

INDUSTRY

Overall Performance

The performance of the industrial sector in 1986 showed substantial improvement as compared with the previous year. In real terms, industrial output increased by 12 per cent in 1986 compared with a 5 per cent expansion in 1985. Higher growth in industrial output came from both a continued expansion of private sector industries and better performance of public sector industrial enterprises. The value of production of private sector industry increased by 15 per cent, while that of public sector industry rose by 8 per cent.

Improvements in the performance of public sector industries were reflected in the output of all sub-categories except food, beverages and tobacco and wood and wood products. The operations of the Paranthan Chemicals Corporation, the State Timber Corporation and the Ceylon Mineral Sands Corporation were adversely affected by the civil disturbances.

In the private sector, production gains were recorded in all sub-categories. There were large increases in the output of textiles and wearing apparel, food, beverages and tobacco and chemicals. Increased demand for wearing apparel from the western countries, particularly in the EEC, was a noteworthy feature. This was the main factor responsible for the increase of 11 per cent in industrial exports in 1986.

Several steps were taken to improve the efficiency of public sector industrial enterprises. For instance, the Ceylon Plywoods Corporation's factory at Salawa which continued to incur heavy losses was treated as a separate entity from March 1986. Procedures for the transfer of three state owned tile factories to the private sector were finalised during the year. The National Packaging Materials Corporation, the Sri Lanka Tobacco Industries Corporation and the Urea Manufacturing Plant of the State Fertilizer Manufacturing Corporation, which had shown persistent losses and found to be commercially non-viable were closed in March 1986. The Ceylon Hardware Corporation, closed some of its plants which had proved inefficient.

The liberalised economic policies continued to have a marked influence on the tempo of industrial activity in the country. Manufacturers were compelled to be cost and quality conscious to meet the competition from imports and to be competitive enough to maintain and expand export markets under a flexible exchange rate policy and lowered tariffs. Marketing, packaging and new technology assumed added importance in the industrial sector. Tariff policy was directed at promoting industrial development by encouraging export oriented industries and providing adequate protection to import substitution industries with high value added.

Investment

The new industry approvals by the Foreign Investment Advisory Committee (FIAC) showed greater investment and output potential during 1986. The FIAC approved 41 industrial projects during the year as compared with 30 projects in the previous year. These projects envisaged a total investment of Rs. 644 million with

a foreign component of Rs. 130 million. In keeping with the policy of shifting from garments and textiles, 28 of these projects were in other industry sub categories such as chemicals, plastics and rubber products, metal products and food and beverages. The total employment potential of these projects was estimated at 5,570.

The GCEC approved 10 projects in 1986 with a potential investment of Rs. 188 million. The total employment potential of these projects was estimated at 2,960. In 1985, the GCEC had approved 13 projects with a potential investment of Rs. 286 million. The total number of approved GCEC projects stood at 221 by the end of the year. Of these, 126 enterprises had signed agreements with the GCEC to set up various industries.

The Local Investment Advisory Committee (LIAC), encompassing the Ministries of Industries and Scientific Affairs, Textile Industries and Fisheries, approved 321 projects during the year, as compared with 344 projects in the previous year. The projects approved in 1986 envisaged an investment of Rs. 400 million and were expected to provide employment to 9,660 persons.

Production

In real terms, the value of industrial production is estimated to have increased by 12 per cent in 1986, as compared with a growth of 5 per cent in 1985. When the value of petroleum output is excluded, industrial production is estimated to have increased by 14 per cent.

Industrial sub-sectors that recorded increases in production in 1986 were basic metal products (58 per cent), textiles, wearing apparel and leather products (22 per cent), non-metallic mineral products (14 per cent), food, beverages and tobacco products (7 per cent), chemicals, petroleum and plastic products (8 per cent), fabricated metal products (7 per cent) and paper and paper products (8 per cent). Output of wood and wood products decreased by 13 per cent during the year, due to lesser availability of local timber.

The higher level of output in the wearing apparel industry, both in and outside the Investment Promotion Zones (IPZ), was mainly responsible for the appreciable growth recorded in the textiles, wearing apparel and leather products. The increase in the output of a number of industrial categories, *i.e.*, tobacco, flour, milk foods, sugar products, biscuits, chocolate and bakery products was largely responsible for the higher level of production in the food, beverages and tobacco category. Increased production in the public sector industries of petroleum and tyre and in private sector industries such as safety matches, plastic products, P.V.C. pipes and pharmaceuticals resulted in an expansion in the output of chemicals, petroleum and plastic products. In the fabricated metal products sector, the improvement was largely due to the growth in the output of the State Hardware Corporation. Increased production was also recorded by the private sector in agricultural machinery and equipment, sewing machines, water pumps and electrical appliances. Improved performance of the Ceylon Steel Corporation was the main underlying factor behind the output of basic metal products. Increased output of the Sri Lanka Cement and Ceylon Ceramics

Corporations resulted in a higher growth of non-metallic mineral products. The decline in the output of wood and wood products was mainly due to the lower level of production in the Ceylon Plywoods and State Timber Corporations.

The value of industrial production in current terms, in 1986, is estimated to have increased by 7 per cent as compared with an increase of 9 per cent in 1985. The lower growth at current prices as compared with the increase in real terms was due to the steep decline (43 per cent) in the average price of crude oil imports. In current terms, the value of production of petroleum products showed a decline of 19 per cent.

