

THE MINERAL INDUSTRY OF

SRI LANKA

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In 1997, the economy continued to perform well; despite the ongoing civil war against Tamil rebels, the growth of the gross domestic product (GDP) reached 5.4%. The Government was able to reduce the budget deficit to 6.5% of GDP, which together with cuts in Government spending, helped bring down interest rates and inflation. The defense expenditure remained large, consuming a fifth of the budget. The Government introduced an ad valorem general sales tax of 12.5% to rationalize existing indirect taxes.

In the Government's privatization program, the energy sector was opened to private investors. Overall, the private sector generated more than 90% of industrial output in 1997. The private sector monopoly has either shut potential competitors out of the sector or placed existing competitors at a distinct disadvantage. When Shell bought Colombo Gas Co., it was granted by the Government monopoly rights on gas distribution for 5 years. Petroleum prices would continue to be regulated by the state but would be allowed to rise gradually to reflect true costs.

Five years ago, the Geological Survey and Mines Bureau was established to enforce new mining regulations and to issue exploration and mining licenses. Since then, 55 exploration licenses have been awarded, 15 of which went to foreign mining companies.

After Korea Heavy Industries & Construction (Hanjung) of the Republic of Korea acquired Ceylon Steel Corp., it started design work in June to raise the capacity of the Athurugiriya works to 100,000 metric tons per year (t/yr). After an initial investment of \$10 million, the expanded facilities were expected to be commissioned by March 1998. Hanjung purchased a 90% interest in Ceylon Steel for \$15 million, and the balance was held by Ceylon Steel's employees. Ceylon Steel has two electric arc furnaces and a casting plant. It imported billets from Bulgaria, Russia, and Turkey to make finished bars. Ceylon Steel's 55,000-t/yr plant was operating at full capacity. Sri Lankan demand for bars was between 120,000 and 150,000 t/yr. Hanjung planned to build another steel plant that would produce 300,000 t/yr of steel. A powerplant would be constructed to generate 280 megawatts (MW) for the project. Hanjung also agreed to build an oil refinery capable of producing 50,000 barrels per day. Total investment would exceed \$71 million.

The Government signed a contract for a \$450 million phosphate-mining concession at Eppawela, 200 kilometers northeast of Colombo, and a fertilizer plant at the port of Trincomalee, with Freeport McMoRan Resource Partners and IMC Agrico (65%), both of the United States, and Tomen Corp. (25%) of Japan. The consortium offered the Government 10% equity at no cost, to be held by state-owned Lanka Phosphates.

The concession area covers 166 square kilometers with proven reserves of 25 million metric tons (Mt) (Industrial Minerals, 1998). The facility would pay a royalty of 5.5% based on the value of phosphate rock mined. The operation would be taxed at a rate of 5% for the first 12 years and at 15% thereafter. A rebellion by farmers who refused to relocate from the concession area, however, was staged, and the protesters claimed that the plans would have drastic effects on the villages. The planned rapid rate of extraction for 30 years also was causing concern.

A great concentration of precious and semiprecious stones is found in gem gravels in Sri Lanka. The country dominates the world's moonstone market with large output of this gemstone that is found in situ. A high degree of creativity, experience, and expertise, together with an abundant supply of fine gemstones, has made jewelry an important export for Sri Lanka.

RGC Mineral Sands Ltd. discussed with the Government the development of a titanium sands operation on the country's northeast coast. The company proposed a joint venture with Lanka Mineral Sands to mine at the Pulmoddai Mine and to manufacture titanium dioxide products. The deposit has more than 5 Mt of proven reserves with a heavy mineral content of 60% to 70% (Mining Magazine, 1997). It was expected to produce 150,000 t/yr of ilmenite, 10,000 t/yr of rutile, and 6,000 t/yr of zircon.

