

Logistics Sector Overview & Investment Opportunities

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Contents

	Page
Sector Overview	02
Sector Potential & Growth Opportunities	03
Foreign Direct Investment (FDI) Opportunities	04
Significant Project Pipeline	05
Public Private Partnerships	06
Upcoming Tenders	07
Review of Foreign Investment Policy in Sri Lanka	08
Why Sri Lanka	09
How OSL can help?	10

Sector Overview

Local Logistics Landscape



>\$2+ Billion
in contribution
to GDP



~50,000 people
employed



500+
companies

Source: Export Development Board, Sri Lanka

Synopsis:

- Sri Lanka's strategic location among the main marine and air navigation routes within the South Asian region makes the country a lucrative destination for entrepot and logistic development.
- The country's close proximity to emerging markets, and its already developed air and seaports in Colombo and Hambantota makes it an important logistics hub in the region providing entrepot and transshipment services to leading shipping lines and exporters.
- During the last five years, the World Shipping Council has consecutively ranked Sri Lanka's Colombo Port among Top 50 World Container Ports above other South Asia ports based on the volume of the containers handled.
- Sri Lankan logistics services contribute 2.5% of gross domestic product, which represents around USD 2 billion.

— The total share of logistics in national exports is estimated at 7%. The industry provides full-time direct employment to over 40,000–50,000 people. Around 70% of registered service providers are of local origin while the rest are multinational. Currently, there are 130 shipping agencies and 120 freight forwarders in associations, and 500+ companies registered with the Merchant Shipping Secretariat (MSS), which also includes clearing agents.

— In addition to the expansion of its seaports, the country also has the highest road density in South Asia, with 173.9 km of roads per 100 square km of land, connecting all major seaports and airports. The country also has 22 international and domestic airports, with five international airports situated in Batticaloa, Colombo, Hambantota, and Jaffna.

— In its ambitious plan for the future, the country is aiming at becoming a multimodal logistics hub providing integrated services and facilities by developing physical, telecommunication, and information technology infrastructure between the air and seaport facilities in Sri Lanka.

Source: CBSL, Fitch, ADB, Export Development Board

Sector Potential & Growth Opportunities

Transshipment Opportunities

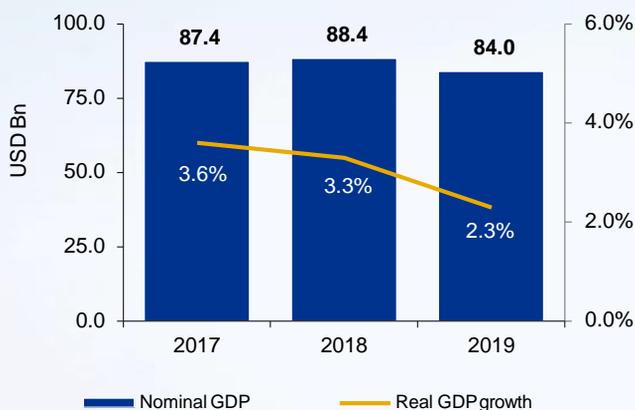
- For the last ten years, the Port of Colombo reported a steady growth of 4.5% in container traffic and transshipment volume accounted for more than 75% of the total container quantity.
- Sri Lanka is the main transshipment hub for the Indian subcontinent, mainly to Indian Peninsular and other South Asian Countries, mainly to take the best advantage out of the free trade agreements between South Asian countries (SAFTA), Sri Lanka and Singapore, and the country's participation in the Generalized System of Preferences (GSP).
- Colombo Port focuses on container trans-shipment largely for the textile industry while Magampura International Port in Hambantota provides services mainly for vehicle transshipment (roll-on/roll-off operations). Japanese, Korean and Indian carmakers use this port for trans-shipping vehicles built in India, Thailand, Japan and China to markets in Africa, the Middle East, Europe and the Americas.

