PUBLIC-PRIVATE PARTNERSHIP MODELS FOR CEYLON PETROLEUM CORPORATION:
AN ANALYSIS OF OPPORTUNITIES AND CHALLENGE

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JAAR CORPORATE SOLUTIONS
Friedrich Naumann Foundation for Freedom (FNF) Sri Lanka

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</table>
The Ceylon Petroleum Corporation (CPC) is a fully state-owned enterprise incorporated under the Ceylon Petroleum Corporation Act No. 28 of 1961. The CPC engages in importing, refining, and selling of petroleum products in Sri Lanka. In 2022, it controlled 86 percent of the market share in the retail petroleum sector and assured energy security of the country until the fuel crisis in 2022.

The CPC provides a substantial source of income and expenses for the Sri Lankan government being one of the largest State-Owned Enterprises (SOEs). However, the CPC has become a heavy burden for the government and the Sri Lankan economy due to its poor performance. The total debt of the CPC has been increasing at an alarming rate over the last few years. The CPC’s debt amount, which was Rs. 529 billion at the end of 2020, increased to Rs. 561.3 billion by the end of 2021. The amount has further increased to 700 billion by July 2022, which is the highest level of debt for a SOE in Sri Lanka. Meanwhile, the CPC accounted for 37.3% of public guaranteed debt stock of SOEs in Sri Lanka. In addition, the cumulative net loss of the CPC at the end of 2019 was Rs. 337 billion. This will further increase with the Rs. 82.2 billion net loss incurred in 2021 and likely to increase further in 2022 (CBSL, 2021).

In contrast, Lanka Indian Oil Company (LIOC), which is the only competitor in the fuel retail market in Sri Lanka, has continuously made profit since its incorporation in Sri Lanka, except in few years. LIOC recorded a 998 million profit before tax for the year ended by March 2021 together with positive retained earnings of Rs. 12.3 billion as of the end of March 2021.

This raises an important question as to why the CPC is not functioning effectively and not making profit while LIOC, its only competitor that charged similar fuel prices, making profits. The answer is directly related to multifaceted inefficiencies in the CPC. If the Sri Lankan government aims to increase efficiency in the energy sector in general and in the CPC in particular, it might be essential to find suitable public-private partnership (PPP)-models for CPC. However, an in-depth analysis is needed prior to identifying the appropriate model of PPP for CPC, whether it is a management contract, privatization, or something else. Therefore, this study aims to analyze potential PPP models for CPC with special reference to opportunities and challenges.

1.1 Key Deliverables:

a) Financials of CPC for the last 10 years: This includes balance sheet, profit, and loss account extracts
b) Products and services portfolio with an analysis of the market structure for each product
c) Employment, social benefits and KPI
d) Comparison of Lanka IOC using general figures

1.2 Methodology:

This descriptive study is mainly based on secondary data collected for the last ten years from various publications of the CPC, the Ministry of Finance, Sri Lanka, the Central Bank of Sri Lanka (CBSL), and other sources. We have reproduced some results and discussion in other secondary sources in order to highlight the gravity of the problem at CPC. In addition, key-informant surveys were conducted in certain occasions to get more insight about the issues.
The financial position of CPC has been the main concern for stakeholders. Although petroleum is a profitable industry worldwide the CPC in Sri Lanka has recorded losses continuously. Table 1 presents the extract of financial performances of CPC from 2011 to 2020. It should be noted that CPC has not released audited financial reports for the fiscal years 2020 and 2021 at the date of this report. According to the Circular No. PED/12 (2003) issued by the Department of Public Enterprises, the annual accounts should be rendered to the Auditor General within 60 days after the close of the financial year. This raises the concern over financial discipline of the CPC, one of the largest SOEs that negatively contributes to the fiscal position of the government. As CPC has not published annual reports or official figures for the years 2020 and 2021, other sources have been used for the year 2020.

Figure 1 illustrates the changes of revenue, profit, and equity of CPC for the last decade. Except 2016, CPC has not been able to achieve a significant profit over the last Ten Years. The negative effect of the fuel price reduction in 2016 has cost millions of rupees in the subsequent years. In addition, growing loans, and borrowings in the recent years have become a noticeable trend. Over the last decade, the negative equity has increased significantly.

Source: Annual Reports, CPC (2011-2019); Annual Report, Ministry of Finance (2020-2021)
Table 1: Extracts of the Financial Performance of the CPC, 2011-2020

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<tbody>
<tr>
<td>Revenue - (Gross)</td>
<td>356,442</td>
<td>512,910</td>
<td>490,381</td>
<td>525,182</td>
<td>376,734</td>
<td>446,502</td>
<td>423,061</td>
<td>592,253</td>
<td>592,253</td>
<td>646,592</td>
</tr>
<tr>
<td>Gross (Loss)/Profit</td>
<td>(71,628)</td>
<td>(60,782)</td>
<td>22,744</td>
<td>25,227</td>
<td>39,616</td>
<td>96,620</td>
<td>27,541</td>
<td>(3,015)</td>
<td>4,261</td>
<td>55,250</td>
</tr>
<tr>
<td>Operating (Loss)/Profit</td>
<td>(78,930)</td>
<td>7,552</td>
<td>12,296</td>
<td>27,418</td>
<td>81,413</td>
<td>7,535</td>
<td>(23,135)</td>
<td>(19,061)</td>
<td>33,115</td>
<td></td>
</tr>
<tr>
<td>Profit/(Loss) for the year</td>
<td>(94,508)</td>
<td>(97,181)</td>
<td>(7,947)</td>
<td>1,129</td>
<td>(21,735)</td>
<td>53,027</td>
<td>1,470</td>
<td>(105,051)</td>
<td>(11,857)</td>
<td>2,370</td>
</tr>
<tr>
<td>Total comprehensive Income</td>
<td>461</td>
<td>(128)</td>
<td>(37)</td>
<td>1,017</td>
<td>(21,896)</td>
<td>53,138</td>
<td>10,793</td>
<td>(104,770)</td>
<td>(11,751)</td>
<td></td>
</tr>
<tr>
<td>Net assets/Equity</td>
<td>(140,463)</td>
<td>(228,545)</td>
<td>(236,529)</td>
<td>(232,257)</td>
<td>(229,153)</td>
<td>(185,847)</td>
<td>(175,054)</td>
<td>(281,761)</td>
<td>(293,213)</td>
<td></td>
</tr>
<tr>
<td>Loans &amp; Borrowings</td>
<td>27,646</td>
<td>1,998</td>
<td>1,351</td>
<td>703</td>
<td>342</td>
<td>266</td>
<td>190</td>
<td>296,240</td>
<td>311,998</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Group</td>
<td>Group</td>
<td>Group</td>
<td>Group</td>
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<td>Group</td>
<td>Group</td>
<td>Group</td>
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<tr>
<td>Revenue - (Gross)</td>
<td>356,754</td>
<td>514,547</td>
<td>490,966</td>
<td>527,169</td>
<td>377,262</td>
<td>447,177</td>
<td>423,444</td>
<td>593,524</td>
<td>646,747</td>
<td></td>
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<tr>
<td>Gross (Loss)/Profit</td>
<td>-71,316</td>
<td>(65,973)</td>
<td>16,880</td>
<td>20,335</td>
<td>33,960</td>
<td>90,792</td>
<td>21,297</td>
<td>(9,086)</td>
<td>(3,701)</td>
<td></td>
</tr>
<tr>
<td>Operating (Loss)/Profit</td>
<td>(76,966)</td>
<td>9,124</td>
<td>14,456</td>
<td>29,355</td>
<td>83,525</td>
<td>10,718</td>
<td>(22,165)</td>
<td>(16,691)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit/(Loss) for the year</td>
<td>-92,671</td>
<td>(95,422)</td>
<td>(6,567)</td>
<td>3,042</td>
<td>(20,060)</td>
<td>54,439</td>
<td>4,000</td>
<td>(105,287)</td>
<td>(10,303)</td>
<td></td>
</tr>
<tr>
<td>Total comprehensive Income</td>
<td>219</td>
<td>(128)</td>
<td>(79)</td>
<td>2,265</td>
<td>(20,867)</td>
<td>54,760</td>
<td>13,240</td>
<td>(104,949)</td>
<td>(10,295)</td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>203,214</td>
<td>223,192</td>
<td>207,832</td>
<td>196,920</td>
<td>215,274</td>
<td>210,154</td>
<td>236,380</td>
<td>350,884</td>
<td>349,690</td>
<td></td>
</tr>
<tr>
<td>Net assets/Equity</td>
<td>-140,462</td>
<td>(217,383)</td>
<td>(223,843)</td>
<td>(217,509)</td>
<td>(212,862)</td>
<td>(167,998)</td>
<td>(154,892)</td>
<td>(261,996)</td>
<td>(272,067)</td>
<td></td>
</tr>
<tr>
<td>Loans &amp; Borrowings</td>
<td>30,009</td>
<td>4,521</td>
<td>3,725</td>
<td>2,590</td>
<td>1,741</td>
<td>1,177</td>
<td>190</td>
<td>296,240</td>
<td>311,998</td>
<td></td>
</tr>
</tbody>
</table>

Source: Annual Reports, CPC (various years); *Annual Report, Ministry of Finance (2020).
At present, the petroleum market in Sri Lanka is a combination of monopoly and oligopoly market structures. After the nationalization of the CPC in 1961, the country’s petroleum industry had largely been under the purview of the CPC until 2003 and since then the private sector participation to the industry has increased.

Table 2: Market Structure

<table>
<thead>
<tr>
<th>Period</th>
<th>Products</th>
<th>Market structure</th>
<th>Market players</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior to 1961</td>
<td>All products</td>
<td>Oligopoly</td>
<td>Caltex, Mobil, Shell</td>
</tr>
<tr>
<td>From 1961 to 1964</td>
<td>All products</td>
<td>Oligopoly</td>
<td>CPC, Caltex, Mobil, Shell</td>
</tr>
<tr>
<td>From 1964 to 1990</td>
<td>All products</td>
<td>Monopoly</td>
<td>CPC</td>
</tr>
<tr>
<td>From 1990 to 2003</td>
<td>Petrol, Diesel, Aviation Fuel and Karson oil</td>
<td>Monopoly</td>
<td>CPC</td>
</tr>
<tr>
<td>From 2003 to date</td>
<td>Bunkering and lubricants</td>
<td>Oligopoly</td>
<td>More than 7</td>
</tr>
<tr>
<td></td>
<td>Aviation Fuel</td>
<td>Duopoly</td>
<td>CPC, LIOC</td>
</tr>
<tr>
<td></td>
<td>Bunkering and lubricants</td>
<td>Oligopoly</td>
<td>More than 7</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Monopoly</td>
<td>CPC</td>
</tr>
</tbody>
</table>

Source: Samaratunge (2014); Annual Report, CPC (2019)

Figure 2: Usage of Petroleum (value) by Sector, 2019 and 2018

Source: Annual Report, CPC (2019)
Based on the usage, the petroleum industry can be categorized into seven main sectors. These sectors and their relative shares are presented in Figure 2 and Figure 3. Accordingly, the Transport sector dominates the usage with nearly 67% consumption in 2019 and the rest is shared by Power Generation (18%), Aviation (9%), Industrial (2%), Domestic (3%), and export & bunkering (1%).

The Agro-Chemical share remained less than one percent in the year 2019. The transport sector generates the highest contribution to the revenue in the year 2019 by contributing Rs. 430.4 Bn, a 4.29% improvement compared to the year 2018.

