

# MILESTONE YEAR FOR ENERGY



The energy sector of Sri Lanka has been infused with the dynamic energy of Udaya Gammanpila, Minister of Energy. The Minister has planned many initiatives to propel the energy sector to a more productive mode where the country will see new refineries, the introduction of biofuel and the

recommencement of oil and gas exploration. Further, the Minister has also taken steps to build investor confidence and encourage the private sector to engage in the energy sector. He believes that Sri Lanka can become the energy hub of Asia and all measures have been taken to achieve this aim. Minister Udaya Gammanpila is a prominent member of the Government having been instrumental in the 'Bring Back Mahinda' campaign as well as providing immense support to the election of President Gotabaya Rajapaksa and Prime Minister Mahinda Rajapaksa. He always focuses on what is best for the country.

By Udeshi Amarasinghe. Photography Menaka Aravinda.

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### **As the Minister of Energy, what are the sectors that come under your purview?**

All energy functions come under my purview except for the production of electricity, which is the responsibility of Minister Dullas Alahapperuma. Hydrocarbons or petroleum, is the important subject for me. In petroleum there are two streams; upstream and downstream.

Downstream means importation of crude oil, refining it further and producing petrol, diesel, kerosene, naphtha, jet fuel, bunker fuel and much more. The importation of LNG, and LPG falls within the downstream of petroleum. Upstream means exploration and exploitation of oil and gas. Traditionally the Ministry was only responsible for downstream, and upstream was held by the Head of the overnment. But, now I am responsible as the Minister for both functions.

### **What are your plans for the Ministry and this sector?**

After my appointment I changed the vision of the Ministry as, 'to be the energy hub of Asia'. In fact if you look at the world map, Sri Lanka is at the center of Asia. Therefore, Sri Lanka should have been a naval hub, aero hub, commercial hub and energy hub of Asia. Unfortunately, since we did not exploit the advantage of our geographical location, alternative hubs emerged from either side, namely Singapore and the United Arab Emirates. We have lost the opportunity, but I am ready to make an attempt to regain our position as the energy hub of Asia.

We have several aspects to fulfill to achieve the aim of becoming an energy hub.

Firstly, we have planned to be self-sufficient in petroleum products. Currently, we refine only 20 percent of our requirement. The balance we directly import as petrol, diesel, bunker fuel, bitumen and likewise. Therefore, we have commenced a feasibility study to establish a new refinery at Sapugaskanda adjoining the existing one with the capacity of processing 100,000 barrels per day.

In addition to that our present refineries are 52 years old. Therefore, it refines only 38,000 barrels per day, and at Euro 2 standard. But the world accepted standard is Euro 6. I want to upgrade the existing refinery, firstly from 38,000 barrels to 45,000 barrels; and secondly from Euro 2 to Euro 6. In that manner, Sri Lanka will be self-sufficient in petroleum products.



I will establish another refinery in Hambantota as a Sri Lankan - Chinese joint venture. I have specifically chosen China for this joint venture because most of the ships that ply the international sea route passing the Hambantota Harbor, are Chinese. In order to attract those ships to our bunker fuel and other services we

should have a Chinese presence in our joint venture. Similarly, I will establish another refinery in Trincomalee as a Sri Lanka - Indian joint venture. Most of the Indian ships are traveling around Sri Lanka as the Palk Strait is very shallow. We can provide bunker fuel for those Indian ships from Trincomalee.

In addition to that we can export petroleum products to other countries after importing crude oil. Many countries have exceeded their permissible per capita carbon emission. Due to global warming high carbon emitting nations are under pressure to bring their carbon emission down as early as possible. Although the world average for carbon emission is approximately eight metric tons, Sri Lanka is only at one metric ton. Therefore, we can easily accommodate oil refineries without any resistance from environmental groups. We will establish two refineries to export petroleum products in addition to supplying bunker fuels to ships plying via Hambantota and Trincomalee.