Entrepot Trade Opportunities

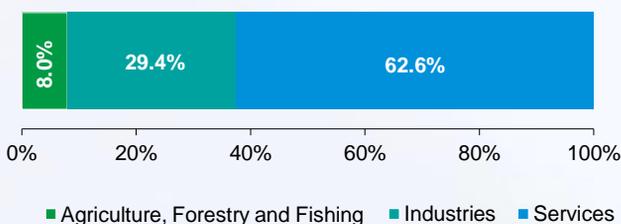
- With the introduction of the commercial hub regulations through amendments made to the Finance Act No 12 of 2012 of Sri Lanka in the year 2013, a wide range of possibilities for entrepot trade in Sri Lanka, namely;
 - Entrepót Trade under the Commercial Hub Regulations targeting foreign investors coming under the purview of the BOI, Sri Lanka.
 - Entrepót Trade under the Customs Ordinance without entitlements to all of the benefits under Commercial Hub Regulations for local traders
- Governed by these regulations Sri Lanka will allow cargo transfers between ships and aircraft without the need to actually send the goods through a bonding warehouse. The country has designated free ports and bonded areas including Colombo Port, Hambantota Port, Mattala Airport, Katunayake EPZ, Koggala EPZ, Mirijjawila EPZ, and Colombo Airport Cargo Terminal to carry out entrepot trade.



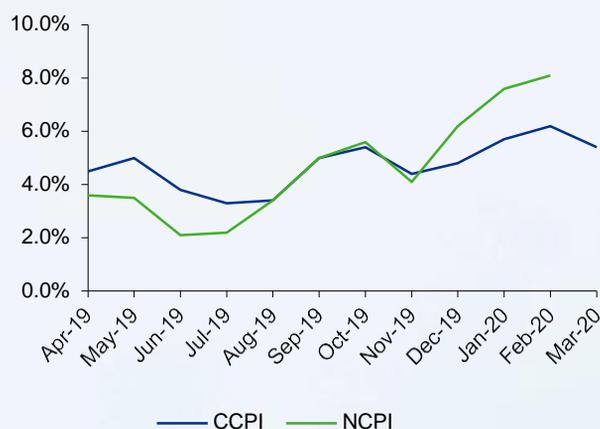
Gross domestic product



Sector wise contribution to GDP (2019)



YoY inflation



Source: CBSL, ADB, Fitch, IMF,

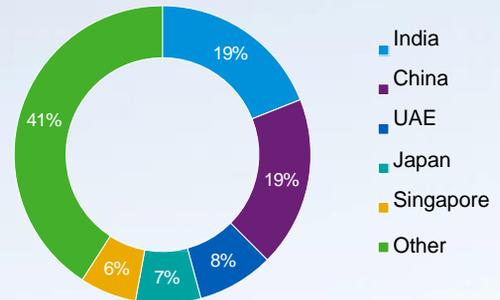
Foreign Direct Investment Opportunities

Commercial Hub Operation Opportunities

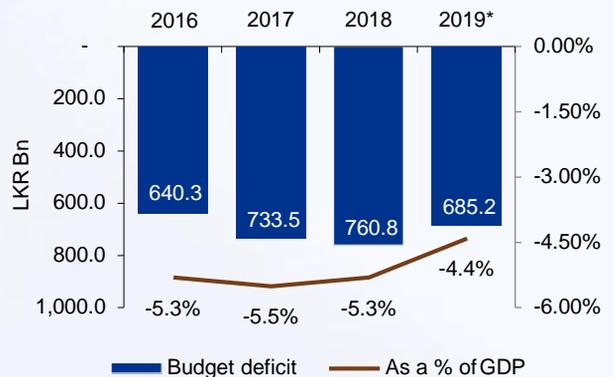
— The Indian Ocean is an emerging growth pole and one of the busiest East-West trade corridors. Over $\frac{2}{3}$ of global oil shipments and $\frac{1}{3}$ of bulk cargo are transported through the Indian Ocean while $\frac{1}{3}$ of the global bulk shipping trade, including petroleum products and coal transit across this region are transported through the Indian Ocean. Positioned between the two leading logistic hubs in Singapore and Dubai, Sri Lanka handles over 25% of the regional container throughput, which makes the development and expansion of commercial logistic hubs an obvious future to the logistic sector.

— Establishment of commercial logistic hubs, which are specific area designated to deal with activities related to transportation, organization, separation, coordination and distribution of goods for national and international transit, on a commercial basis by various operators within a network of logistic parks has been the priority of Sri Lanka.

Composition of imports -2018



Fiscal deficit



Multi Country Consolidation Opportunities

— With a view to reducing costs and increasing the efficiency of shipments, Sri Lanka has liberalised multi-country consolidation (MCC) and has ambitious plans to develop a logistic distribution centre in the South Harbour in collaboration with the China Merchants (CM) Port.

