

The Impact of the Hambantota Oil Refinery on Sri Lankan Politics

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Summary

Prime Minister Ranil Wickremesinghe laid the foundation stone to build an oil refinery in the Mirijjawila Export Processing Zone (EPZ). The project is a joint venture between Singapore-registered Silver Park International and the Oman Oil Company. Soon after the project was announced by the Board of Investment (BOI) in Sri Lanka, it has been mired in controversies. The paper examines these controversies and their impact.

Introduction – The Proposed Oil Refinery

On 24 March 2019, PM Wickremesinghe laid the foundation stone to build an oil refinery in the Mirijjawila Export Processing zone in Hambantota. The oil refinery, which will span an area of 200 acres of land, will be completed in 44 months with the capacity to refine 200,000 barrels of crude oil per day. It is ten times the capacity of the island's only oil refinery situated in Sapugaskanda in Sri Lanka's Western Province and is estimated to generate US\$7 billion (S\$ 9.4 billion) of exports by exporting 9 million metric tonnes of petroleum products per annum. The project expects to create 1,500 direct jobs and 3,000 indirect jobs.

The new oil refinery is estimated to cost US\$3.85 billion (S\$4.7 billion) and is the single largest investment in Sri Lanka's history. The project is a joint venture between Singapore-registered Silver Park International, which will supposedly own 70 per cent of the share capital, and the Oman Oil Company, a commercial company wholly-owned by the Sultanate of Oman.

Controversy

The project has been mired in controversies soon after its announcement by the Board of Investment (BOI) in Sri Lanka on 19 March 2019.

A day later, *Reuters reported* that Oman, has [denied](#) its involvement in the project, contradicting multiple Sri Lankan documents – including the Cabinet and BOI papers – that concluded Oman holding a 30 per cent stake. In response, on 21 March 2019, the BOI issued [a statement](#) confirming that Oman has only expressed its firm intention in participating in an equity of up to 30 percent “subject[ed] to reaching an agreement between the parties”.

An article published in [The Hindu](#) on 22 March 2019 fuelled the flames revealing controversies surrounding the main investor, Silver Park International. The company, reportedly registered with Singapore's Accounting and Corporate Regulatory Authority

(ACRA), is an 'investment vehicle' controlled by the family of the Tamil Nadu politician and former Indian Union Minister Dr S Jagathrashaka.

Dr Jagathrakshakan and his businesses have allegedly been involved in multiple corruption scandals previously reported by the Indian authorities and media. In 2013, the [Economic Times](#) questioned his multi-fold increase in economic wealth between 2009 and 2011 claiming it as the highest percentage in the rise of property ownership among all the ministers in the Indian central cabinet. His family and he were also implicated in a [capitation fee sting scandal](#) in 2009 and a [coal mining scam allegation](#) in 2012. As per his affidavit in 2014 on the total income of his wife and him, the media questioned his ability to fund 70 per cent of capital for an oil refinery project.

Suspicion of Corruption

Given the controversies which began even prior to the commencement of the project, and the shady past of its main investor, speculations of possible corruption attempts circulated rapidly. An investigative news article by the Sunday Times of Sri Lanka's speculations for the proposed deal to be still under negotiation was reiterated when Development Strategies and International Trade Minister Malik Samarawickrema revealed his intent to go to Oman to discuss the project. The fact the project has begun even before discussions between the main stakeholders have been completed is concerning.

confusing timeline of Cabinet papers with regard to the project and the establishment of the Silver Park International, the mismatch of objectives between the company and the investors as per cabinet papers further raise the concerns. While the available information in the public domain states that the company was incorporated on 15 June 2017, media reports argue that it was established several months after the first investment proposal was submitted to the BOI in Sri Lanka.

The Transparency International Sri Lanka (TISL) warns that the project has a potential risk of money laundering. In a statement issued on 27 March 2019, the TISL emphasized that the controversies surrounding the oil refinery could have a negative impact on Sri Lanka's efforts to remove itself from the Financial Action Task Force (FATF) 'Grey List' of countries vulnerable to money laundering and terrorism financing.

Impact

In response to TISL's statement, the BOI [affirmed](#) that the money is being channeled through credible mechanisms. However, the impact of the statement from the TISL, a credible organization which is fighting against bribery and corruption in Sri Lanka, cannot be taken lightly. Sri Lanka is ranked at 89 with a score of 38 in the [Corruption Perception Report 2018](#). Even though its rank has gone up from 91 in 2017, its unchanged score reveals the improvement in the ranking is a result of other countries' poor performance. Moreover, Sri Lanka is still struggling in bringing the perpetrators of the [infamous bond scam](#) before the law.

The impact of the controversy in developing Hambantota should also be noted. Since the Hambantota Port was leased to a Chinese company for operation, the port and the proposed export processing zone have been closely monitored by the international community.

The failure for the government to realize the oil refinery project in a credible manner is likely to have a grave impact on the upcoming elections and domestic politics as well.

If successful, the project will help the UNP gain ground in the upcoming elections in Hambantota, the constituency of former strongman Mahinda Rajapaksa. If not, it will only remind of the failure of multiple such previous investments of the UNP government, which will affect them in proving their deliverability during the upcoming elections.

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