### **What about the exploration of oil and gas in Sri Lanka?**

We have been hearing the fairy tale that Sri Lanka has oil and gas for more than 60 years. But no one was able to make it a reality. It is not a fairy tale; it is a true story. We do have oil and gas, unfortunately we have been failing to monetize our hydrocarbon resources for the last 60 years. After my appointment as Minister of Energy I checked why this was so. Once Albert Einstein said "if you repeat the same test in the same conditions expecting a different result you are insane." That is exactly what we have been doing in the past. We have repeatedly called for bids for oil exploration in Sri Lanka without finding out the reasons for the previous failures. Therefore, they continued to fail.

After my appointment I explored the reasons. Then I found that Sri Lanka does not have a gas policy. As you know investments in the oil industry are done in billions of dollars. Therefore, when they make such a massive investment, we should be concrete and vivid, and clarity should be crystal clear. Thus, in October 2020, we published a National Policy on the Gas Industry, after receiving the Cabinet nod.

Furthermore, we did not have technical experts who understood the investors in the oil industry. Most of the time we dealt with the oil industrialist with bureaucrats who knew nothing about oil. I have recruited two experts with dollar payments, and I am going to appoint a panel of experts to advice me on policy

matters on the exploration of oil. There are hundreds of Sri Lankan oil experts who work around the world and who are willing to help Sri Lanka to become one of the oil producing nations.

To attract such massive investments, we should have a concrete tax policy along with a strong legal framework to protect investments. We have drafted an Act, named the Petroleum Development Authority Act. It has been approved by the Cabinet and it is currently with the legal draftsman. We give the fiscal and legal framework to safeguard the investment. It is only after we have put everything in order that we will approach the market to seek investments. I am confident that we will be successful this time.

As part of the Petroleum Development Authority Act, I will relinquish my powers as the regulator. According to the Petroleum Act, the minister is the regulator but when one person is the regulator every decision is based on one person. Thus, the private sector will not be confident to make an investment. I will transfer my regulatory powers to the board of the Petroleum Development Authority, which would consist of bureaucrats, legal experts, finance experts and members of the oil industry.

### **With the President's vision of Saubagyaye Dekma, what is the policy direction for the energy sector?**

In Saubagyaye Dekma the President has made a pledge to the nation that he will increase the share of renewable energy to 70 percent in the energy mix of the production of electricity. To achieve that goal, we have already commenced several solar farms; one in Mannar, and another one in the islands above the Jaffna peninsula. Further, there will be 7,000 mini solar projects targeting 7,000 transformers. The system of transformers will take the production of electricity from the solar projects to the main grid. We will focus on hydro and wind for production of electricity to further increase the share of renewable energy. The President has pledged to achieve the 70 percent target of renewable energy in the energy mix by 2030. It is a challenging task but we are making a fruitful attempt to achieve this goal.

### **What are the opportunities for the private sector?**

As a former corporate director and a CEO, I strongly believe in the efficacy of the private sector. We have to infuse that energy into the energy sector. We want

our private sector to go out and bring big players from the energy sector in the world for the exploration of oil and gas off-shore. Then they can become the local agent. When large corporates in Sri Lanka become the local agent, then oil giants will have confidence to come to Sri Lanka.

Since we spend large sums of money on the importation of petroleum products there is huge pressure on the exchange rate. Importation of petroleum products makes up a large portion of our importation bill. We can bring it down, save foreign currency, and stabilize our exchange rate if we produce biofuel, which can be mixed with petroleum products to give a new energy product to consumers. Many Latin American countries use biofuel for this purpose. In Sri Lanka, kekuna, enderu, mee in addition to jak, can be used for the production of biofuel. We have many unused land where we can cultivate the land with these types of plants. Thereafter, we can produce biofuel, and mix with petroleum to bring down the prices to consumers and save much needed foreign currency. We invite the private sector to join hands with the Government and explore the possibility of the production of biofuel in Sri Lanka.