— The projects will focus on the needs of the MCC operators who prefer to receive space within the port itself. A new pilot project also focuses on implementing a Warehouse Management System (WMS) and improving the cargo management system, in order to provide electronic payment and delivery facilities.

Marine Services Opportunities

— Sri Lanka's growing reputation as a marine engineering hub in the South Asian region and our growing capacity in offshore engineering has also added to the country's reputation as an emerging logistics hub providing a complete suite of logistic services.

— At present, Sri Lanka provides other auxiliary maintenance and replenishing services including dry and wet dock repairs, crew changes, supplying and replenishing victuals and water. Apart from Sri Lanka's reputation as a low-cost supply base and the recently introduced special tariff reductions for transshipment facilities, the country also offers unique aspects in relation to its position and size.

Key Industry Facts

- 75% of total container throughput volume is from transshipment.
- Fastest growing port among major ports of the world.
- 11th best connected port in the world of shipping.
- Colombo port handled record-breaking 7mn TEUs in 2018
- Able to cater to latest 'Triple E Class' ships



Significant Project Pipeline

Logistics City – Area : 306 Sq Km

- The Logistics City is strategically located in close proximity to the Colombo Port and the Airport, and its accessibility to other parts of the country. The Logistics City is aimed at tapping into this strategic opportunity to grow logistics industries and manage the sporadic existing logistic activities. The Logistics City is envisioned to be the premiere transport and logistics hub of South Asia.
- The project will consolidate and link existing and potential logistics activities in the Western Region. Multi modal connectivity such as dedicated roads, expressways and railway links are proposed for freight handling and transportation. Industrial clusters will be developed to accommodate different facilities such as transshipment, dry port, warehousing, cold storage, vehicle repair, and cargo distribution.

Doubling the TEU Capacity at Colombo Port

- The Port of Colombo is a national asset, and it must be upgraded to handle transshipment business volumes, thereby doubling the TEU capacity. Priority will be given to the East Terminal development project. The West Container Terminal too, would be developed with private sector participation.

New Container Depots

- A network of three new Container Depots would be developed in Peliyagoda, Veyangoda, and Ratmalana immediately with the participation of the private sector.

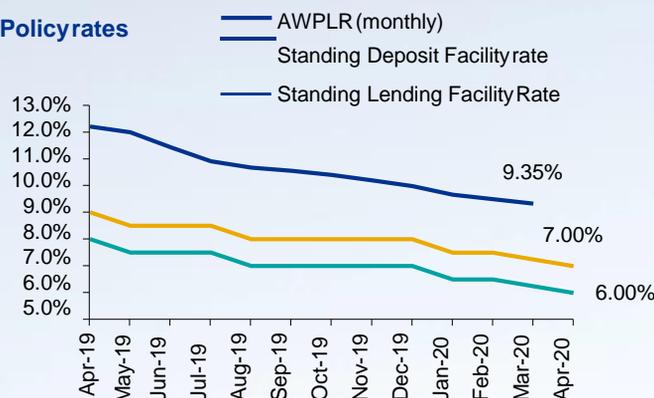
Expansion of Hambantota Port

- Development of Hambantota port as a Worldwide, Industrial, and Services Port to establish facilities for regional companies to provide services such as Ship maintenance and repair, ship handling, etc., to cater all vessels.

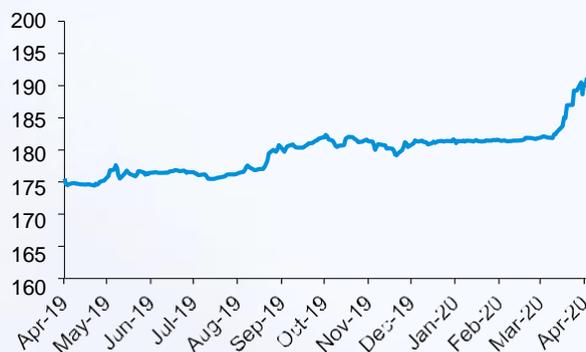
Upgrading of Mattala Airport Runway

- The second runway and passenger terminal will be developed without any further delay. A new Domestic passenger terminal will be designed to facilitate internal/ domestic flights. Mattala airport facilities will be upgraded while adding a new Taxiway and Cargo Terminal.