**Figure 3: Usage of Petroleum (relative share) by Sector, 2019 and 2018**

![Figure 3: Usage of Petroleum (relative share) by Sector, 2019 and 2018](image)

Source: Annual Report, CPC (2019)

**Figure 4: Sectoral contribution to the Profit/Loss of CPC, 2019 and 2020**

![Figure 4: Sectoral contribution to the Profit/Loss of CPC, 2019 and 2020](image)

Source: CBSL, (2020)
As presented in Figure 2 and Figure 3, the transport sector dominates the petroleum industry in Sri Lanka, and it accounts nearly 70% of the fuel consumption in Sri Lanka. The second largest consumer is the power generation sector followed by aviation fuel thereafter. Although sectors such as industrial, agro-chemical do not have a significant share of consumption, these other sectors constitute an important dimension in private participation to the petroleum industry in Sri Lanka.

On the other hand, the transport sector is the biggest contributor to the losses of CPC (Figure 4). The following sub-sections provide a detailed overview on each of these sectors.

### 3.1 Transport

The demand for petroleum products in Sri Lanka is driven by the transportation sector, which comprises auto fuels supplied through CPC extensive island-wide dealer network of 1302 filling stations and the direct consumers, as highlighted above.

Considering the sensitivity, high emphasis is given for this sector as small changes of the price impact to the public of the country directly increasing their cost of living and lifestyles.

Key products coming under the transport sector and their relative share in each year are presented in Table 3. Accordingly, revenue generated from Petrol 92 has recorded a 13% increase from 26% in 2014 to 39% in 2019. The increased consumption can be attributed to use of the private vehicles.

**Table 3: Consumption of fuel types and their relative share in the market, 2014-2019**

<table>
<thead>
<tr>
<th>Year</th>
<th>Petrol 95</th>
<th>Petrol 92</th>
<th>Auto Diesel</th>
<th>Super Diesel</th>
<th>Kerosene</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs. Mn</td>
<td>%</td>
<td>Rs. Mn</td>
<td>%</td>
<td>Rs. Mn</td>
<td>%</td>
</tr>
<tr>
<td>2019</td>
<td>173</td>
<td>4%</td>
<td>1,509</td>
<td>39%</td>
<td>2,096</td>
<td>54%</td>
</tr>
<tr>
<td>2018</td>
<td>203</td>
<td>5%</td>
<td>1,337</td>
<td>33%</td>
<td>2,120</td>
<td>53%</td>
</tr>
<tr>
<td>2017</td>
<td>179</td>
<td>5%</td>
<td>1,210</td>
<td>31%</td>
<td>2,269</td>
<td>58%</td>
</tr>
<tr>
<td>2016</td>
<td>145</td>
<td>4%</td>
<td>1,123</td>
<td>30%</td>
<td>2,217</td>
<td>59%</td>
</tr>
<tr>
<td>2015</td>
<td>107</td>
<td>3%</td>
<td>994</td>
<td>31%</td>
<td>1,867</td>
<td>59%</td>
</tr>
<tr>
<td>2014</td>
<td>72</td>
<td>2%</td>
<td>831</td>
<td>26%</td>
<td>2,077</td>
<td>66%</td>
</tr>
</tbody>
</table>

Source: Annual Reports, CPC (various years)

However, the demand for Super Diesel, Petrol 95 and Auto Diesel has been declined from 2014 to 2019. Despite the movements of demand and prices of the auto fuel, CPC has incurred losses from the transport as the selling prices were subsidized and were not sufficient to cover the costs. The demand for Auto Diesel, which stood at 66% in 2014, has declined to 54% in 2019. The sector generates the highest income for CPC as a result of the increased public preference to use private vehicles in Sri Lanka. The contribution of the sector was Rs. 430.4 Bn in 2019, which is a 4.29% increase compared to the previous year. However, the demand declined in the year 2020 due to Covid 19 related lockdowns in the country.
3.2 Aviation fuel (Jet A-1 and Avgas)

Due to a regulated monopoly, CPC is the only aviation fuel supplier in Sri Lanka.

Aviation fuels are supplied at the Katunayake, Mattala and Ratmalana airports to international airlines and other consumers such as Sri Lanka Air Force, training schools, and others.

To meet the current demand in the country, which is around 1.3 million liters according to CPC sources, the CPC produces Aviation Jet fuel according to the latest specification checklist under Aviation Fuel Quality Requirements for Jointly Operated Systems AFQRJOS at its Refinery in Sapugaskanda. If there is any deficit, it has to be imported from other countries.

Aviation fuel has been supplied to all local and international airlines and customers ensuring the energy security for the most important sector of the economy which is international transportation.

Prices for Jet A-1 and Avgas are generally set in line with international oil prices.

Due to the increasing importance of the international transportation to the economy, CPC has regularly reduced their margins to encourage international airlines to come into Sri Lanka facilitating the boost of the tourism industry. Despite the loss that may arise from the aviation fuel segment, CPC further reduced the aviation fuel prices in 2019 in parallel with the government policies to provide relief to international airlines and allied services to encourage international airlines to attract Sri Lanka to recover the tourism industry.

In 2019, the sector earned an income of Rs. 58.9 Bn., recording an 8.10% reduction over the prior year. The quantity demand for aviation fuel had decreased by 5.01% compared to 2018 due to the consequences of the Easter Sunday attack. The Government policies for the promotion of the tourism industry, various reliefs for the airlines and the reduction of the aviation fuel prices caused to recover the aviation sector at the later part of the year up to considerable extent. Price reductions coupled with the decreased demand led to incur loss of Rs. 1.2 Bn. in 2019.

During the past years, outstanding receivables have continuously grown. According to an article published by Economy Next on 24th May 2022, the Power and Energy Minister Kanchana Wijesekera has said that the “State-run Sri Lankan Airlines owes Ceylon Petroleum Corporation more than 300 million US dollars for aviation fuel supplied before 2019.”

At present, Sri Lanka is short of aviation fuel due to the inability of the CPC to find foreign exchange to pay suppliers. Therefore, the government has announced that to end the CPC monopoly in the sector.

According to media reports (Economy Next on 7th June 2022) Energy Minister Kanchana Wijesekera stated that Sri Lanka is in discussions with suppliers to allow them to bring aviation fuel, stock them in state-run Ceylon Petroleum Corporation’s facilities and pay them later from the revenue earned from sales. Sri Lankan Airlines and Airport and Aviation Services and some other companies had asked for permission to import and sell aviation fuel, but the legal monopoly is still with the CPC. Therefore, an attempt has been made to make supplies available based on the ‘existing legal framework’. “There are 7 proposals to supply aviation fuel,” Minister Wijesekera said. “We hope to enter into an agreement where the CPC or the government does not make any payment to the supplier.” The supplier will bring the
fuel and store it at our facilities and tanks. “The CPC will sell the fuel and pay them. At the moment there are six such proposals. “We will choose the best proposal and enter into an agreement for a year. “We have got cabinet approval for that activity.” State-run Sri Lankan Airlines is stocking up for long haul flights from India due to the CPC monopoly. Foreign airlines are ‘tankering’ or bringing extra fuel to Colombo for the return journey due to the CPC monopoly. This has increased flight costs significantly and therefore caused a negative impact on tourism in Sri Lanka.

Daily flights to Sri Lanka decreased from 90 to 42. Driven by the jet fuel shortage and fund repatriation issues because of the foreign exchange shortage, airlines have halved their air seat capacity to Sri Lanka by 53 percent over the past couple of months presenting another challenge for the country’s struggling tourism industry.

Until now, no private company has been able to import aviation fuel to Sri Lanka.

3.3 Power generation

This section covers fuel supplies to Ceylon Electricity Board (CEB) and Independent Power Producers (IPPs), which includes fuel oil, naphtha, and auto diesel.

CPC supplies fuel to CEB and IPPS for their thermal power to generate the electricity requirements of Sri Lanka.

Electricity generation through thermal power has been notably increased to fulfill the national electricity requirement due to the draught weather condition prevalent in the country during the past years.

According to the CPC-Annual Report of 2019, the fuel demand from power generation increased by 45.37% against the year 2018 increasing the revenue generated from this sector by 58.75% as this sector remained the second highest income generator of CPC accounting for Rs. 118.6 Bn. denoting the above compared to Rs. 74.7 Bn. recorded in year 2018.

It is commendable to note that despite the weak settlements of the trade receivables by the CEB and the IPPs, CPC supplied until beginning 2022 the total demand from the power sector without any interruptions as the Corporation is highly concerned towards the national electricity requirements for the economic growth of the country.

CPC supplied Auto Diesel, Furnace Oil low sulfur and Naphtha for the power generation purposes.

The composition of the fuel demand for power generation was 54% of Fuel Oil, 32% of Auto Diesel and 14% of Naphtha for the year 2019.

The fuel demand of the power sector is evaluated weekly through the Stock Review Committee and makes sure the strategies are in place to cater the full demand as supply of the electricity requirement of the country.
A cordial relationship with CEB and the independent power producers are maintained to achieve overall goal of continued electricity supply.

According to CBSL (2021) out of CPC’s debts, bank borrowings increased by Rs. 123.5 billion in 2021 to Rs 505.3 billion, while trade receivables from public corporations increased to Rs.161.1 billion in 2021 from Rs. 142.7 billion in 2020, mainly due to the growing liabilities owed by the CEB and Sri Lankan Airlines. Trade receivables from the CEB and Sri Lankan Airlines accounted for around 90.1% of the total trade receivables of the CPC in 2021.

Nevertheless, according to Ministry of Finance report for the year 2020, CPC gained a profit of Rs. 9,008 million according to the official Profit/(Loss) statement compared to the profit of Rs. 8,336 million in 2019.

Since the first quarter of 2022 Sri Lanka has been in a fuel crisis due to insufficient of foreign exchange reserves. Due to insufficient oil imports, the population had to live with daily power cuts.

3.4 Industries

This sector comprises the revenue generated from Industrial Kerosene, Fuel Oil to industries, Lubricant, Bitumen and Solvent (SBP).

According to the Annual Report of Ministry of Finance (2020) the CPC increased profits from Rs. 2,154 million in 2019 to Rs. 2640 million in 2020 with regards fuel sales for industrial purposes.

The revenue from this sector stood at Rs. 13.4 Bn. in 2019, 19% lesser than the previous year while the demand quantity has dropped by 10.67% due to the consequences of the Easter Sunday attacks in the April 2019. Fuel Oil generated revenue of Rs. 9.8 Bn. during the year with recording a drop of 1.64% compared to prior year.

CPC enabled to increase of Bitumen sales by 19.17% together with price movements resulted to increase the revenue by 31.21%. The sale of bulk bitumen played vital role for the increase of the revenue position.

The profitability generated from the Bitumen sales increased from Rs. 110 Mn. to Rs. 129 Mn. during the year with acceleration of 17.27%. CPC started blending the bulk bitumen through the Refinery with the use of furnace oil in the mid of 2018 with the view to produce a quality bulk bitumen at a lower cost to supply for the infrastructure development projects at a reasonable price.
Lubricant sales revenue dropped by 3.33% compared to the year 2018 due to the supply chain issues faced during the year. Despite the sales drop, this segment affirmed to generate a profit of Rs. 123 Mn. The Corporation assures the availability of the lubricant products to the consumers via the network of its 1302 dealer network. Strategic emphasis has been given on the distribution and the brand building. A lubricant blending plant has been commissioned in Sri Lanka by the supplier in the month of August. The blending plant avoids the supply chain issues faced by CPC and it facilitates to reduce the cost of the lubricant products. In a 20-year BOT agreement, which was approved by the government in 2016, Malaysia’s Hyrax Oil opened in 2019 its second lubricant blending plant in the world in a strategic collaboration with the CPC, in Muthurajawela, Wattala.

