

INDUSTRY

Overall Performance

Industrial output increased by 5 per cent in 1985 compared with 15 per cent in the previous year. The value of production of public sector industry declined by 6 per cent, while that of private sector industry increased by 20 per cent. The lower growth in industrial output this year was mainly due to the decline in the output of the Ceylon Petroleum Corporation and the poor performance of some other important public sector industrial corporations. In contrast, private sector industries displayed strong growth in 1985, though slower than in the previous year.

The main set-back to industrial growth was from the public sector. The high weightage of petroleum in public sector industrial production was reflected in the 6 per cent decline in output of this sector. When the petroleum industry is excluded, other public sector industries grew by 2 per cent.

In the private sector, increases in food, beverages and tobacco, textiles and wearing apparel and paper and paper products pushed up output by 20 per cent.

Industrial performance in 1985 was influenced by unfavourable external and domestic factors. Quotas on textiles exports and other restrictive measures abroad placed firm limits to export growth. At the same time, lower demand for industrial exports also had a dampening effect on the growth of exports. The ethnic disturbances in the northern and eastern provinces resulted in the poor performance of some public sector industrial corporations located in this region.

The recommendations of the Presidential Tariff Commission were incorporated in the budget. The thrust of tariff policy was to provide effective protection to local industries, encourage industries engaged in export production and promote industries whose domestic value added is high.

Investment

There was a further decline in investment in industry in 1985. A declining trend in investment has been evident in the Greater Colombo Economic Commission (GCEC), Foreign Investment Advisory Committee (FIAC) and the Local Investment Advisory Committees (LIACs) from about 1983. The GCEC approved 13 projects in 1985 with a potential investment of Rs. 286 million, bringing the total number of approved projects to 211 by the end of the year. Of these, 119 enterprises have signed agreements with the GCEC to set up various industries.

The FIAC approved 30 industrial projects in 1985. These projects envisaged a total investment of Rs. 476 million with a foreign component of Rs. 220 million. Only three of these projects were in textiles. The total employment potential of these projects was estimated at 2,503. The total number of FIAC projects at the end of 1985 was 237.

The LIACs in the Ministries of Industries & Scientific Affairs, Textile Industries and Fisheries approved 344 projects during the year, as compared with 474 projects in the previous year. The projects approved in 1985 envisaged an investment of Rs. 321 million and were expected to provide employment to 12,850 persons.

Production

The value of industrial production, in current terms, in 1985 is estimated to have increased by 9 per cent as compared with an increase of 25 per cent in 1984. When the value of petroleum production is excluded, industrial production is estimated to have increased by 20 per cent. The value of paper and paper products increased by 31 per cent, textile and wearing apparel by 26 per cent and food, beverages and tobacco by 32 per cent. The main declines in the value of production was in basic metal products (38 per cent) and in chemicals and petroleum products (9 per cent).

TABLE 1.12
Value of Industrial Production 1981 - 1985

Rs. Million

Category	1981	1982	1983	1984	1985(a)
1. Food, beverages and tobacco	4,496	5,246	6,998	8,623	10,497
2. Textile, wearing apparel and leather products	3,040	3,863	5,136	7,565	9,505
3. Wood and wood products (including furniture)	315	361	522	640	705
4. Paper and paper products	626	725	901	907	1,187
5. Chemicals, petroleum, coal, rubber and plastic products	12,015	13,099	11,888	14,328	13,104
6. Non-metallic mineral products (except petroleum and coal)	1,250	1,370	1,468	1,829	1,854
7. Basic metal products	428	262	302	199	123
8. Fabricated metal products, machinery and transport equipment	782	904	1,129	1,456	1,592
9. Manufactured products not elsewhere specified	58	74	90	106	125
Total	23,010	25,904	28,434	35,653	38,692

(a) Provisional.

Source : Central Bank of Sri Lanka.

Measured in real terms industrial output is estimated to have increased by 5 per cent in 1985, compared with the appreciable growth rate of 15 per cent in 1984. This was the combined result of a 20 per cent growth in private sector industry and a decline of 6 per cent in public sector industry. The decline in public sector industrial output was mainly due to a drop of 15 per cent in output of petroleum and chemical products. Total industrial production in the public and private sectors excluding output of the Petroleum Corporation increased by 9 per cent.

Among the sub sectors that recorded increases in output were : textile, wearing apparel and leather products (20 per cent), paper and paper products (17 per cent), food, beverages and tobacco products (9 per cent). The output of basic metal products declined by 42 per cent, petroleum and chemical products by 10 per cent and non-metallic mineral products by 3 per cent.