**There is always a balance between the environment and the use of hydrocarbon fuels. As the Minister of Energy what is your views?**

I have been an environmentalist since my childhood. I once headed the Central Environmental Authority, and I have been a Provincial Minister of Environment for six years. Therefore, being an environmentalist I have been tasked with heading the Ministry of Energy, which is the largest polluter in the country. In a way the President may have thought that when an environmentalist is heading the most polluting ministry, he will take the necessary steps to ensure minimum pollution. I believe it is a challenge and I have accepted the challenge. That is the reason I said that we have been refining petrol and diesel at Euro 2 standard, which is polluting the environment. But, with our new refinery, we can make the best available international standard fuel of Euro 6. Since I am heading the most polluting ministry I am taking all steps to further reduce environmental pollution.

### **What about the pricing mechanism of fuel?**

The pricing strategy of the previous Government was wrong and not applicable for a country like Sri Lanka. They introduced a price formula, which was adjusted on a monthly basis. We have seen in the Western world that the prices of the petroleum products are adjusted on a daily basis. But in those countries the cost of transport or the cost of petroleum products is a very insignificant share of their daily expenditure. But in Sri Lanka, if we take our transport cost, and production cost, petroleum is a significant cost in our daily expenditure. Hence, if we simply pass the burden of the increases in the prices in the world market, the people will not be able to absorb those shocks.

On the other hand, our exporters are in a very competitive market. Our labor cost is very high; our electricity cost is very high; in this backdrop if we have fluctuating oil prices then they are not in a position to do their cost estimates. In the month of March, they prepare a cost estimate and submit a quotation to an international buyer. Once they confirm the order, if the prices have drastically increased they cannot earn a profit by selling those products at the given price. Therefore, price stability is our policy, where we maintain the prices as much as possible.

We will introduce a price stability fund in the near future. That fund will be managed by officers of the Treasury as well as the Ministry of Energy, in addition to all the retailers currently in the market - Ceylon Petroleum Corporation and Lanka IOC. Then we will formulate a reference price based on the average price of the previous 12 months. If there is a decrease in prices up to five dollars, the



fund will take 70 percent and 30 percent benefit will be given to the customer. Then, the next five dollars there will be a 50:50 of the benefit between the fund and customer. Thereafter the next five dollars there will be a 70 percent benefit to the customer and 30 percent to the fund, and finally at the next five dollars, the entire benefit will go to the customer.

In the instance that the price increases we will cushion the customer by absorbing the price increase by utilizing the accumulated funds in the Petroleum Price Stabilization Fund. This is the mechanism that we have thought of. Our proposal for the price stabilizing mechanism is similar to that in Vietnam. We studied 37 different mechanisms available in the world to stabilize oil prices and then only we came up with the formula. We will submit our Cabinet paper within the next two weeks, and we will be able to introduce this fund in the near future.



**The efficiency of the CPC is always questioned. As the Minister, what are your views on how we can make the CPC more efficient?**



There is a misconception about the efficiency of the CPC. It is true that it has accumulated losses up to 290 billion rupees. It is also true that since 2008 it has been bankrupt. In other words, since 2008 its liabilities exceeded the assets, but it is not a result of inefficiency or corruption. It is as a result of absorbing price increases for the benefit of the Government as well as the consumers.

Presently we purchase one liter of furnace oil at 100 rupees and provide the same to the Ceylon Electricity Board (CEB), for electricity production at 70 rupees. We lose 30 rupees from every single liter of furnace oil we imported or produced. Why? To enable the CEB to supply power at an affordable price. Then, both the CEB and SriLankan Airlines are in huge debt to us. The CEB's debt is about 70 billion rupees, and SriLankan Airlines around 30 billion rupees. In addition to that Sri Lanka Railway and CTB are all in debt to us. But we have not stopped providing petroleum products to them because those services are essential. We are absorbing many losses to ensure essential services are not interrupted.

At this moment the crude oil price in the world market is USD 65. But, we have not revised prices since September 2019, where the price of crude oil was about USD 60. If the UNP had been in power, they would have made several upward revisions by now but we did not do that, despite the fact that we were incurring losses. We have decided to bear the burden without passing it to the public. Those are reasons for the CPC to incur losses. Recently, on my request the President appointed a Cabinet sub-committee chaired by the Prime Minister to look into how we can restructure the CPC to come out of the debt burden and accumulation of losses.