Table 4: Lubricants Sales in Sri Lanka (3rd quarter 2021)

<table>
<thead>
<tr>
<th>Company</th>
<th>Quantity in kl</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chevron Ceylon Limited</td>
<td>8,459.80</td>
<td>47.32 %</td>
</tr>
<tr>
<td>Indian Oil Corporation Limited</td>
<td>3,594.15</td>
<td>20.10 %</td>
</tr>
<tr>
<td>ExxonMobil Asia Pacific Pte. Ltd.</td>
<td>1,055.42</td>
<td>5.90 %</td>
</tr>
<tr>
<td>Laugfs Holdings Limited</td>
<td>1,010.96</td>
<td>5.65 %</td>
</tr>
<tr>
<td>Ceylon Petroleum Corporation</td>
<td>845.19</td>
<td>4.73 %</td>
</tr>
<tr>
<td>Valvoline LLC</td>
<td>619.35</td>
<td>3.46 %</td>
</tr>
<tr>
<td>Toyota Tsusho Corporation</td>
<td>572.27</td>
<td>3.20 %</td>
</tr>
<tr>
<td>Shell Markets (Middle East) Limited</td>
<td>374.53</td>
<td>2.09 %</td>
</tr>
<tr>
<td>Lubricant Company Sinopec Corporation</td>
<td>373.10</td>
<td>2.09 %</td>
</tr>
<tr>
<td>BP Middle East LLC</td>
<td>354.60</td>
<td>1.98 %</td>
</tr>
<tr>
<td>Gulf Oil Middle East Limited</td>
<td>297.48</td>
<td>1.66 %</td>
</tr>
<tr>
<td>Bharat Petroleum Corporation Limited</td>
<td>268.42</td>
<td>1.50 %</td>
</tr>
<tr>
<td>Motul</td>
<td>42.90</td>
<td>0.24 %</td>
</tr>
<tr>
<td>Prista Oil Holding EAD</td>
<td>7.17</td>
<td>0.04 %</td>
</tr>
<tr>
<td>Petronas Lubricants (India) Private Limited</td>
<td>3.69</td>
<td>0.02 %</td>
</tr>
<tr>
<td>Total</td>
<td>17,879.03</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

Source: PUCSL- publication

The CPC expects to shift the cost benefits to the customer resulting to regain the lost market share. According to a report on the lubricants market in Sri Lanka CPC had only 4.73% market share in the total lubricants market in Sri Lanka in the third quarter of 2021. In spite of many administrative hurdles and challenges foreign lubricants producers have managed to penetrate the market successfully.

Major reasons were CPC’s insufficient blending facilities and not recognized quality standards.

According to Daily News (June 25th 2019) "the plant spans 40,000 sq ft and has a capacity of 72,000 MT per annum to blend automotive, industrial, and marine and specialty lubricants, including greases and transformer oil for power and distribution transformers. The plant’s filling and packing capabilities extend to Small Packs, Pails, Drums, IBC Tanks and Flexibag".
3.5 Domestic

The domestic sector comprises Kerosene and Liquid Petroleum Gases (LPG).

This sector continued to make losses on account of kerosene being sold at a highly subsidised price, the sector incurred a loss of Rs. 7.7 billion where Kerosene contributed Rs. 7.4 billion to the total loss of CPC.

**Kerosene is supplied at highly subsidized price even below cost of sales to the low-income families and the fisheries community to provide relief to their cost of living rather attending to earn profits. However, this kerosene subsidy is misused by some of the heavy transporters due to the price gap between Diesel and Kerosene.**

The stringent actions taken to control the adulteration of kerosene by some of the heavy transporters contributed to maintain the sales stagnated.

LPG sales revenue increased in 2019 by 11.83% against to year 2018, from Rs. 2,337 Mn. to Rs. 2,613 Mn. Profits from LPG increased from Rs. 116 Mn. to Rs. 207 Mn. due to reduced refined cost and positive impact of the exchanges rates.

3.6 Agrochemicals

The CPC established an Agrochemicals production in 1969 and this covers various types of Pesticides, Fungicides and Weedicides. CPC has been in the Agrochemicals Market over 50 years as a strategic Business Unit.

Ceypetco Agrochemicals is the only government sector organization which has been engaged in Agrochemicals business among other Agrochemicals Marketing Companies.

CPC has been certified by ISO 9001:2015 (Quality Management System), ISO 14001:2015, (Environment Management System) and qualified for ISO 18001:2007 (Employee Health & Safety (OSHAS)).

Ceypetco Agrochemicals has been devoted to providing effective solutions to farmland from preparation beds until harvest crops by totally controlling or eradicating pets, Fungus, and weeds in the cultivation. Following range of agrochemicals is distributed by CPC:

- Ceypetco Insecticides
- Ceypetco Fungicides.
- Ceypetco Weedicide.

By following the newly introduced Green Agriculture concept by the government, Ceypetco Agro was planning to introduce world No. 01 New Bio-Pesticides- Flipper in 2022.
CPC-sales revenue of agrochemicals in 2019 increased from Rs. 151 Mn. to Rs. 456 Mn. by 202% compared to the year 2018 with reporting a notable increase from the loss of Rs. 19 mn. incurred in the year 2018 to profit of Rs. 106 mn. during the year which is converted to a profitable sector after many years.

Despite the low revenue generated through the sector, the Corporation stays in the market with the purpose of acting as price controlling party to protect farmers by providing high quality agrochemical products at a reasonable price. The sale of Glyphosate significantly contributed for the above achievements.

CPC obtained the approvals to import the Glyphosate to the country complying to the various regulations and supply to customers in the tea and rubber plantations subject to strict adherence to guidelines issued by the regulatory authorities.

During the year 2019 review, ISO performance reviews were conducted for ISO 18001 as well as for OHSHAS 2007. Improvements were made to the distribution network with 117 Ceypetco agrochemicals dealers appointed in high potential areas and 56 tea and plantation customers were appointed to expand the business opportunities.

According to the CPC- Profit/(Loss) statement, CPC was able to increase profits from Rs. 106 million in 2019 to Rs. 171 million in 2020. Data for 2021 are not available for the agrochemicals sector.
3.7 Exports (Fuel Oil and Naphtha)

Furnace oil, jet fuel, kerosene and naphtha are vital byproducts of the Sapugaskanda oil refinery in the local and global market. Export of Naphtha and Furnace oil generated an income of Rs. 4.3 billion in 2019 while it incurred a loss of Rs. 1.8 billion. The drop of demand from the power sector during the heavy rainfall season exerted pressure in storing products. These storage issues pressured to export these products even below cost generating more losses to CPC.

3.8 Refinery Operations of CPC

In 1970, 100% of petroleum requirement came from the refinery, which is located in Supugaskanda, Sri Lanka.

According to Samarathunge (2014) the contribution of the refinery to fulfill the local demand has significantly declined over the years except for kerosene. As a result, the increased demand has basically been met from the imported products. Table 5 shows how the share of refinery output has changed from 100% in 1970 to 30% in 2020.

Accordingly, CPC has spent an increasing amount of its import bill on the importation of refined petroleum products than crude oil.

### Table 5: Share of Refinery Output of Petroleum Products in Sri Lanka, 1970-2020

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</thead>
<tbody>
<tr>
<td>Refinery Output (%)</td>
<td>100</td>
<td>94</td>
<td>91.5</td>
<td>55</td>
<td>35</td>
<td>30</td>
</tr>
<tr>
<td>Imported Refined Petroleum Products (%)</td>
<td>0</td>
<td>6</td>
<td>8.5</td>
<td>45</td>
<td>65</td>
<td>70</td>
</tr>
</tbody>
</table>

Sources: (a) Word Bank (1982); (b) Samarathunge (2014); (c) Annual Report, CPC (2019)

In the year 2019, the refinery production covered approximately 30% of the CPC supply. The gap is filled through the importation of refined petroleum products. CPC incurred USD 1,858.4 million to import refined petroleum products in the same year. The Refinery processed 1,864,817 MT of crude oil during the year recording an increase of 11.31% compared to the year 2018.

Although the refinery is strategically important in the petroleum distribution in Sri Lanka, the only refinery facility in Sapugaskanda, Sri Lanka was temporary shut down by the government on 21st November 2021. According to Udaya Gammanpila, the then Minister, “out of the total crude oil being refined in Sapugaskanda, only 43 per cent are converted to refined fuel (petrol and diesel), the rest is furnace oil and aviation fuel.” According to the CPC Annual Report (2019) the Refinery produced nine types of petroleum products through the refinery process.

The refinery output represents 35% of Auto Diesel, 27% of Fuel Oil and 10% of Petrol 92.
Due to the declining demand for furnace oil and aviation fuel in the recent years in the country, the government has decided to import petrol and diesel directly by abandoning the Refinery facility at Sapugaskanda. The decision to import refined fuel products instead of crude oil is connected to the current dollar crisis in the country.
This section presents employment, social benefits, and key performance indicators at CPC. Although CPC is incurring huge losses and endowed with a huge negative reserve, the package that has offered to the employees at CPC is one of the best among SOEs in Sri Lanka. According to CPC sources, an attractive rewarding system is in place to motivate employees to perform their duties and responsibilities and create loyalty among employees towards the Corporation. CPC offers reward packages consisting of both financial and non-financial benefits in par with the market rates. Although it is mentioned that the reward system is linked with the performance of the employees and an annual performance evaluation is made based on their performance, the details of the performance appraisal were not available for verification. The following benefits are highlighted in the annual reports of the CPC.

**Salary:** In general, employees at CPC are entitled for various benefits and highest salary scales among the SOEs in Sri Lanka. The CPC workers received a 50% salary hike in 2018 and another 25% hike in 2021. The overtime payments too increased in keeping with the salary increases. The overtime cost of CPC per day is amounting to Rs. 7 million according to some sources and about 3,000 of the workforce is entitled to overtime pay. The payment procedure is questioned as no official evaluation has been assigned to supervise the overtime payments.

**EPF and ETF contribution:** The CPC contributes 15% for the EPF and 3% to ETF.

**Loans:** There are several loan facilities granted at concessionary interest rates to fulfill many necessities of employees. Employees are entitled for housing loans, vehicle loans and other government approved loans such as festival advances. CPC has granted 58 housing loans, 65 house repairing loans, 844 home facility loans, 14 car loans and 143 bicycle/three-wheeler loans during the year 2019.

**Medicals:** CPC has provided its employees and their families a Medical Assistance Scheme which is managed by the Thrift Society of the Corporation. The Corporation employs two Medical Officers on fulltime basis to serve employees. Hospitalization costs and indoor treatments amount to Rs.30 Mn.in the year 2011 and. The monthly allowance of Rs.250/= has been paid to all employees for outdoor medical treatment in 2011.

**CPC offers reward packages consisting of both financial and non-financial benefits in par with the market rates.**

**Other Welfare:** CPC also provide financial assistance to the CPC Employees’ Sports Club with a view to encourage sports activities. It maintains four Holiday Homes outstation, exclusively for the usage of employees and their families. A gratuity equivalent to ½ month's pay for every year of service is paid under the Gratuity Act and additional retirement and death benefits are paid out of the Thrift Society funds. A Death Gratuity is also paid for death of an employee. Employees’ children who are selected for government university education are awarded scholarships as a welfare activity by the Corporation.
Key Performance Indicators

To our knowledge there is no transparent performance-based evaluation system at the CPC. It has a traditional seniority-based incentive system. In addition to seniority-based incentives, there are some incentives that have attached to the seniority-based milestones of the employees as follows

- The practice of awarding employees who have satisfactorily completed their services is as follows

  20 years - Rs. 10,000/=  
  25 years - Gold Coin of 2.5 sovereign  
  30 years - Rs. 20,000/=  
  35 years - Rs. 25,000/=  
  40 years - Rs. 40,000/=
It is a big concern among stakeholders over the heavy losses earned by CPC continuously when its counterpart, Lanka Indian Oil Company (LIoC) has been continuously earning profits. As per statistics published on The Sunday Morning (May 15, 2022), LIoC had earned a net profit of Rs. 3.37 billion in the March 2022 quarter, – 248% up from Rs. 968 million in the same quarter a year earlier. In the year ended 31 March, the company reported Rs. 9.05 per share on total profits of Rs. 4.81 billion, from earnings of Rs. 876.8 million a year earlier. Revenue for the December quarter was Rs. 29.5 billion, up 42.7% from a year earlier, while the cost of sales was Rs. 24.5 billion, up 29.2%, leading to gross profits of Rs. 5 billion, up 192%. LIoC inventories increased by Rs. 17.6 billion by March 2022.