Public Sector Industry

There were few changes in the activities of public sector industries during 1985. To meet the shortage of good quality timber, the State Timber Corporation started a new venture to produce sawn coconut timber and wall panelling. The State Printing Corporation commenced production of exercise books in February, 1985, in order to eliminate fluctuations in production and ensure their availability at reasonable prices.

TABLE 1.13
Public Sector Major Industry Output Index (1977 = 100)

Category	January - December		
	1983	1984	1985(a)
1. Food, beverages and tobacco	73.6	52.5	48.5
1.1 Milk Products	46.4	41.4	45.8
2. Textile, wearing apparel and leather products	127.0	140.9	185.9
2.1 Textile	156.7	186.8	244.9
3. Wood and wood products	163.0	149.1	138.4
4. Paper and paper products	135.7	117.2	142.8
5. Chemical products	105.1	125.1	105.8
5.1 Petroleum products	98.0	119.9	105.8
5.2 Tyre	157.2	127.9	128.2
6. Non-metallic mineral products	124.6	106.4	103.4
6.1 Cement	130.1	111.0	105.1
7. Basic metal products	109.2	75.5	43.6
8. Fabricated metal products	76.8	87.0	101.1
All Categories	106.7	112.9	106.1

Source : Central Bank of Sri Lanka.

(a) Provisional.

In real terms, output of public sector industrial enterprises declined by 6 per cent. This decline came mainly from Ceylon Petroleum Corporation (12 per cent) and the Ceylon Steel Corporation (42 per cent). Public sector industries excluding the Petroleum Corporation recorded an increase of 2 per cent in 1985.

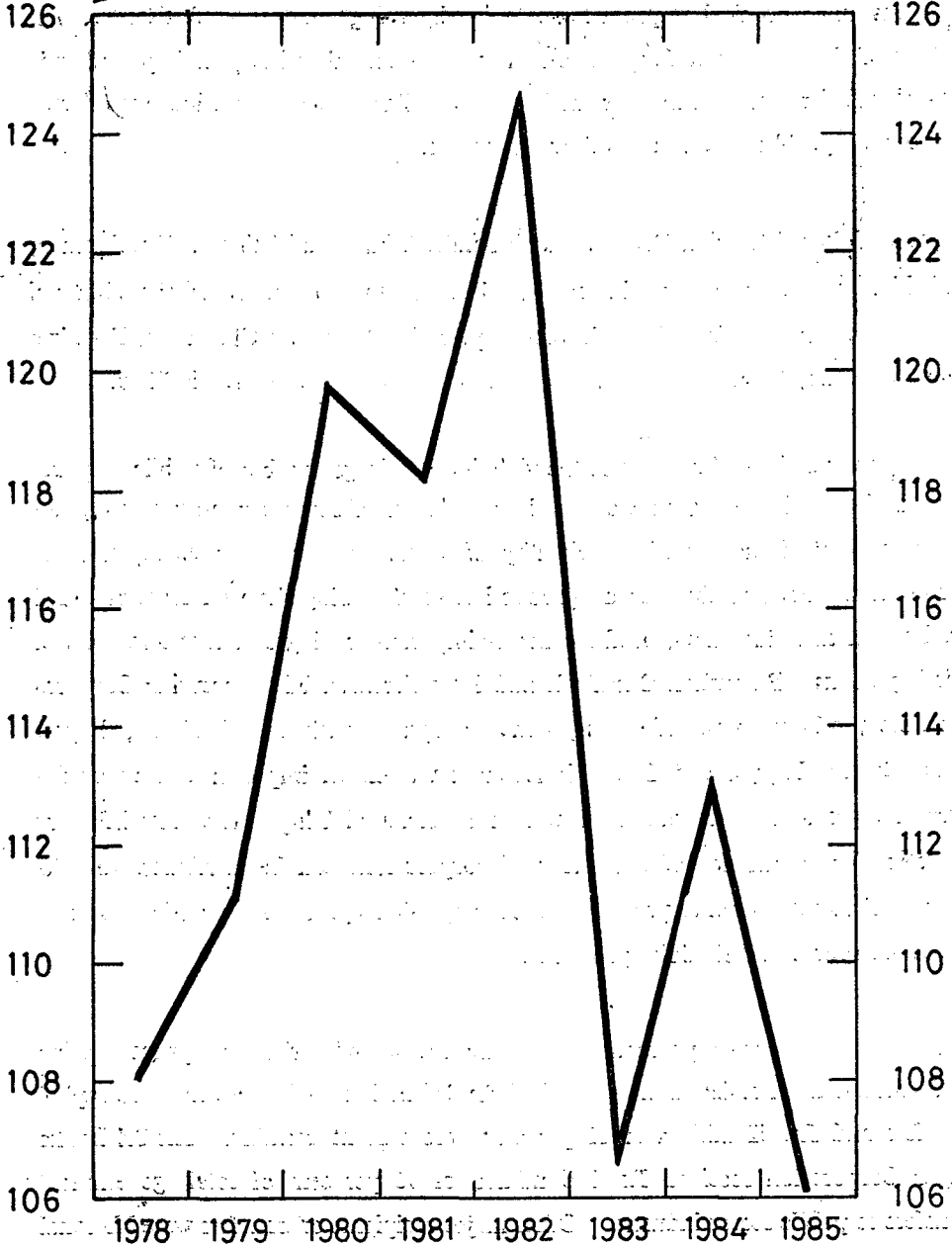
The performance of public corporations was uneven during the year. Large increases in output were recorded by National Textiles (34 per cent), State Mining and Mineral Development (26 per cent), National Paper (22 per cent) and Ceylon Mineral Sands (22 per cent) Corporations, British Ceylon Corporation (38 per cent) and the National Milk Board (10 per cent). Decreases in output were recorded by Paranthan Chemicals (81 per cent), Ceylon Steel (42 per cent), State Rubber Manufacturing (37 per cent), National Salt (22 per cent), Ceylon Oils and Fats (14 per cent), Ceylon Petroleum (12 per cent), Ceylon Plywoods (11 per cent), Ceylon Ceramics (8 per cent) and Ceylon Cement (5 per cent) Corporations.