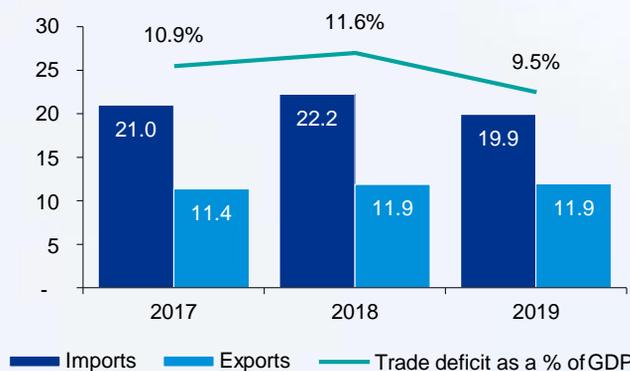
Policy rates



LKR per USD



Trade balance (USDBn)



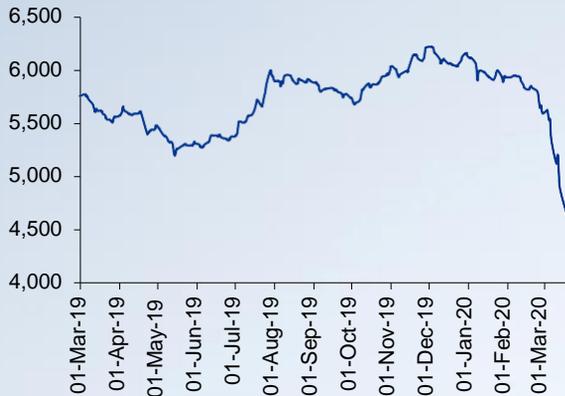
Foreign loan commitments

- Sri Lanka has USD 1.0 Bn in ISBs due in October 2020 among a total of USD 4.8 Bn in debt repayments due in the next twelve months.

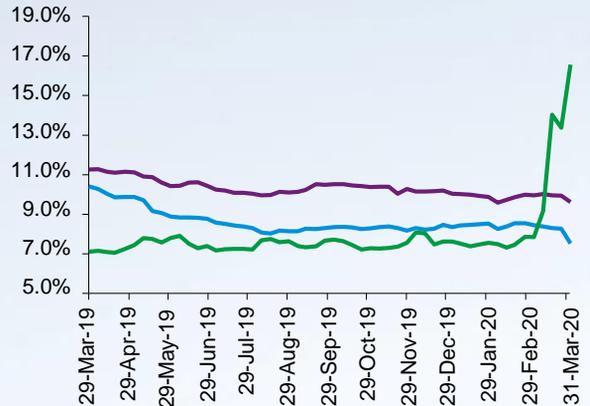
Source: CBSL, ADB, OSAnalysis

Public Private Partnerships

CSE: All share price index



Bond yields — 1YTBill — 10YTBond — 10 year ISB



Project Pipeline

- In January 2017 the MoF announced plans to establish a separate division dedicated specifically to PPP development. Operating under the Treasury, the PPP Agency will receive LKR75m (\$490,000) to launch operations. The World Bank will also provide funding in support of PPP development. The Ceylon Chamber of Commerce (CCC) reported that the agency was first proposed in October 2016, when its National Agenda Committee on infrastructure met with the MoF to lobby for increased PPP deployment.
- PPP development has accelerated: in February 2017 the Road Development Authority announced plans to establish The Special Infrastructure Company, known as SIFCO, to assume ownership of its portfolio of runways, and to be responsible for developing all future expressway developments by raising capital from private investors, and negotiate new financing arrangements.
- The 2018 budget, published in November 2017, stated the PPP Agency would issue guidelines by the end of April 2018, reporting that PPPs would be deployed for transport, power, water supply, health care, education, housing, agri-business, retail, mineral, real estate and tourism projects.
- Meanwhile, divestitures for the year include Sri Lankan Airlines, the Hilton Colombo and the Grand Hyatt PPP diversification is also making progress: in January 2018 the government announced that the China Harbour Engineering Company would build a port tunnel linking the planned Port City Colombo to the Galle Face Green esplanade. The project is also slated to be developed under a PPP framework.
 - PPP projects in the project pipeline include the elevated highway from the new Kelani bridge to Athurugiriya and an underground road planned to extend the Marine Drive and connect with the port access road and elevated highway to the international airport. , a logistics park in Welisara, inland water-based transport and inland air transport, light rail transit, utility projects in water, waste to energy, and industrial zones will be other projects in the pipeline.