As per statistics published on The Sunday Morning (May 15, 2022), LIoC had earned a net profit of Rs. 3.37 billion in the March 2022 quarter

LIoC caters 12% of the country’s retail fuel demand via 210 retail outlets of the Company. Therefore, in order to make the two companies comparable, we adjusted profits earned by LIoC to the revenue earned by the CPC. Scale adjustment does not always bring similar impact to the profit due to economies and diseconomies of scales. However, this would help to understand the magnitude of profit and losses if CPC performs similar to LIoC. The comparative numbers are presented in Table 6.

Table 6: Profitability of CPC and LIoC, 2013-2020

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<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>Normalization by revenue (CPC Revenue/IOC Revenue)</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>LIoC Profit/Loss (BT)</td>
<td>2,991</td>
<td>5,761</td>
<td>2,251</td>
<td>2,675</td>
<td>3,601</td>
<td>(776)</td>
<td>331</td>
<td>599</td>
</tr>
<tr>
<td>LIOc profit(BT) adjusted for size</td>
<td>19,328</td>
<td>36,991</td>
<td>10,614</td>
<td>16,750</td>
<td>18,799</td>
<td>(5,031)</td>
<td>2,479</td>
<td>3,793</td>
</tr>
<tr>
<td>CPC Profit/Loss (BT)</td>
<td>(7,947)</td>
<td>1,129</td>
<td>(21,735)</td>
<td>53,027</td>
<td>1,470</td>
<td>(105,051)</td>
<td>(11,857)</td>
<td>2,370</td>
</tr>
<tr>
<td>Difference (LIoC-CPC)</td>
<td>27,475</td>
<td>35,862</td>
<td>32,349</td>
<td>(36,277)</td>
<td>17,329</td>
<td>100,019</td>
<td>14,336</td>
<td>1,423</td>
</tr>
</tbody>
</table>

Source: Annual Report, LIoC (2021); Annual Report, CPC (2019)

Figure 5 illustrates the profitability of CPC, LIoC and LIoC profit adjusted for CPC size. In terms of the consistency of performances, a significant difference between CPC and LIoC can be observed for the period under review. CPC has been more volatile in terms of its performance while LIoC have maintained a consistent and robust performance for the same period. Therefore, key drivers of losses at CPC should have been derived from some unique factors that does not common to the other parties in the industry.
reducing the reliance of the CPC on the two state-owned banks.

essential import bills for fuel purchases among the licensed banks in proportion to their
tion of the CPC, alongside the dearth of foreign exchange flows, led to hindrances in timely
Accordingly, by end 2021, trade receivables from the CEB and SriLankan Airlines accounted
billion in 2021 from Rs. 142.7 billion in 2020, mainly due to the growing liabilities owed by the
by Rs. 76.2 billion to Rs. 140.1 billion by end 2021.

Meanwhile, borrowings of the CPC from the banking sector increased by Rs. 123.5 billion to
(120.000)

Figure 05; Comparison of CPC and LIOC, 2012-2020

The depreciation of the rupee against the US dollar resulted in a notable exchange rate varia-
sharp increase in global crude oil prices. Sales of petroleum products to the major sectors of
41.7 billion in 2021 compared to the operational profit of Rs. 33.9 billion recorded in the previ-
As per unaudited provisional financial statements, the CPC incurred an operational loss of Rs.

These production gaps were compensated for through the importation of refined products by
Hence, overall crude oil throughput declined by 24.5 per cent, while the refinery output of key
November 2021 for three weeks due to unavailability of crude oil for refinery operations.
mid-February 2021 for the purpose of general maintenance, the refinery was closed again in
reservoirs resulted in the sales of diesel and furnace oil for power generation registering
10.4 per cent, 39.5 per cent and 18.6 per cent, respectively.
In return, the sales volume of the CPC to the transport, industrial and aviation sectors grew by
pursued throughout the April and August outbreaks of COVID-19 resulting in a rebound in
by contractions in sales to the power sector. Several economic activities were allowed to be
According to the Central Bank of Sri Lanka (CBSL)-report for 2021 the overall sales volumes
In June 2022 Sri Lankan Energy Minister Kanchana Wijesekara stated: The Ceylon Petroleum
2022, the CPC was incurring a loss of Rs. 1,613 million daily through the procurement and sale
Minister of Power and Energy Kanchana Wijesekera said that prior to the price hike on 18 April
"Sales of petroleum products to the major sectors of transport and power generation yielded
According to CBSL, the reasons for the losses in 2021 by CPC compared to the profits it made
losses have had a substantial nega-
partly stemming from issues in foreign currency liquidity, the extent of these supply disrup-
domestic and global markets. Whilst the supply disruptions seen in the recent months are
engage in forward-looking decision making with due consideration to developments in

The sensitivity of demand for petroleum products, especially from the transport sector, to
dicourage the use of private transportation, among others.

specific initiatives are undertaken by the Ministry of Energy in close collaboration with the
2022.
This can be observed in the sales volumes of the CPC to the transport sector standing at 3.6
The sensitivity of demand for petroleum products, especially from the transport sector, to
There is an urgent need for the CPC to undertake concerted efforts to ensure the continuity of
from the Export-Import Bank of India in early 2022, specifically for the purchase of refined
procurement plan to minimize the emergen-
strategy of entering contracts with govern-
4,511 million compared to Rs. 770 million in
the export sector loss increased up to Rs.
progressive upward trend compared to 2019.
 However, the domestic sector also reported

Source: Annual Report, CPC (2019); Annual Report, LIOC (2021)
Main contributors of losses—Analysis of losses

- Subsidies
- Currency losses, currency risks, lack of hedging
- Lack of foreign currency, restraint on USD loans, dependence on global market prices
- Lack of storage capacities
- Dilapidated pipeline network
- Limited inefficient refining capacities
- “Politically” motivated outstanding receivables (CEB, Sri Lankan Airlines etc.)
- Underperforming overpaid workforce
- Management/adequate risk mitigation

According to the Ministry of Finance, the CPC recorded a net profit of Rs. 2,371 million in 2020 after absorbing Rs. 21,841 million exchange rate variation and Rs. 20,911 million of finance cost. However, CPC’s previous losses have had a substantial negative impact on its balance sheet.

The outstanding dues from various enterprises amounted to Rs. 140,214 million mainly from Ceylon Electricity Board and Sri Lankan Airlines at the end of 2020 had badly effects on the liquidity of CPC. The Sri Lankan Government supported CPC operations by issuing a Treasury Guarantee amounting to USD 1,800 million as collateral to secure the credit facilities from the two state banks.

Since the CPC’s refinery could not be operated at its full capacity, CPC was compelled to import more refined petroleum products at a higher cost. As such, 3,027 Mn/Ltr finished product has imported during the year due to the refinery operated at a capacity of 79 percent in 2020.

As sector wise analysis of the petroleum sales Power generation and Industries sectors have gained profit of Rs. 9,008 million and Rs. 2,640 million respectively. Meanwhile, the transport sector loss has decreased to Rs. 3,533 million in 2020 in comparison to Rs. 25,970 million in 2019. Those circumstances have accommodated to turn around Rs. 11,857 million of loss in

According to the Ministry of Finance, the CPC recorded a net profit of Rs. 2,371 million in 2020 after absorbing Rs. 21,841 million exchange rate variation and Rs. 20,911 million of finance cost.

2019 to Rs. 2,371 million of profit in 2020. Other than that, the Aviation sector has incurred a loss of Rs. 109 million in 2020 with progressive upward trend compared to 2019. However, the domestic sector also reported Rs. 2,113 million losses in 2020 due to the subsidized price on Kerosene. In addition, the export sector loss increased up to Rs. 4,511 million compared to Rs. 770 million in 2019. In view of all facts, the main strategy to mitigate the volatility of the global prices impact, CPC has adopted a multi-pronged strategy of entering contracts with government to government (G to G) term contracts along with plans to increase efficiency in the refinery and the storage facilities.

Therefore, the government has taken steps to explore the possibility of purchasing of crude oil on G-to-G basis. In this context, it is also important that CPC should have a procurement plan to minimize the emergency purchasing.
According to the Central Bank of Sri Lanka (CBSL)-report for 2021 the overall sales volumes of petroleum products in the domestic market declined by 7.7 per cent during the year, driven by contractions in sales to the power sector. Several economic activities were allowed to be pursued throughout the April and August outbreaks of COVID-19 resulting in a rebound in economic activity during 2021.

In return, the sales volume of the CPC to the transport, industrial and aviation sectors grew by 10.4 per cent, 39.5 per cent and 18.6 per cent, respectively.

Meanwhile, the increased reliance on hydropower generation due to healthy water levels in reservoirs resulted in the sales of diesel and furnace oil for power generation registering notable contractions of 23.2 per cent and 35.9 per cent, respectively, thereby dampening the overall sales performance of the CPC. Refinery output recorded an overall decline of 24.7 per cent in 2021 due to multiple closures of the Sapugaskanda refinery. After a closure from mid-February 2021 for the purpose of general maintenance, the refinery was closed again in November 2021 for three weeks due to unavailability of crude oil for refinery operations. Hence, overall crude oil throughput declined by 24.5 per cent, while the refinery output of key products such as diesel, petrol, fuel oil and naphtha contracted by 31.1 per cent, 24.5 per cent, 22.9 per cent and 31.9 per cent, respectively, during the period under review.

These production gaps were compensated for through the importation of refined products by the CPC which had risen by 15.2 per cent during the year. Despite notable upward revisions to domestic petroleum prices, the financial performance of the CPC worsened further in 2021.

As per unaudited provisional financial statements, the CPC incurred an operational loss of Rs. 41.7 billion in 2021 compared to the operational profit of Rs. 33.9 billion recorded in the previous year, reflecting the impact of delayed and inadequate revision of prices in line with the sharp increase in global crude oil prices. Sales of petroleum products to the major sectors of transport and power generation yielded operational losses, while the aviation and industry sectors generated operational profits in 2021.

The depreciation of the rupee against the US dollar resulted in a notable exchange rate variation loss of Rs. 33.2 billion to the CPC during the year, weighing negatively on the overall loss (before taxes), which stood at Rs. 82.2 billion in 2021 in comparison to the profit of Rs. 2.4 billion recorded in the previous year.

Meanwhile, borrowings of the CPC from the banking sector increased by Rs. 123.5 billion to Rs. 505.3 billion in 2021, while deposits with domestic licensed commercial banks increased by Rs. 76.2 billion to Rs. 140.1 billion by end 2021.

The CPC's total outstanding trade receivables from public corporations increased to Rs. 161.1 billion in 2021 from Rs. 142.7 billion in 2020, mainly due to the growing liabilities owed by the Ceylon Electricity Board (CEB) and SriLankan Airlines.