There are varied reasons for the poor performance of the public sector corporations. Production of the National Salt Corporation was badly affected by ethnic disturbances in the Northern region and adverse weather in the Southern and Western regions.

INDEX OF INDUSTRIAL PRODUCTION OF THE PUBLIC SECTOR

POINTS IN INDEX

POINTS IN INDEX



The Paranthan Chemicals factory was temporarily closed in April, 1985, for security reasons. Cement production was also disrupted by the ethnic disturbances. A decision was taken to close down the State Fertilizer Manufacturing Corporation as it was uneconomical to produce urea locally using naphtha as feedstock. The output of the Petroleum Corporation dropped as the oil refinery at Sapugaskanda was closed for two months for maintenance. The Steel Corporation was affected by liquidity problems and lack of raw materials.

Sales of the Distilleries, Tyre, Mineral Sands, Mining and Mineral Development and Hardware Corporations increased, while the sales turnover of the National Milk Board, Oils & Fats, Salt, Textiles, Plywoods, Paranthan Chemicals, Fertilizer Manufacturing, Ceramics, Cement and Steel Corporations decreased in 1985.

There were serious doubts as to the viability of a large number of public corporations in 1985. However, data on profits and losses of some corporations may not be an accurate indicator of the viability of a corporation. For example, some corporations that had little or no production at all during the year have recorded profits. In these instances, profits came mainly from trading activities and sales of existing stocks. Paranthan Chemicals and State Fertilizer Manufacturing Corporations are good examples. However, some enterprises such as Distilleries, Paper, Tyre, Ceylon Oxygen and Lanka Porcelain have shown improvements in profits over the previous year, due to increased financial viability. The unsatisfactory operational performance of a number of corporations can be attributed to the security situation in some parts of the country, shortage of raw materials, lack of skilled personnel and liquidity problems.

Government transfer payments to public sector industrial enterprises during 1985 amounted to Rs. 420 million, of which Rs. 368 million or 88 per cent were capital transfers and Rs. 52 million or 12 per cent were current transfers. The Sri Lanka Sugar Corporation received Rs. 316 million or 75 per cent of total government transfers to public sector industry. Other major recipients of transfers were National Textiles, National Paper and National Milk Board. It is noteworthy that transfers to public sector corporations were reduced considerably in 1985, in order to induce them to increase productivity and to be less burdensome on the government budget.