Upcoming Tenders

Sri Lankan Aero & Maritime Trade Hub

— OSL Team work with government ministries and departments, local financial institutions and international financial institutions shaping their policies, developing frameworks and helping them to implement PPPs, industry by industry. We reconcile investors' need for profit with the requirements of Government for political and financial transparency. As an independent adviser, we engineer a truly competitive bidding process. And when advising private sector bidders, we help them to develop structures that allow them to access local and international funds.

Tender Pipeline:

- East container terminal of Colombo Port
- Improvement of UCT, PVQ and Guide Pier of Colombo Port
- Facilitating Cruiser Liners And Yachts In Colombo Port
- Establishment of logistic corridor in Colombo Port
- Construction of shipping and maritime centre building
- Development of west container terminal (WCT-1) of Colombo Harbour
- Extension of Colombo port expansion project breakwater and development of west container terminal
- North port development project
- Extension of ECT and SAGT as combined back to back terminal
- Establishment of cargo village
- Establishing a Marina by Converting Southern Part of Dickkowitz Fisheries Harbour
- Rehabilitation of Panadura fisheries harbor
- Establishment of the logistic hub
- Second runway and associated infrastructure at Bandaranaike international airport
- Port Related Infrastructure Development (Dry Dock, Floating Dock, Slipway , Syncro Lift
- Constructing Deep Sea Coastal Fishing Crafts
- Construction of Multipurpose Crafts
- Construction of Maritime Défense Crafts
- Port related Industries- Chains, Generators and Other Port Related Equipment
- Port Related Shipping Services – Bunkering etc.
- Specialist and Skilled Labour Training Centre
- Research and Development, Innovation Incubators Related to Marine Sectors
- Establishment of Transshipments Centre
- Formation of Recreational Beach Area Along the Shoreline South of Colombo (in the form of perched beaches)
- Commercial Extraction of Offshore Sand for Economic Development

Review of Foreign Investment Policy

Improved Investor Friendly Investment Environment

Investment Policy

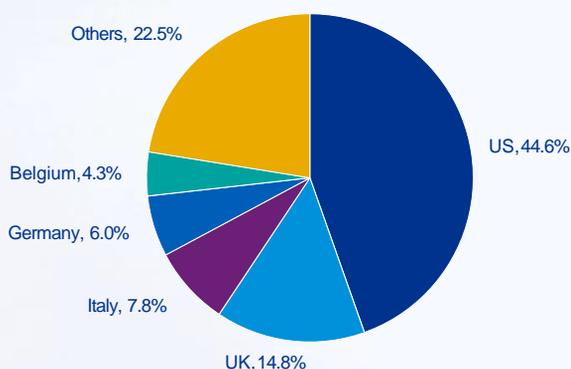
— Sri Lanka's Investment policy is geared towards the realization of national sustainable development goals and grounded in the country's overall development strategy. Investment policy priorities are based on a thorough analysis of the country's comparative advantages and development challenges and opportunities. Its strategic priorities, include:

- Investment in specific economic activities, i.e. as an integral part of an industrial development strategy.
- Areas for mutual reinforcement of public and private investment (including a framework for public-private partnerships).
- Investment that makes a significant development contribution by creating decent work opportunities, enhancing sustainability, and/or by expanding and qualitatively improving productive capacity and international competitiveness.

In this context, the key legislations facilitating investments in Sri Lanka are;

- The Board of Investment Law No. 4 of 1978 and its amendments is the principal law applicable to investments in Sri Lanka. This law established the national investment promotion agency, the Board of Investment of Sri Lanka, which is structured to function as the 'Central Facilitation point' for investors and empowered to enter into agreements with investors providing incentives to attract investments.
- Finance ACT No. 12 of 2012 was introduced to promote Sri Lanka as an emerging trading hub and facilitates related specific trading and services activities. Free Ports and Bonded Areas have been set up to create trade related infrastructure to facilitate Sri Lanka's import and export of goods and services with freedom to carry out transactions in convertible foreign currency.