Accordingly, by end 2021, trade receivables from the CEB and SriLankan Airlines accounted for around 90.1 per cent of total trade receivables of the CPC. The worsening financial position of the CPC, alongside the dearth of foreign exchange flows, led to hindrances in timely and cost-efficient fuel procurement.

In January 2022, the Central Bank intervened to facilitate the distribution of the financing of essential import bills for fuel purchases among the licensed banks in proportion to their foreign exchange flows with the intention of facilitating the timely procurement of fuel and reducing the reliance of the CPC on the two state-owned banks.
The Government also secured a short-term line of credit amounting to US dollars 500 million from the Export-Import Bank of India in early 2022, specifically for the purchase of refined petroleum products from India.

There is an urgent need for the CPC to undertake concerted efforts to ensure the continuity of supply of petroleum products in a financially viable manner.

The sensitivity of demand for petroleum products, especially from the transport sector, to price revisions is relatively low in Sri Lanka.

This can be observed in the sales volumes of the CPC to the transport sector standing at 3.6 billion liters in 2021, in comparison to the average sales volume of 3.4 billion liters during the period from 2015 till 2019. This is further evidenced by the continued strong demand for petroleum products amid the historically high price revisions undertaken in the early part of 2022.

With due consideration to this growing demand for petroleum products, it is essential that specific initiatives are undertaken by the Ministry of Energy in close collaboration with the CPC and other relevant stakeholders in the electricity and transport sector to identify other means of demand management for petroleum products, such as through the expansion of renewable electricity generation capacity and, the undertaking of qualitative improvements in public transportation combined with measures such as congestion charges or tolls to discourage the use of private transportation, among others.

The ongoing issues in the energy sector reiterate that there is a strong need for the CPC to engage in forward-looking decision making with due consideration to developments in domestic and global markets. Whilst the supply disruptions seen in the recent months are partly stemming from issues in foreign currency liquidity, the extent of these supply disruptions could have been reduced through timely and prudent decisions, undertaken by the CPC in a concerted manner with the CEB and other related public stakeholders.

Several infrastructure development projects aimed at improving the performance and productivity of the petroleum industry were carried out during the year, albeit at a slower pace.

According to CBSL, the reasons for the losses in 2021 by CPC compared to the profits it made in 2020, reflected the impact of delayed and inadequate revision of prices in line with the sharp increase in global crude oil prices.

“Sales of petroleum products to the major sectors of transport and power generation yielded operational losses, while the aviation and industry sectors generated operating profits in 2021,” CBSL said.

Minister of Power and Energy Kanchana Wijesekera said that prior to the price hike on 18 April 2022, the CPC was incurring a loss of Rs. 1,613 million daily through the procurement and sale of fuel, however, he said the CPC is still making losses despite price hikes, as the prices are not still in line with the market reality.

In June 2022 Sri Lankan Energy Minister Kanchana Wijesekara stated: The Ceylon Petroleum Corporation (CPC) was still making a daily loss of Rs. 327 million from the sale of fuel even after the increase of the prices.
Main loss-contributors were:

## 6.1 Exchange losses and finance costs:

### CPC losses mainly driven by exchange loss and Finance cost

<table>
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</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>357</td>
<td>521</td>
<td>494</td>
<td>533</td>
<td>386</td>
<td>435</td>
<td>458</td>
<td>606</td>
<td>661</td>
<td>531</td>
<td>4,982</td>
</tr>
<tr>
<td>Cost of Sales (inclusive of taxes)</td>
<td>427</td>
<td>574</td>
<td>46R</td>
<td>501</td>
<td>337</td>
<td>335</td>
<td>419</td>
<td>643</td>
<td>464</td>
<td>4,764</td>
<td></td>
</tr>
<tr>
<td>Gross Profit (a-b)</td>
<td>-70</td>
<td>-.53</td>
<td>26</td>
<td>32</td>
<td>49</td>
<td>100</td>
<td>39</td>
<td>10</td>
<td>111</td>
<td>67</td>
<td>218</td>
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<tr>
<td>Sales and distribution, Administration and Depreciation cost</td>
<td>16</td>
<td>12</td>
<td>15</td>
<td>16</td>
<td>17</td>
<td>19</td>
<td>20</td>
<td>21</td>
<td>24</td>
<td>23</td>
<td>189</td>
</tr>
<tr>
<td>Operational Profit (before finance/exchange cost) (c-d)</td>
<td>86</td>
<td>-71</td>
<td>11</td>
<td>16</td>
<td>32</td>
<td>81</td>
<td>19</td>
<td>-11</td>
<td>-6</td>
<td>44</td>
<td>29</td>
</tr>
<tr>
<td>Finance Cost</td>
<td>9</td>
<td>26</td>
<td>19</td>
<td>14</td>
<td>15</td>
<td>11</td>
<td>11</td>
<td>12</td>
<td>15</td>
<td>21</td>
<td>153</td>
</tr>
<tr>
<td>Exchange Rate loss</td>
<td>1</td>
<td>33</td>
<td>3</td>
<td>1</td>
<td>33</td>
<td>9</td>
<td>5</td>
<td>83</td>
<td>-8</td>
<td>22</td>
<td>182</td>
</tr>
<tr>
<td>Profit/Loss (after finance/exchange cost) (e-f-g)</td>
<td>-95</td>
<td>-130</td>
<td>-11</td>
<td>1</td>
<td>-16</td>
<td>61</td>
<td>3</td>
<td>-106</td>
<td>-13</td>
<td>1</td>
<td>-395</td>
</tr>
</tbody>
</table>


Note: Cost of Sales calculations includes the tax expenditure on excise duty and NBT.

Profit / loss was calculated after deducting given expenses. Therefore, numbers may differ in some cases compared to the figure provided in the Annual Report.

Profit / Loss given in the Annual Financial Reports of the CPC is also, in some cases, different to the figures given in the Ministry of Finance Annual Report.
During the year 2020 exchange losses and financial costs increased to Rs. 33 bn.

The CPC’s exchange rate losses arise out of a currency mismatch in its balance sheet. CPC has trade receivables predominantly denominated in LKR. Until 2018, 70 percent of the Rs. 86 billion in trade receivables were denominated in Sri Lankan rupees, and 30 percent were in foreign currency.

Trade receivables as of December 2018 primarily arose from (i) Sri Lankan Airlines—Rs. 25.6 billion, (ii) Ceylon Electricity Board—Rs. 47.6 billion, (iii) Independent Power Producers (IPPs)—Rs. 6.7 billion, and (iv) the armed forces—Rs. 0.82 billion. However, the CPC’s current liabilities are mainly denominated in foreign currency.

In 2019 CPC had foreign bills payable to the amount of Rs. 245 billion. It also had US dollar-denominated short term bank loans from the People’s Bank and the Bank of Ceylon amounting to Rs. 295 billion (backed by a treasury guarantee of US$ 1,800 million).

These loans were used to finance import bills payable to suppliers.

Due to the currency mismatch between current assets and current liabilities, every time the Sri Lankan rupee depreciates against the US dollar, there is a significant adverse impact on CPC’s financials, which are reflected in the income statement as a loss to the corporation.

At the end of 2018 when the rupee depreciates by 1 percent in a year, the profit to CPC reduced by Rs. 5,765 million considering the value of liabilities.

In 2022 the Sri Lankan currency depreciated about 80%. Losses and liabilities are continuously increasing.

According to a press-statement of PM Ranil Wickramasinghe on 22nd June 2022 the Ceylon Petroleum Corporation (CPC) has currently an outstanding debt of USD 700 million. Sri Lanka is currently in need of USD 550 million to meet its monthly fuel needs. In the face of foreign exchange crisis, we are experiencing difficulties in securing required funds for this purpose.

A mechanism to cover currency risks has not been established.

Therefore, currency losses will continue to increase in 2022.
SOEs are under the challenging obligation to balance between helping the Government to achieve its socioeconomic objectives while ensuring the enterprise's financial viability.

This challenge stems from the engagement of SOEs in the provisioning of essential products and services. Despite this element of 'essentiality' associated with the portfolio of goods and services provided by Sri Lanka's SOEs, establishing a cost reflective pricing mechanism is a key priority to ensure sustainable and uninterrupted provisioning of these goods.

In the recent past, Sri Lanka has struggled with the implementation of cost reflective pricing policies, especially in relation to the pricing of fuel products. Despite a brief episode of frequent price adjustments of fuel products in line with global developments, the financial losses incurred by CPC have been continuously increasing. It must be reiterated that, in the case of enterprises such as the CPC that rely on imported intermediate goods, their exposure to changes in global commodity prices as well as exchange rate fluctuations warrants regular price revisions. Therefore, long periods of unchanged prices or tariffs are unacceptable as evidently losses.

Accordingly, the implementation of transparent and depoliticized pricing rules is urgently needed.

While subsidized prices may provide some financial benefits to consumers in the short term, it should be recognized that the related expenditure burden of below cost provisioning is borne by the Government.

Subsidized prices cause price distortions and misallocation of resources that entail significant macroeconomic costs which could translate into insurmountable disruptions in the economy, as depicted by the power and energy crisis that emerged in early 2022.

A cost reflective pricing mechanism will also ensure that SOEs pass on benefits of lower costs to consumers in a transparent and timely manner without negative implications on bottom line profits. This could increase and promote transparency and accountability of SOEs with positive spillover effects across the economy.

For many years, fuel prices were not covering costs and in spite of higher income per capita lower fuel prices were offered in Sri Lanka than in other South Asian countries.

In 2022 the Sri Lankan currency depreciated about 80%.

Losses and liabilities are continuously increasing. According to a press-statement of PM Ranil Wickramasinghe on 22nd June 2022 the Ceylon Petroleum Corporation (CPC) has currently an outstanding debt of USD 700 million. Sri Lanka is currently in need of USD 550 million to meet its monthly fuel needs. In the face of foreign exchange crisis, we are experiencing difficulties in securing required funds for this purpose.

A mechanism to cover currency risks has not been established. Therefore, currency losses will continue to increase in 2022.
In July 2022 this had changed. Petrol (Octane 92) sold at Rs 470 per litre and Octane 95 at Rs. 550 per litre, Auto Diesel at Rs 460 per litre and Super Diesel at Rs 520 per litre. The development of fuel prices in Sri Lanka during last ten years is presented in Figure 6.

At present, various cost factors have considered in price setting at CPC.

(Please refer Annex 1 for cost calculation.)

Table 7: Comparison of fuel prices in South Asian countries

<table>
<thead>
<tr>
<th>Per Capita GDP USD 2019</th>
<th>Country</th>
<th>Petrol (LKR/Ltr)</th>
<th>Diesel (LKR/LTR)</th>
<th>Kerosene (LK/LTR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,852</td>
<td>Sri Lanka</td>
<td>157</td>
<td>111</td>
<td>77</td>
</tr>
<tr>
<td>2,098</td>
<td>India (Delhi)</td>
<td>260</td>
<td>236</td>
<td>87</td>
</tr>
<tr>
<td>1,349</td>
<td>Pakistan</td>
<td>135</td>
<td>141</td>
<td>102</td>
</tr>
<tr>
<td>1,816</td>
<td>Bangladesh</td>
<td>207</td>
<td>151</td>
<td>151</td>
</tr>
<tr>
<td>1,079</td>
<td>Nepal</td>
<td>205</td>
<td>176</td>
<td>176</td>
</tr>
</tbody>
</table>

Source: The Island end 2021.

In July 2022 this had changed. Petrol (Octane 92) sold at Rs 470 per litre and Octane 95 at Rs. 550 per litre, Auto Diesel at Rs 460 per litre and Super Diesel at Rs 520 per litre. The development of fuel prices in Sri Lanka during last ten years is presented in Figure 6.

