysts sharply contrast the expansion of Colombp port where the Asian Development Bank funded and conduted a feasibility study with Hambantota.

Colombo port is profitable and can easily repay the ADB's loan for the breakwater.

However analysts also fault Prime Minister Ranil Wickremesinghe's government for not going ahead with a joint venture in the third terminal of Colombo port, despite global giants like MSC, Maersk responding to requests for proposals to complete it.

Critics say is one of the biggest failures of the administration. (Economy Next)

Tokyo stocks open lower tracking Wall Street falls

Tokyo stocks opened lower on Wednesday tracking falls on Wall Street that were led by weakness in tech shares as trade war worries linger.

The benchmark Nikkei 225 index fell 0.39 percent or 85.21 points to 21,770.33 in early trade, while the broader Topix index was down 0.24 percent or 4.07 points at 1,688.73.

Analysts said tech shares suffered partly due to news that a Chinese court temporarily banned US Micron Technologies from selling its products.

"The market has been rightly besotted with trade tension news with July 6 looming for the imposition of those additional tariffs from the US and China," David de Garis, economist at National Australia Bank, said in a note to clients.

Trading volume in Tokyo is likely to be thin and "a wait-and-see attitude could dominate the market as the US market is closed for the Independence Day holiday" on Wednesday, SBI Securities said in a commentary.

The dollar fetched 110.42 yen in Asian trade, against 110.59 yen in New York late Tuesday.

In Tokyo, semiconductor equipment maker Tokyo Electron dropped 4.01 percent to 17,820 and semiconductor testing devices maker Advantest dived 4.63 percent to 2,181 yen.

Game giant Nintendo was down 3.26 percent at 35,240 yen and Uniqlo casual wear operator Fast Retailing was down 1.69 percent at 48,690 yen.

In New York, the Dow closed down 0.5 percent at 24,172.82 while the tech-rich Nasdaq fell 0.9 percent to 7,502.67. (Economy Next)

Sri Lanka's Dipped Products chief resigns

Sri Lanka's Dipped Products Plc, a rubber glove manufacturer, said its chief executive and managing director Mahesha Ranasoma had resigned.

The firm in a stock exchange filing said on July 03, said Ranasoma had resigned two days earlier, with effect from July 01. No reason for the resignation was given.

Dipped Products also has production facilities in Thailand.

The group reported profits of 766 million rupees in the year to March 2018, down 36 percent. (Economy Next)

Indian healthcare firm expands into Sri Lanka with ADB funds

Asian Development Bank (ADB) will invest 10 million US dollars in India's DCDC Healthcare Services Private Limited (DCDCPL) to help expand its network and extend it to Sri Lanka.

DCDCPL will invest in a new network of centres providing dialysis and related services to end stage renal disease patients in Sri Lanka.

The company, which is an Indian public-private partnership, has 100 centres in government and private hospitals and two standalone clinics across the world's second most populous country, with a total capacity of over 800 dialysis machines.

"The company has firmed up its plans to expand into Sri Lanka and a part of the proceeds from ADB's investment would be utilized towards that," DCDCPL Founder and Chief Executive Aseem Garg said.

The ADB said that demand for dialysis services in Sri Lanka is around 16 times the current capacity of service providers.

"This expansion will enhance access to critical dialysis care for a larger section of the population and enable them to continue to lead productive lives," ADB Principal Investment Specialist for Private Sector Operations Mayank Choudhary said. (Economy Next)

NYT raises concern for safety of Sri Lanka reporters

The New York Times today expressed concern for the safety of two journalists who contributed to a report alleging Chinese slush money funding Mahinda Rajapaksa's re-election bid at the 2015 presidential vote.

The New York-based newspaper said two Sri Lankans journalists who provided logistical support to a visiting correspondent earlier this year were being publicly criticised and intimidated by legislators linked to Rajapaksa.

"The Times expects the Sri Lankan authorities to ensure the safety of journalists working for our — or any — news organisation," the paper said in a statement.

In an extensive report into the alleged Rajapaksa-era corruption, the NYT said the Chinese state-owned China Harbour Engineering Company (CHEC) paid $7.6 million to finance Rajapaksa's failed re-election bid.

The report alleged that the former regime took massive loans for unproductive infrastructure. The new government was unable to pay back the debts and ended up leasing the loss-making Hambantota port to another Chinese company.

The author and the two Sri Lankans who contributed to the report have been lambasted in social media. The former president has denied he received campaign funding from the Chinese and accused the newspaper of a smear campaign against.

His loyalists have unleashed a virulent social media campaign against the reporters. The Chinese embassy in Colombo has denied the NYT report saying it was "full of political prejudice."

The Sri Lankan government is yet to respond, but several ministers have thanked the NYT to reviving a case that been dormant. (Economy Next)