### **What is the situation with the Trincomalee oil tanks?**

The UNP Government leased 100 tanks at the Trincomalee oil tank farm to India for 35 years. When I was appointed as the minister, one of the tasks that was assigned to me by the President was to negotiate with India to develop those tanks as a joint venture. I commenced negotiations and India has agreed on principle to develop these tanks under the joint venture in which Sri Lanka will hold majority shares.

At a recent meeting I said in Sinhala that these tanks in Trincomalee will be ours in the near future. Because it will be managed by a Sri Lankan - Indian joint venture of which majority shares are going to be held by the CPC. Therefore, it

will be a state subsidiary company for all legal purposes. Unfortunately, a media institute which sends regular news alerts mistranslated my statement. It should have been “tanks will be ours in the near future”, but they translated it as “Sri Lanka will re-acquire oil tank farm in Trincomalee from India”. When you say re-acquire there is a sense of force as well. Therefore, Indian correspondents from Sri Lanka who are not familiar with the Sinhala language relied on this news alert and reported this news item to their newspapers. The following day English papers in India carried out this news item saying “Sri Lanka will re-acquire oil tank farm in Trincomalee from India.” Therefore, it was a shocking news for the Indian Government. The Indian High Commissioner had to clarify the position and he has correctly said, “the tanks will be jointly developed by Sri Lanka and India.” That is the correct position. It was a translational error, which caused a chaotic situation.

The Indians have joined two tanks to make one. Therefore, as a result there are now only 99 tanks in total. We are now in discussion to allocate 15 tanks for exclusive use of LIOC, they are using the same number of tanks presently as well. Similarly, another number of tanks will be assigned for the exclusive use of CPC. The number is still under discussion. The rest will be jointly developed for the storage of fuel for the international market, specially for the ships that are passing Trincomalee Harbor.

The Trincomalee Harbor is one of the best natural harbors in the world. Therefore, there are thousands of ships passing that port that are Indian. With this joint venture we will be able to attract those ships to Sri Lanka.

**You have also been appointed to various committees/sub-committees. How do you balance your responsibilities at the Ministry with your other commitments?**

I serve in several Cabinet sub-committees; some are permanent sub-committees and some are ad-hoc sub-committees. Therefore, I have to spend much of my time at these Cabinet sub-committees. I also serve on two important Parliamentary committees as well. One is the High Post Committee, which gives the nod to high post appointments made by the President, which is a committee chaired by the Speaker himself. The other is the Public Accounts Committee, which goes through the Auditor General’s reports on all ministries and departments. To be honest, I am pressed, but I am used to working under pressure. I’m used to doing multiple

tasks simultaneously. Therefore, so far I have been able to manage. I am a person who has been practicing meditation since my childhood. Some people ask me, how I am able to relax, always smile even at times of adversity, and maintain my calm demeanor in any situation. If I disclose my secret that is of course, meditation.

## **What is the situation considering that we are facing the COVID-19 pandemic?**

The COVID-19 pandemic is quite challenging for the Sri Lankan Government for several reasons. During the first wave of the pandemic Sri Lanka performed extremely well, and we ranked second in the world according to international analysts. We were second only to Taiwan because we were able to lockdown the entire country for little more than two months. Then we had only few hundred patients and a very small number of fatalities. In the second wave, the number of patients exceeded 80,000 and the number of deaths have exceeded a little more than 400. But we have not locked down the country.

We are in such a challenging situation because we cannot afford another lockdown because of the economic conditions. We inherited a collapsing economy. During the entire period of the previous Government, they were able to increase the per capita income by only USD 33 for the entire five years. This means about six dollars per year. During the nine years of President Mahinda Rajapaksa we were able to increase the per capita income by three-folds that is USD 1,200 to USD 3,800. At the time we left the Government, our debt to equity ratio or debt burden was 71 percent. The previous Government increased this value to 87 percent. Due to this fact our debt repayment commitment is very challenging. This year we had to pay USD 6.7 billion. We expect some of our investors to roll over their investments but the bulk is still to pay. Due to the challenges of the economy we cannot afford another lockdown. That is why the pandemic has posed a big challenge to the Government.