At present, various cost factors have considered in price setting at CPC.

(Please refer Annex 1 for cost calculation.)

Figure 6: Changes in Fuel prices in Sri Lanka, 2010-2022

Source: CPC website
6.3 Lack of foreign currency, restraint on USD loans, dependence on global market prices

Then PM Ranil Wickramasinghe said on 22nd of June 2022 “No country or organization in the world is willing to provide fuel to Sri Lanka due to the country risk as the Ceylon Petroleum Corporation (CPC) has an outstanding debt of USD 700 million. Some suppliers are even reluctant to provide fuel for cash.” Sri Lanka is currently in need of USD 550 million to meet its monthly fuel needs. In the face of the foreign exchange crisis, we are experiencing difficulties in securing required funds for this purpose.”

The lack of foreign currency in Sri Lanka and the Default-ranking has forced Sri Lanka to go for very unfavorable bank loans in USD increasing currency losses and financial costs. Sri Lanka is a pure global price taker; the lack of storage capacities has increased the dependence on global market price developments.

Global crude oil prices rose sharply in 2021 and 2022, supported by the steady recovery in global economic growth as well as tight supply conditions. The continuous escalation of global crude oil prices warranted the Government to increase the domestic retail prices of key petroleum products in 2021 after a hiatus of over one and half years.

Accordingly, domestic prices of the CPC were revised upwards in June and December 2021, followed by a substantial upward revision in March 2022.

The Lanka IOC PLC (LIOC) also revised domestic retail prices of petroleum products in three rounds during 2021 followed by two rounds of revisions in February 2022 followed by another two rounds of revisions in March 2022. The revisions undertaken in March 2022 by both entities were historically high and were undertaken to reflect the sharp rise in global crude oil prices and the impact of the depreciation of the rupee in March 2022.

According to the CBSL -report of 2021 this reiterates the need to urgently institutionalize a cost reflective pricing mechanism that improves transparency regarding pricing among all stakeholders, especially consumers, which can contribute to the general acceptance of such revisions. Such a mechanism is also essential to ensure the financial viability of the CPC in the medium-term and thereby the safeguarding of macroeconomic and financial system stability, although such revisions could lead to transitory shocks to general price levels in the country. It must also be reiterated that the current crisis of lack of continuous supply of fuels to the domestic market could also be partly attributed to the absence of forward-looking and dynamic strategic planning with due consideration to the continuously evolving developments in the global and domestic markets.

Transparency in relation to both pricing and procurement processes is a dire need for the viability and sustainability of the CPC. Energy Minister Wijisekara said on 27th of June during a press conference that overseas fuel companies based in countries that produce fuel, would be invited to set up business in Sri Lanka, as the CPC alone could not import fuel. He said the CPC would become a more service-provider-based institution to facilitate fuel imports.
6.4 Lack of storage capacities

Insufficient crude refining and storing capacity, for various types of crude oil and the products refined there insufficient storage facilities. Whereas there are storage capacities for some of these products, for others tank capacity is insufficient. Although financial constraints have impacted the ability of the Corporation to expand and upgrade its refining and storing capacities, the downside of not doing this is that the CPC does not have the ability to purchase and hold large reserves when global prices are down.

6.5 Dilapidated pipeline network

According to the 2019 Annual report of CPC, Pipelines that are used to carry imported petroleum products from the Colombo Port to the terminals are in a significant state of disrepair. In many cases, illegal squatting has made it difficult to remove them and engage in critical maintenance work on the lines. Therefore, the problem has stagnated for years resulting in the CPC being forced to pump the oil at lower pressure to reduce enroot leakages. This slows down the process of discharge and results in both congestion at the berth as well as increases discharge times forcing the CPC to incur massive demurrages.

6.6 Limited inefficient refining capacities

As the refinery caters around 30% of the total Corporation’s sales, balance petroleum products are directly imported as refined products. The Corporation imported USD 1,858 million (DAP basis) worth of refined products to Sri Lanka through registered suppliers. The lack of underperforming refining capacities annually increases losses. Refined products have to be imported on USD-basis increasing USD-liabilities depending on global market prices etc.

The upgrading of the refinery is a very urgent need that has been also realized by the government. The detailed feasibility study for the establishment of a new refinery in Sapugaskanda as a Public-Private Partnership under a Built-Operate-Transfer model with a capacity of 100,000 barrels per day was completed by the CPC in 2021. Meanwhile, in order to improve the storage facilities available for petroleum products, two storage construction projects comprising total capacity of 93,000m3 in Kolonnawa were also under progress during the year.

Current situation:

The Sapugaskanda Refinery has has had intermittent closures of various duration due to crude oil shortages. However, it appears staff have been fully remunerated during this period further adding to costs. The closure of the Sapugaskanda Oil Refinery would cost the country an additional sum of $1.1 million a day to meet its fuel requirement according to the CPC Trade Union.
6.7 Lack of Transparency

CPC has been under continuous pressure to be competitive and commercially viable, while trying to fulfil non-commercial objectives, the latter of which may necessitate compromising financial performance. In order to keep track of whether CPC is effectively balancing their social obligations with its commercial obligations, it is crucial institutionalize performance monitoring process integrating principles of accountability, transparency and governance. In this regard, one of the key aspects that is urgently needed is the identification and development of Key Performance Indicators (KPIs) to measure and evaluate results of CPC. While such KPIs should assess financial results, it is also important to consider the impact on social, human, and environmental capitals as SOEs have a wider purpose than simply being profit generators for the Government.

Another aspect that needs to be addressed is the improvement of disclosure and transparency of CPC. Therefore, CPC must observe high standards and be subject to the same high-quality accounting, disclosure, compliance, and auditing standards as listed companies. A stringent mechanism is essential to ensure timely periodic reporting with disclosures of financial and nonfinancial information to assess the status of CPC and whether it is performing in a financially viable and economically sustainable manner.

Currently, annual reports and external audits are only available until 2019. Discrepancies between Audit reports of 2018 and 2019 indicate mismanagement conducting to loss contribution through lack of transparency.

6.8 Underperforming overpaid workforce

On 22nd of June 2022, Sri Lankan Energy Minister Wijesekera said the staff number was “staggering”, which is one reason why the CPC makes losses while Lanka IOC does not.

As highlighted in Section 4 of this report, the reward system at CPC is one of the best in the country. In addition, CPC spend millions of rupee to train and develop the human capital at the CPC.

According to the 2019 - Annual Report of CPC, CPC has been committed to the continuous training and development of the human capital at all the levels and ensure that the employees receive the required training to maximize their performance and productivity. Annual training and development plan of the Corporation focus to improve efficiency and effectiveness on the job. As per the annual plan, CPC provides plenty of in-house training programs including on the job training as well as external structured trainings programs to equip with technical and soft skills which are required for the knowledge sharing, performance, and career advancement. Leadership training also provided to the relevant level of employees for the career advancement that will used to guide the Corporation to a better position. The Corporation has spent Rs. 12.2 million to upgrade through the various training programs during the year 2019.

Despite the availability of lucrative financial and non-financial benefits, the Corporation is earning severe losses. The incentives and other payments are incurred addition a burden to the existing net loss of the corporation. As explained above, KPIs for leading staff members have never been introduced.
6.9 Inadequate management/risk mitigation

The Auditor General’s (AG) Report for 2017 and 2018 of CPC and subsidiary stated on differences in balances payable/receivable as reflected in the accounting records of CPC and other parties. Some of the examples are listed below:

- A difference of Rs. 670.93 million in the inter-company balance between CPC and the Subsidiary – Ceylon Petroleum Storage Terminal Ltd., as of December 31, 2017, increased to Rs. 2.47 billion by December 31, 2018.
- A balance difference of Rs. 436.78 million observed between CPC and the Department of Inland Revenue (IRD) regarding Income Tax, Economic Service Charge, and Value Added Tax payable/recoverable.
- There is a balance difference of Rs. 778.3 million between CPC and the CEB as of December 31, 2018.
- An amount of Rs. 2.7 billion is reflected in excess as payable to Sri Lanka Customs compared with Sri Lanka Customs’ records.
- No basis disclosed or audit evidence provided for the provision of Rs. 142.92 million made on inventory items to be written off.
- An amount of Rs. 4.59 billion payable to the People’s Bank on account of hedging transactions between 2007 and 2009 has been excluded from the financial statements of CPC. In addition, Commercial Bank of Ceylon Plc has filed a case at the Commercial High Court, Colombo, claiming US $ 8.65 million from CPC. The total estimated loss due to the hedging transactions between 2007 and 2009 is estimated to be Rs. 14 billion.
- An estimated loss of Rs. 1.5 billion because of non-implementation of collecting a monthly utility fee from CPC-owned dealer operated filling stations and Treasury owned dealer operated filling stations from January 01, 2014, onwards.
- CPC has borne Rs. 53.57 million and Rs. 259.9 million during 2017 and 2018 respectively as PAYE Tax of its employees without deducting it from their personal emoluments.
- A sum of Rs. 307.8 million incurred in purchasing seven motor vehicles in 2017 without the approval of the Ministry, General Treasury and the Department of Public Enterprise.

An agreement has been entered into with Hyrax Oil SDN BHD to build a Lubricant Blending Plant on a BOT basis in May 2016. No comparable proposal has been obtained, which is the acceptable procedure. The AG’s report also mentions that they could not ensure that a proper feasibility study had been conducted for the project.

Risk Management

According to the Annual Report of CPC in 2019, CPC’s risk management process is reinforced by three solid lines of defense. Business and operational units constitute in the first line of defense, while the second line defense consists of an internal control system together with designated authorities who are ensuring that risks are controlled and managed in line with the set risk appetite. The third line defense comprises internal audit, external audit and other compliances against the established policies, procedures, and regularity requirements.
First Line Defense

Business and operational level divisions are the risk owners, and they have to perform risk identification, management and reporting of risk to ensure that the risks exposed are identified and managed effectively with the first line defense.

Second Line Defense

CPC has a comprehensive system of internal controls with clearly defined policies and procedures designed according to the above-mentioned Acts. It enables the Corporation to detect, manage and prevent the risks associated with CPC through second line defense.

Third Line Defense

Internal and external audit functions play a vital role in the risk management process in third line defense. Internal and external audit examine the design and implementation effectiveness of the financial and operational systems. Audit Committee established by the Board of Directors reviews the significant audit findings and the management responses together with the performance against the established goals and objectives.

Examples for risk analysis and limited capacity of implementation:

ECONOMIC RISK

The country’s inflation rate exerts pressure on the operations of CPC as petroleum products are imported in US Dollar terms on the borrowings and sales income is received from Sri Lankan Rupee. Most of the main petroleum products are supplied at a highly subsidized price for the social and economic circumstances to provide relief for the society. The movement of the petroleum prices affects national economy materially as the petroleum products are paramount important for the economy. Adverse impact of the inflation rate, interest rate, exchange rate increases the cost of the products guiding to cost hike ultimately crashing the profits. Slight change in the economic factors crunch the profitability due to the sales volume around 6 billion Ltrs annually.

Mitigating factors - Effective cost management initiatives.
- Transparent pricing mechanisms.
- Competitive pricing on competitive products such as lubricant & bitumen.

Strategies - Introduce pricing mechanism that balance both profitability of the Corporation and socio-economic conditions.
- Reimbursement of subsidy element by the Government.