Major apparel export destinations (2019)



Land Policy to Foreign Investors

- The foreign investors are eligible to lease lands in Sri Lanka to establish their projects. A new land law was promulgated in 2014 which permitted lease of land for foreign investments and outright transfers will only be permitted when the foreign shareholding is less than 50%. The land lease period is subject to a maximum tenure of 99 years. Foreign investors are not liable to pay any lease tax when leasing a land. However condominium properties can be purchased outright with no restrictions on nationality.

Why Sri Lanka?

Sri Lanka – Your next investment destination

Political and Economic Stability blended with a Conducive Investment Environment

Key points

— There are many reasons why companies select Sri Lanka as their investment destination. It all starts with positive leadership, policies and peace. Sri Lanka is an open economy and has heavily invested to develop its infrastructure to face the challenge of attracting high performing industries.

SARC Region

- Sri Lanka is the most competitive business centre in the South Asian Region and there are compelling good reasons for investors to locate their business entities in Sri Lanka. As an island nation that radiates beyond its size, Sri Lanka is renowned for its strategic location, scenic beauty and harmonious blend of races and cultures.
- The strong macroeconomic environment and supportive government policies, political stability, close links with foreign markets, excellent education and healthcare systems, outstanding infrastructure and mineral resource endowments are few important factors that investors consider when making a decision to invest in Sri Lanka.

FTAs & GSP+

- Sri Lanka has preferential market access under the Indo-Lanka FTA and Pakistan-Sri Lanka FTA which allows 100% duty free access for more than 4,200 products for both countries. Further, recently signed Singapore-Sri Lanka FTA will provide more opportunities for investments while regaining EU GSP Plus allows duty free access to the EU Market for over 6,000 products.
- Moreover, Sri Lanka has an admirable quality of life indicated by the standard health care facilities, world-class education system, prestigious hotels/leisure facilities, modern office complexes, luxury residential apartments and banking facilities in the country
- According to the Sri Lanka government's policy framework "Vision 2025" it aims to raise per capita income to USD 5,000 per year, create one million new jobs, increase FDI to USD 5 billion per year, and double exports to USD 20 billion per year. These intermediate targets lay the foundation for Sri Lanka to become an upper-middle income country by 2025.

10 Reasons to Invest in Sri Lanka

1. Strong Economic Growth
2. Unparalleled Strategic Location
3. Improved Investment Environment
4. Educated & Adaptive Workforce
5. Fast Developing Infrastructure
6. Access to Key Markets
7. Quality of Life
8. Natural Resources Endowment
9. Investor Friendly Policy Framework
10. Tax Incentives

How OSL Can Help?

Our World Class Team of Experts



How we can Help

Our team of experts comprise of some of the most renowned names in a wide range of sectors. This provides anyone looking to use our expertise to be able to harness a comprehensive and extensive level of service from us.



PRO Services

Also, through these experts you will be able to gather in depth understanding of the industries and overcome with ease any specific challenges that may be unique to such industries. We also function as a provider of PRO services through which we aim to build lasting relationships with our partners by providing a world class service to enter and conduct businesses in Sri Lanka and beyond.



Why choose us

With Opportunity Sri Lanka you will receive the benefit of our experience, professionalism, accountability, our team of experts and the trust we have built and an interconnected partner network throughout the world. We invite you to contact us and explore how we can be of service to you.

Our Global Footprint



Our Capability

We consider our expertise on the business sector over the years to be a valuable asset to any potential investor looking for Investment opportunities in Sri Lanka, from foreign direct investments to Investment banking. Our team consists of some of the top experts in the sector who combined, form a complete business consultancy. The difference that investors will find on Opportunity Sri Lanka is that every investment opportunity will include analysis on investment climate of that particular industry, the latest development of the sector, how government policy will affect such industry as well as the take of our team of experts on the risk versus reward aspects on each opportunity listed.



Our Global Network

Our range of services has the full backing of our local and foreign experts as well as many worldwide partners who work hand in hand with us to tailor and provide a service that is unmatched in quality. We welcome investors who are looking for business opportunities in Sri Lanka, expat Sri Lankans seeking an opportunity to invest in Sri Lanka and entrepreneurs who are looking to fund their ventures. We encourage anyone interested to use this as a portal of information and to reach out to us for any assistance.

Contact us

Follow us on,

www.opportunitysrilanka.com



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