TABLE 1.14

Transfers of Government Funds to Industrial Enterprises, 1983-1985

Rs. Million

Corporation/Enterprise	Capital			Current			Total		
	1983	1984	1985(a)	1983	1984	1985(a)	1983	1984	1985(a)
1. National Milk Board	9.0	7.5	—	21.3	25.1	25.0	30.3	32.6	25.0
2. Ceylon Oils & Fats	25.3	99.1	6.0	—	—	—	25.3	99.1	6.0
3. Sri Lanka Sugar	122.5	168.8	316.0	—	7.1	—	122.5	175.9	316.0
4. National Textile	31.5	127.2	42.0	32.7	—	—	64.2	127.2	42.0
5. National Paper	—	5.6	—	—	—	27.1	—	5.6	27.1
6. State Fertilizer Manufacturing	—	—	—	494.7	537.3	—	494.7	537.3	—
7. Ceylon Steel	39.1	—	—	—	—	—	39.1	—	—
8. National Packaging Materials	—	—	—	7.7	1.0	—	7.7	1.0	—
9. State Printing	—	51.6	3.7	—	—	—	—	51.6	3.7
10. Ceylon Oxygen Ltd.	—	—	—	8.7	6.1	—	8.7	6.1	—
Total	227.4	459.8	367.7	565.1	576.6	52.1	792.5	1,036.4	419.8

(a) Approved

Source: General Treasury.

Power and Fuel

The sale of industrial fuel decreased by 44 per cent in 1985 when compared with the previous year. This decrease was mainly due to the reduced consumption of heavy diesel and furnace oil by the Ceylon Electricity Board (CEB) due to greatly reduced reliance on thermal power generation in 1985.

In the year under review, the use of electricity in industry increased by 7 per cent when compared with the previous year. This was made up of increases of 11 per cent, 10 per cent and 4 per cent in small industries, medium and large industries respectively.

TABLE 1.15

Power and Fuel Use in Industry

Item	1983	1984	1985 ^(a)
1. Electricity (b) (Gwh)	752.0	788.3	846.0
1.1 Small Industry	29.0	31.5	35.1
1.2 Medium Industry	339.7	370.5	409.7
1.3 Large Industry	383.3	386.3	401.2
2. Domestic Sales of Industrial Fuel ('000 metric tons)	538.6	293.5	163.8
2.1 Heavy Diesel	285.5	78.6	23.5
2.2 Furnace Oil	253.1	214.9	140.3

Sources: Ceylon Electricity Board,
Ceylon Petroleum Corporation.

(a) Provisional

(b) Includes manufacturing and export processing industries. Small industry is defined as those units having rated capacity below 50 Kva, medium industry as 50-500 Kva and large industry as above 500 Kva.

Investment Promotion Zones

The Greater Colombo Economic Commission (GCEC) approved 13 projects in 1985 bringing the total number of projects approved to 211 by the end of 1985. Of these, 119 have already signed agreements with the GCEC. A total of 61 enterprises were in commercial production within the Katunayake Investment Promotion Zone (KIPZ), while 16 enterprises were in production outside the KIPZ. Of the projects in commercial production, 38 were engaged in the production of readymade garments. A total of 32,329 were employed in GCEC enterprises in December 1985 as compared with 29,477 in December 1984.

Of the thirteen projects approved in 1985, five each were in textiles and manufactured products and one each in food, chemicals and services.

Gross export earnings of GCEC enterprises was Rs. 3,802 million (SDR 138 million) in 1985, which was an increase of 7 per cent over the previous year. Exports of garments were 6 per cent above the previous year and continued to account for the highest amount of export earnings (80 per cent). Export earnings per employee in the garment sector stood at Rs. 115,011 as compared with Rs. 115,375 in the previous year.

Essential infrastructure development was completed in the second Investment Promotion Zone at Biyagama, where six investors located their factories and commenced factory construction in early 1985. By the end of the year one of these projects had commenced production while another had completed factory construction.

TABLE 1.16
Investment Promotion Zone — Employment and Export Earnings 1984 - 1985

Category	1984		1985(a)	
	Employment (End Dec.)	Gross Export Earnings (f.o.b.) Rs. Mn.	Employment (End. Dec.)	Gross Export Earnings (f.o.b.) Rs. Mn.
	No.		No.	
1. Food, beverages and tobacco ..	30	116.0	—	6.5
2. Textile, wearing apparel & leather products ..	25,041	2,889.1	26,541	3,052.5
3. Wood and wood products ..	—	0.1	—	—
4. Paper and paper products ..	—	—	—	—
5. Chemicals, petroleum, coal, rubber and plastic products ..	1,652	136.3	1,399	164.8
6. Non-metallic mineral products ..	226	2.7	1,267	122.4
7. Basic Metal products ..	—	—	—	—
8. Fabricated metal products, machinery and transport equipment ..	234	85.8	135	50.3
9. Manufactured products ..	1,934	108.0	2,493	211.2
10. Services(b) ..	360	199.4	494	193.9
Total ..	29,477	3,537.4	32,329	3,801.6

(a) Provisional

(b) Excluding "Air Lanka"

Source: Greater Colombo Economic Commission.