COMMODITY PRICE RISK

As Sri Lanka does not have minable petroleum products, crude oil and other refined petroleum products are imported to the country from international market and Sri Lanka is a small buyer to the international market. Since CPC is a price taker in the international petroleum market, the Corporation always exposed to the commodity price risk as crude oil and refined petroleum products import to refine/distribute within the country. Adverse movement in global oil prices impact negatively on cost of sales, profitability and cash flows of the Corporation.
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Mitigating factors - Continuous price monitoring and gain benefit of price movement. - Purchase of stocks in the most cost-effective way and store. Strategies - Enhance the storage capacity to maintain stocks when prices down in the global market. - Introduce transparent pricing mechanism that covers the cost. - Increase the number of suppliers to increase the competition.

**INTEREST RATE RISK**

As the Corporation’s equity has eroded due to the accumulated losses, CPC borrows funds for the working capital arrangements to ensure smooth flow of petroleum products to the country to assure energy security. CPC incurred finance cost amounting to Rs. 14,699 million during the year in review as CPC owed (loans) USD 1.9 billion as at 31.12.2019. Further, CPC imports petroleum products through letter of credits (LC) established via the government commercial banks and these LCs converted into the loans at the maturity of the LCs. Change in the interest rate impacts significantly on the financial performance of the Corporation as fluctuation of interest rates create additional financial burden on CPC crash the profitability.

Mitigating factors - Continuous negotiations with the banks to reduce the interest rate. - Investment of daily excess cash balances in the interest yielding sources. - Government interventions for the finance cost controlling mechanisms.

Strategies - Government should settle the subsidy element without a delay to settle the bank loans. - Conversion of US Dollar Loans to Rupee loans and settles using Rupee collection. - Search for lesser cost-long term financing facilities

Risk analysis -as shown in annual reports- has been intensively done by CPC. Being a State-Owned Enterprise, CPC depends generally on governmental decisions or other third parties with regards to risk mitigation. The implementation of strategies to minimize risks has been therefore challenging.
Many countries around the world are increasingly relying on the private sector to invest in infrastructure services in energy, communication, power, transport, water sectors and other development projects that were initially delivered by the public sector. The growing involvement of the private sector in development projects via PPP models can be attributed to the following reasons,

- **Resources**: To access additional resources to meet the growing needs of investment in infrastructure services. This helps the governments to manage development projects as off-budget expenses as these arrangements may not require any immediate cash spending by the government.
- **Efficiency**: To increase the efficiency in project delivery and operation. The private sector considers an optimal whole life cycle costing for the project, which allows the government to obtain better value for money from the project.
- **Technology**: To access to advanced technology.
- **Sustainability**: To ensure sustainable development in infrastructure facilities and services.

There are various forms of PPP models available, and the selection of a suitable method depends on the nature of the particular SOE and the project under consideration. Refer Annexure II for a brief overview of PPP models.

PPP is not an unfamiliar concept in the petroleum industry in Sri Lanka. The petroleum market, which was nationalized in 1961, has experienced several successful PPPs since early 1990s. However, before identifying potential PPP models for CPC, it is necessary to understand the scope of CPC in Sri Lanka’s petroleum distribution process.

**Figure 7: Key stages and players in the fuel distribution process in Sri Lanka**
The scope of the CPC is limited to Imports, Storage of crude oil, Processing and Sales of petroleum products whereas CPST Ltd, which is a joint venture between CPC and LIOC, handles the storage of fuel and distribution. This report will not cover the scope of CPST Ltd. The existing PPP that have been reported in various secondary sources are represented here.

**2003-China Bay tank farm**

The GOSL decided to liberalize the petroleum sector in 2003 and invited the Government of India to enter into the downstream retail marketing of petroleum by offering China Bay tank farm on long lease. The basis of liberalization was to limit the marketing companies to three for a initial period of five years and the formation of Common User Facility company called “Ceylon Petroleum Storage Terminals Limited” (CPSTL) to manage the storage and distribution infrastructure of CPC comprising Kolonnawa and Muthurajawella Installations, all bulk depots island wide.

In 2022, the agreement was revised and as per the new agreement, CPC will manage 24 of 99 tanks directly while the 14 tanks, which are presently being used by the LIOC, would be leased to it for another 50 years. The rest of the tanks (61) would be jointly developed by CPC and LIOC. A new company named Trinco Petroleum Terminal Ltd, which is a subsidiary of CPC retaining 51 percent majority shares, would be set up for this purpose.

**2016-Hyrax to operate a lubricant blending plant in Sri Lanka on a BOT basis**

Malaysia’s Hyrax Oil Sdn Bhd inaugurated the construction of its second lubricant blending plant in the world in a strategic collaboration with the CPC in 2016. This project was endorsed by the Cabinet in 2016, leading to the signing of Supply Agreements on May 6, 2016. This project has been implemented as a 20-year BOT agreement between the two parties. Although it is approved in 2016, the project has commenced in 2019 after having a significant delay. This delay is an indication of the inherent restrictions within the systems to welcome PPP based projects.

**2022-Refinery Expansion Project**

The CPC is in the process of constructing a new oil refinery adjoining its existing oil refinery in Sapugaskanda as a public-private partnership (PPP) project either on build–operate-transfer (BOT) or build–own–operate–transfer (BOOT) basis. A feasibility study on the proposed refinery, which is estimated to cost US$ 2.5-3 billion is currently underway by an internationally reputed agency and is on track for completion in October. The capacity of the proposed refinery is planned at 100,000 bpd. The project is expected be completed within a time frame of 2-3 years. According to the Energy Ministry, the project is estimated to save up to US$ 300 million per annum.

**Regasified Liquefied Natural Gas (R-LNG) Pipeline Project**

A Floating Storage Regasification Unit (FSRU) is to be located around 5 km off the Kerawala coastal belt and a Regasified Liquefied Natural Gas (RLNG) pipeline will be deployed from FSRU location to the existing and future Power Plants at Kelanitissa and Kerawalapitiy. This will be implemented as Build, Own, Operate & Transfer (BOOT) project.
Potential PPP Options

The CPC has taken positive direction to bring private sector in to the industry via few PPP agreements.

- **2022-Refinery Expansion Project**
  The refinery in Sapugaskanda is not operating at present. However, when it operates well, it catered only for 30% of the demand in the economy. Therefore, this expansion is a long-due requirement. Although CPC has proposed to use BOO or BOOT models for the expiation project, it is still at the early stage and progressing at a slow rate. Our first proposal is to implement this project as early as possible using the proposed BOO or BOOT models.

- **Regasified Liquefied Natural Gas (R-LNG) Pipeline Project:**
  The LNG pipeline project is also a timely important project to assure the gas supply in the country. The Bids for the project have been closed on 18.06.2021 and an underground Utility Mapping Survey along the proposed pipeline route is currently in progress. Government should facilitate the speedy functioning of the project under BOOT model.

In addition, we propose four more PPP options to further increase the efficiency of CPC with the participation of private sector.

- **Affermage/Lease:** Storage facilities of CPC at Sapugaskanda and other locations. It is easy to get the private participation for fuel import and distribution if existing fuel storage facilities of CPC can be leased to private investors. This may include but not limited to China Bay fuel tanks that are directly controlled by CPC (24) and jointly controlled by CPC and LIOC (66).

- **Build-Rehabilitate-Operate-Transfer (BROT):** As highlighted in the audit report (2018), repairing the existing pipeline from port to storage facilities has been ignored. An investor would be interested to rehabilitate the facility if provided on BROT bases. Refer Section 6.5 on issues that have created by disrepair pipeline.

- **Affermage/Lease:** We highlighted several issues that generate losses to the CPC in Section 6. Many, issues highlighted in subsections 6.7, 6.8, and 6.9 are all related to management issues. In order to avoid political influences and other mismanagement by politically appointed key personals, and unqualified managers, it is recommended to join with a management company to manage the CPC and its operations.

- **Distribution:** The CPC distributes petrol, diesel, and other domestic items via their fuel station network. At present, several fuel stations, which were owned earlier by the CPC, have been privatized. In order to enhance the distribution network, PPP models can be introduced. A model like BOO is more suitable for investments in this nature.
Policy recommendations for the Sri Lankan Government

a. Discuss openly with all stakeholders such as government, trade unions and potential investors sector-related PPP-models and privatization
The need for sector related PPP-models and at least partial privatization of the Ceylon Petroleum Corporation is compelling. Even if the government stays a majority stakeholder, the management of CPC must be provided by an independent professional team. Outside government interference should be avoided.

PPP and privatization should be openly discussed with all stakeholders such as government, trade unions, potential private partners, investors, banks, as well as civil society groups.

b. Evaluate and Reduce Subsidies
According to a World Bank study the current subsidizing of fuel prices benefits mostly the 30% wealthiest in Sri Lanka due to their high fuel consumption. A focused subsidy to the most vulnerable groups of the society would be more target oriented and minimize risks for CPC. In case the subsidizing will be maintained, the government should settle the subsidy element without a delay to enable CPC to settle bank loans.

c. Minimize Currency Risks
CPC should be somehow enabled to cover currency risks through hedging and other financial services.
In addition, the conversion of US Dollar Loans to Rupee loans and settles using Rupee collection is another option.
Provide CPC autonomy to purchase US Dollars at competitive rates from all licensed commercial banks.

d. Increase Liquidity
Regularize the credit management policy. Search for long term funding facilities.
Recover subsidy element receivable without delay from the Government

e. Introduce a transparent pricing mechanism that covers all costs
In 2018, the Yahapalana government did introduce a price formula. They were subjected to both criticism and ridicule. After the presidential election, this practice was hastily withdrawn. A document prepared as far back 2003 proposed that the fuel price formula should be based on: CIF price (FOB + freight + insurance + evaporation losses) to which the following costs be added (port + jetty charges + customs and excise duty + financial charges + storage and terminal charges + marketing and distribution charges) to arrive at the wholesale cost.
The retail price was to be arrived at by adding the following to the wholesale cost (profit margin of 5% + retailer and dealer margin of 2.5% of the wholesale price + VAT). Fuel prices should be continuously revised to reflect changes of global oil prices. During the peak of the fuel crisis in June 2022 the need to install fully cost-reflecting pricing mechanism became evident.

The current full cost analysis which has been introduced by Energy Minister Kanchana Wijesekera in end of June 2022 should be analyzed in detail (Annex1). Such a transparent price building mechanism could serve in the future to introduce economically sustainable market prices and minimize losses of CPC.

f. Breaking the monopoly of aviation fuel
Competing aviation fuel producers should be allowed to enter the Sri Lankan market in order to provide continuous supply of aviation fuel. The monopoly of CPC in the field of aviation fuel should be abolished, which will encourage foreign investors to set-up operation in Sri Lanka. Hence, prices of aviation fuel could be more competitive encouraging foreign airlines to increase flights to Sri Lanka.
g. Allow fair and free competition for fuel suppliers while enforcing a transparent Anti-trust legislation

The government should promote fair competition by increasing the number of fuel suppliers in order to guarantee continuous fuel supply with competitive prices. To avoid new monopolies GOSL should insure fair and free competition through transparent enforceable Anti-Trust-legislation.

Sri Lankan Energy Minister Kanchana Wijesekara stated to the media on 22nd June that giving the CPC the monopoly over the oil industry was a mistake and the government was taking steps to allow multinational oil companies to recommence operations in Sri Lanka. The petroleum sector was nationalized in the early 1960s and the CPC was given a monopoly. Addressing the media in Colombo, the Minister said that several other companies must get involved in fuel distribution in the country as it had become obvious that the CPC couldn’t do it alone.

“We need a few companies like Lanka IOC. Soon, I will present a Cabinet Paper on this matter. Not only the CPC and the LIOC, but also companies of other oil producing nations must be given the chance to supply and distribute oil. Companies like Shell and Caltex were in Sri Lanka earlier. We made a serious error when we gave the CPC a monopoly,” he said.

The Minister also insisted that many oil companies had shifted to Singapore after Sri Lanka nationalized the petroleum sector. The Minister said that Singapore had become a petrochemical hub thereafter.