We know that Melbourne, Australia has locked down for the fourth time. The recent lockdown was caused by the discovery of 13 COVID-19 positive patients. We had days in Sri Lanka where we found 970 COVID-19 positive patients in a day. But still though we would have preferred to lockdown the country, we could not due to economic reasons. Our people are educated and disciplined by nature and therefore, we were able to control the pandemic to a great extent.

There were people who ridiculed our traditional medicinal systems. But, our traditional medicinal systems use many herbs, which boost our immunity. That is how we have dealt with viral infections in the past. As a Government that believes in our heritage, we promoted alternative medicine and consumption of herbs that are accepted as immunity boosters. That has helped us immensely to control the pandemic. If you look at numbers alone, the numbers are increasing but we should not forget that we are managing the pandemic without locking down the country. If you look at the active patient curve, it has passed the peak and now has a downward trend. We are hopeful that with the vaccination and other precautionary measures taken by the Government we will be able to control the pandemic in the near future.



**You stood by President Mahinda Rajapaksa in 2015, which resulted in**

**your party, JHU, splitting into two. And, you stood by President Gotabaya Rajapaksa and Prime Minister Mahinda Rajapaksa thereby enabling the formation of the Government. What are your thoughts?**

In the JHU, a group led by Champika Ranawaka was of the view that the Party should support Maithripala Sirisena for a better change for the nation. I argued that Maithripala Sirisena is a weak character, and even if he became the President the majority of the Parliament will be controlled by Prime Minister Ranil Wickremesinghe. In the Sri Lankan context, it is not the President but the one who commands the majority in Parliament that has the say. In most of the cases, it is the Executive President who had the majority in Parliament. Because of that people had a misconception that the President is powerful. That is not so. The classic example is what happened in 2001-2004, the Executive President lost the majority in Parliament to Prime Minister Ranil Wickremesinghe. During that time, it was not the President but the Prime Minister who reigned the country. I pointed this out to the members of my Party and said that they are bringing Ranil Wickremesinghe back to power. I said that his liberal thinking will cause an irreparable damage to our national heritage. Finally, I said that he is a puppet of the Western Imperialist nations. Therefore, our country will be at a risk. As such I opposed the move. But, Champika being very emotional stuck to his views and I decided to breakaway from the JHU. On December 11, 2014 at a media briefing I made this prediction that Maithripala Sirisena would be the President and Ranil Wickremesinghe as the Prime Minister would run the country, where separatism and extremism would be strengthened and the economy would collapse. Further, national assets would be given to foreigners and that the country would be controlled by international forces. Unfortunately for the country my prediction came true. I not only predicted that but I was also determined to fight that.

It is for this reason that we initiated the 'Bring Back Mahinda' campaign, now known as 'Wind of Mahinda'. The name was also given by me. The campaign was taken forward along with Wimal Weerawansa, Vasudeva Nanayakkara, and Dinesh Gunawardena. Now it belongs to history. At that time the previous Government was supported by all the political parties in Parliament; UNP, SLFP, JVP and TNA. In addition to that the entire international community blessed and supported the regime. But we were confident that we could challenge it. Some people advised us not to 'hit our head on the rock, the rock will not be shaken but you will damage your head'. Despite the warning we repeatedly hit our heads on

the rock. However, contrary to belief the rock began to shake and shattered completely. That is how we were able to defeat the previous Government. We believed in ourselves, in national forces, and we believed in our heritage and it worked. Those who believed in international forces, money and Western ideologies failed again in this country.

Therefore, the people have a very high expectation of this Government. The Government has a great challenge of maintaining public confidence. In the short term there will be ups and downs because of the pandemic. In the long term we are confident and we will deliver as promised.

### **Expectations for 2021?**

Year 2021 will be a milestone for the energy sector in Sri Lanka because we have planned to establish three oil refineries after 52 years. We will introduce biofuel this year and we will recommence oil exploration after correcting the mistakes we have committed in the past. Our oil pipelines are 75 years old because of that there are so many leakages, which increase the cost and causes environmental pollution. Those old pipelines will be replaced this year. Considering all aspects, 2021 will be a milestone year in the energy sector of Sri Lanka.