Sri Lanka heavily depends on hydropower with 1,135 MW in capacity. Thermal power was next with only 380 MW in capacity. Two new thermal powerplants were commissioned, adding 155 MW to the system. Agreements were signed with private companies to build more thermal powerplants, with the state-owned Ceylon Electricity Board guaranteeing to buy electricity at predetermined prices. Diverted spending on the war with the Tamil rebels came at the cost of public investment in infrastructure development. The war also deterred much foreign investment in infrastructural and other projects.

References Cited

- Industrial Minerals, 1998, IMC-Agrico finalizes Sri Lanka deal: Industrial Minerals, no. 364, January, p. 15.
Mining Magazine, 1997, RGC considers Sri Lankan development: Mining Magazine, v. 176, no. 5, May, p. 331.

Major Sources of Information

- Ceylon Petroleum Corp.
P.O. Box 634, 113 Galle Rd.
Colombo 3, Sri Lanka
Geological Survey and Mines Bureau
4 Galle Rd.

Colombo, Sri Lanka
Lanka Ceramic Ltd.
Colombo, Sri Lanka
State Gem Corp.

Colombo, Sri Lanka
State Mining and Mineral Development Corp.
Colombo, Sri Lanka

TABLE 1
SRI LANKA: PRODUCTION OF MINERAL COMMODITIES 1/

(Metric tons unless otherwise specified)

Commodity 2/	1993	1994	1995 e/	1996 e/	1997 e/
Cement, hydraulic thousand tons	676	925	900	905	910
Clays:					
Ball clay	21,017	16,085	17,100 3/	14,100 3/	16,750 3/
Kaolin e/	7,000	7,500	16,000 3/	7,700 3/	19,900 3/
Brick and tile clay	7,722	7,800 e/	8,000	8,000	7,900
Clays for cement manufacture e/	400	500	550	600	650
Feldspar, crude and ground	8,000 e/	12,280	7,500 3/	11,200 3/	14,950 3/
Gemstones, precious and semiprecious, other than diamond e/ value, thousands	\$60,000	\$60,300	\$61,000	\$62,000	\$62,500
Graphite, all grades	5,163	2,946	8,000 3/	5,618 3/	5,127 3/
Iron and steel, metal, semimanufactures	39,015	55,117	50,000	53,000	52,000
Mica, scrap e/	200	200	6,350 3/	2,400 3/	3,500 3/
Petroleum refinery products:					
Gasoline thousand 42-gallon barrels	1,390	1,582	1,600	1,700	1,650
Jet fuel do.	724	488	500	550	600
Kerosene do.	1,464	1,488	1,500	1,500	1,500
Distillate fuel oil do.	3,980	4,495	4,500	4,600	4,700
Residual fuel oil do.	3,753	3,868	3,800	3,900	4,000
Other do.	240	464	500	480	490
Refinery fuel and losses do.	461	400 e/	450	440	460
Total do.	12,012	12,785	12,850	13,170	13,400
Phosphate rock	35,681	32,313	29,500 3/	34,000 3/	29,600 3/
Rare-earth metals, monazite concentrate, gross weight e/	200	200	200	200	200
Salt	43,344	56,162	60,000	65,000	65,000
Stone:					
Limestone e/ thousand tons	650	670	746 3/	813 3/	901 3/
Quartz, massive	1,133	1,200 e/	4,600 3/	7,300 3/	9,350 3/
Titanium concentrate, gross weight:					
Ilmenite	76,930	60,445	49,655 3/	62,810 3/	18,970 3/
Rutile	2,643	2,410	2,697 3/	3,532 3/	2,970 3/
Zirconium, zircon concentrate, gross weight	14,401	22,310	21,971 3/	15,863 3/	12,450 3/

e/ Estimated.

1/ Table includes data available through June 23, 1998.

2/ In addition to the commodities listed, crude construction materials, such as sand and gravel, and varieties of stone presumably are produced, but available information is inadequate to make reliable estimates of output levels.

3/ Reported figure.