" We want a company which can give us oil at least for one year on credit—a company that could use its own funds to import fuel. The purpose will be lost if they too start tapping into the dollars that local banks have. If the IOC wants to expand, we must allow that to happen.

We have taken a decision to allow oil producing companies to start operations in Sri Lanka,” he said.

Furthermore, Minister Wijesekara said on 27th of June during a press conference that overseas fuel companies based in countries that produce fuel, would be invited to set up business in Sri Lanka, as the CPC alone could not import fuel.

On 29th of May 2022, the Sri Lankan Government had already allowed private bunker fuel operators to import fuel for industries, Power, and Energy Minister Kanchana Wijesekera said on Friday, in a bid to reduce the burden on cash-strapped state-run fuel retailer Ceylon Petroleum Corporation (CPC).

“Approval was given to all the private bunker fuel operators to import and provide diesel and fuel oil requirements of industries to function their Generators and Machinery,” Wijesekera said in his Twitter platform.

“Approval was given to all the private bunker fuel operators to import and provide diesel and fuel oil requirements of industries to function their Generators and Machinery,” Wijesekera said in his Twitter platform.

h. Increase transparency and good governance

As pointed out, there is a lack of available economic data in the case of CPC. This prevents proper monitoring and analysis of various actions resorted to by the government and hinders future planning. Therefore, annual reports, external audits etc. of CPC should be published transparently. CPC should be under same obligations as publicly listed companies in Sri
Lanka. Price building, purchasing and subsidy mechanisms should be transparent. Whistle-blowing procedures should be enabled especially with regards to procurement procedures and corruption.

i. **Minimize production risk**
   - Upgrade the refinery to meet latest technological advancements.
   - Increase the storage capacity to store crude oil and the output.
   - Establish a new refinery with a latest state-of-the-art technology.

j. **Increase storage capacities**
   Enhance the storage capacity to maintain stocks when prices go down in the global market.

k. **Increase efficiency of human resources**
   - Introduction of a performance based rewarding system.
   - Promotion of career advancement opportunities.
   - Capacity building with regards to technological advancements and new innovations.

**Due to CPC´s essential function in the Sri Lankan economy, there is a need to ensure that people of skill, proven competence, and experience will be appointed to both the Board of Directors and the key management positions.**

In the year 2017, there were three different Chairmen, whilst in 2018, there were two separate Chairmen. An organization, as large as CPC, cannot function effectively without continuity. In many cases CPC-Chairmen haven’t had sector-related experience. Therefore it is recommended to plan leading positions in a target related way with a long-term vision.
### Annexure I: Cost calculation of CPC, 2022

**Estimated Cost of Imported Refined Petroleum Products**

Full Cost  
**Jun -22**

<table>
<thead>
<tr>
<th>Type of product</th>
<th>Petrol 92</th>
<th>Petrol 95</th>
<th>Lanka Auto Diesel</th>
<th>Lanka Super Diesel</th>
<th>Kerosene</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost per Bbl / USD</td>
<td>157.30</td>
<td>158.89</td>
<td>174.67</td>
<td>176.66</td>
<td>171.41</td>
</tr>
<tr>
<td>Losses due to evaporation of products-0.3% Per Barrel in USD</td>
<td>0.47</td>
<td>0.48</td>
<td>0.52</td>
<td>0.53</td>
<td>0.51</td>
</tr>
<tr>
<td>X1 Landed Cost Per Litre in Rs</td>
<td>363.51</td>
<td>367.18</td>
<td>403.65</td>
<td>408.25</td>
<td>396.10</td>
</tr>
<tr>
<td>X2 Taxation (Note 01)</td>
<td>59.26</td>
<td>80.54</td>
<td>36.27</td>
<td>58.62</td>
<td>-</td>
</tr>
<tr>
<td>X3 Processing Cost per Litre in Rs</td>
<td>20.91</td>
<td>24.04</td>
<td>18.29</td>
<td>20.23</td>
<td>17.10</td>
</tr>
<tr>
<td>X3.1 Jetty and Pipeline Charges (Local port Charges)</td>
<td>0.37</td>
<td>0.74</td>
<td>0.41</td>
<td>0.83</td>
<td>0.73</td>
</tr>
<tr>
<td>X3.2 Throughput Charges</td>
<td>2.97</td>
<td>2.97</td>
<td>2.63</td>
<td>2.63</td>
<td>2.52</td>
</tr>
<tr>
<td>X3.3 Transport Cost</td>
<td>1.38</td>
<td>1.38</td>
<td>1.38</td>
<td>1.38</td>
<td>-</td>
</tr>
<tr>
<td>X3.4 Evaporation Loss giver to Dealer</td>
<td>2.28</td>
<td>2.67</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>X3.5 Dealer Margin</td>
<td>13.91</td>
<td>16.28</td>
<td>13.87</td>
<td>15.39</td>
<td>12.47</td>
</tr>
<tr>
<td>X4 Other Operational &amp; Administration Cost</td>
<td>10.75</td>
<td>9.63</td>
<td>10.30</td>
<td>12.63</td>
<td>8.19</td>
</tr>
<tr>
<td>L/C Opening Charges</td>
<td>0.19</td>
<td>0.19</td>
<td>0.21</td>
<td>0.21</td>
<td>-</td>
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<tr>
<td>Bill Acceptance Charges</td>
<td>0.14</td>
<td>0.14</td>
<td>0.15</td>
<td>0.15</td>
<td>0.15</td>
</tr>
<tr>
<td>Supplier’s Interest</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Finance Cost</td>
<td>9.33</td>
<td>8.23</td>
<td>8.84</td>
<td>11.12</td>
<td>6.71</td>
</tr>
<tr>
<td>Fire, insurance and inspection, etc.</td>
<td>0.09</td>
<td>0.07</td>
<td>0.10</td>
<td>0.14</td>
<td>0.04</td>
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<tr>
<td>Administrative &amp; other Cost</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.08</td>
</tr>
<tr>
<td>Exchange variation</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Cost without dealr margin</td>
<td>438.24</td>
<td>462.44</td>
<td>454.65</td>
<td>484.34</td>
<td>408.92</td>
</tr>
<tr>
<td>X5 Profit Margin Per Litre in Rs</td>
<td>15.57</td>
<td>68.61</td>
<td>(8.52)</td>
<td>20.27</td>
<td>(334.39)</td>
</tr>
<tr>
<td>X6 Contribution to price stabilization fund Per Litre in Rs</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Maximum Retail Price Per Litre in Rs</td>
<td>454.43</td>
<td>481.39</td>
<td>468.52</td>
<td>499.73</td>
<td>421.39</td>
</tr>
<tr>
<td>Current Retail Price Per Litre in Rs</td>
<td>470.00</td>
<td>550.00</td>
<td>460.00</td>
<td>520.00</td>
<td>87.00</td>
</tr>
<tr>
<td>Profit/ (Loss) Per Litre in Rs</td>
<td>15.57</td>
<td>68.61</td>
<td>(8.52)</td>
<td>20.27</td>
<td>(334.39)</td>
</tr>
</tbody>
</table>

**Note 01**

<table>
<thead>
<tr>
<th>Taxes</th>
<th>LP 92</th>
<th>LP 95</th>
<th>LAD</th>
<th>LSD</th>
<th>KERO</th>
</tr>
</thead>
<tbody>
<tr>
<td>CID per Ltr</td>
<td>5.00</td>
<td>26.00</td>
<td>-</td>
<td>15.00</td>
<td>-</td>
</tr>
<tr>
<td>SUR per Ltr</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Excise Duty per Ltr</td>
<td>27.00</td>
<td>27.00</td>
<td>6.00</td>
<td>13.00</td>
<td>-</td>
</tr>
<tr>
<td>PAL 7.5% on CIF</td>
<td>27.26</td>
<td>27.54</td>
<td>30.27</td>
<td>30.62</td>
<td>-</td>
</tr>
<tr>
<td>Total Taxes</td>
<td>59.26</td>
<td>80.54</td>
<td>36.27</td>
<td>58.62</td>
<td>-</td>
</tr>
</tbody>
</table>

Exchange Rate Per US Dollar  
366.10  
No of Litres Per barrel  
158.90

DAP  
<table>
<thead>
<tr>
<th>LP 92</th>
<th>LP 95</th>
<th>LAD</th>
<th>LSD</th>
<th>KERO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average PLATTS</td>
<td>148.454</td>
<td>155.022</td>
<td>165.600</td>
<td>173.265</td>
</tr>
<tr>
<td>Total</td>
<td>157.302</td>
<td>158.892</td>
<td>174.673</td>
<td>176.665</td>
</tr>
</tbody>
</table>

**Note:**
- As Upper and Lower limits of the Dealer Margin have not been applied, Dealer Margin has been computed based on the selling prices.
- Average exchange rate for the last 30 days has been considered.
- Average platts for the last 30 days (25.05 - 24.06) has been considered.
- Average premium for the May (Kerosene in April - available latest) has been considered.
- Demurrage cost has not been considered.
## Annexure II: Public Private Partnership Models

<table>
<thead>
<tr>
<th>Broad category</th>
<th>Main variants</th>
<th>Ownership of capital assets</th>
<th>Responsibility of investment</th>
<th>Assumption of risk</th>
<th>Duration of contract (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply and management Contract</td>
<td>Outsourcing</td>
<td>Public</td>
<td>Public</td>
<td>Public</td>
<td>1-3</td>
</tr>
<tr>
<td></td>
<td>Maintenance management</td>
<td>Public</td>
<td>Public/Private</td>
<td>Private/Public</td>
<td>3-5</td>
</tr>
<tr>
<td></td>
<td>Operational management</td>
<td>Public</td>
<td>Public</td>
<td>Public</td>
<td>3-5</td>
</tr>
<tr>
<td>Turnkey</td>
<td></td>
<td>Public</td>
<td>Public</td>
<td>Private/Public</td>
<td>1-3</td>
</tr>
<tr>
<td>Affermage /Lease</td>
<td>Affermage</td>
<td>Public</td>
<td>Public</td>
<td>Private/Public</td>
<td>3-20</td>
</tr>
<tr>
<td></td>
<td>Lease*</td>
<td>Public</td>
<td>Public</td>
<td>Private/Public</td>
<td>3-20</td>
</tr>
<tr>
<td>Concessions</td>
<td>Franchise</td>
<td>Public/Private</td>
<td>Private/Public</td>
<td>Private/Public</td>
<td>3-7</td>
</tr>
<tr>
<td></td>
<td>BOT**</td>
<td>Public/Public</td>
<td>Private/Public</td>
<td>Private/Public</td>
<td>15-30</td>
</tr>
<tr>
<td>Private ownership of assets (PFI type)</td>
<td>BOO/DBFO</td>
<td>Private</td>
<td>Private</td>
<td>Private</td>
<td>Indefinite</td>
</tr>
<tr>
<td></td>
<td>PFI***</td>
<td>Private/Public</td>
<td>Private</td>
<td>Private/Public</td>
<td>10-30</td>
</tr>
<tr>
<td></td>
<td>Divestiture</td>
<td>Private</td>
<td>Private</td>
<td>Private</td>
<td>Indefinite</td>
</tr>
</tbody>
</table>

01 Build-Lease-Transfer (BLT) is a variant.
02 Budd-Operate-Transfer (BOT) has many other variants such as Build-Transfer-Operate (BTO), Build-Own-Operate-Transfer (BOOT) and Build-Rehabilitate-Operate-Transfer (BROT).
03 The Private Finance Initiative (PFI) model has many other names. In some cases asset ownership may be transferred to, or retained by the public sector.
Special notes