TABLE 1.15
Value of Industrial Production 1982-1986
(Current Prices)

Rs. Mililon					
Category	1982	1983	1984	1985	1986 (a)
1. Food, beverages and tobacco ...	5,246	6,998	8,623	10,497	12,129
2. Textile, wearing apparel and leather products ...	3,863	5,136	7,565	9,505	12,088
3. Wood and wood products (Including furniture) ...	361	522	640	705	632
4. Paper and paper products ...	725	901	907	1,187	1,289
5. Chemicals, petroleum, coal, rubber and plastic products ...	13,099	11,888	14,328	13,104	11,088
6. Non-metallic mineral products (Except petroleum and coal) ...	1,370	1,468	1,829	1,854	2,053
7. Basic metal products ...	262	302	199	123	281
8. Fabricated metal products, machinery and transport equipment ...	904	1,129	1,456	1,592	1,757
9. Manufactured products not elsewhere specified ...	74	90	106	125	136
Total ...	25,904	28,434	35,653	38,692	41,453

(a) Provisional.

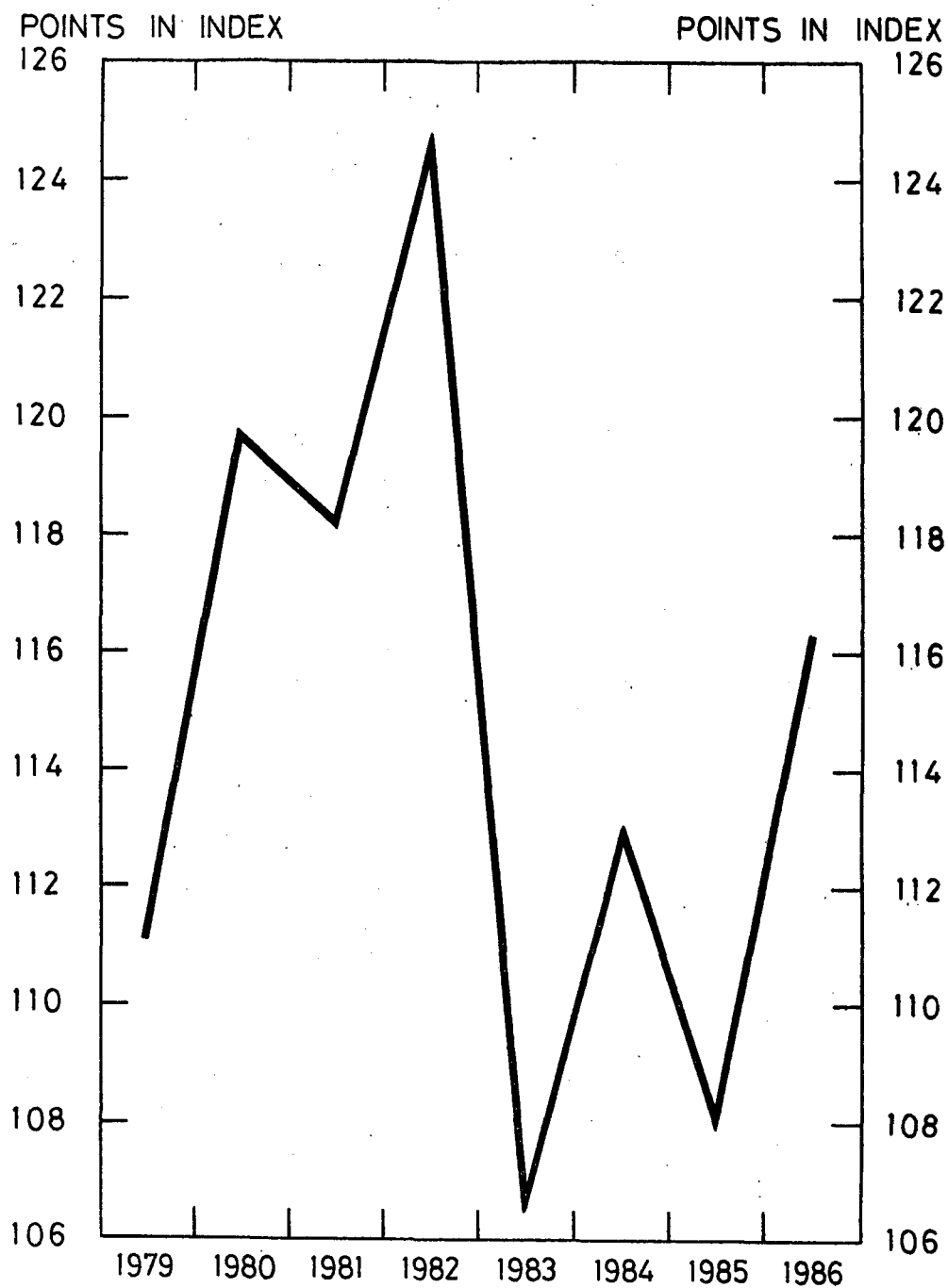
Source: Central Bank of Sri Lanka.

When the value of petroleum products is excluded, industrial production is estimated to have increased by 17 per cent. This increase came mainly from the textiles and garments (27 per cent) and food, beverages and tobacco (16 per cent). Significant increases were also recorded in non-metallic mineral products (11 per cent), fabricated metal products (15 per cent) and paper and paper products (9 per cent). Declines in the value of production were recorded in wood and wood products (10 per cent) and in chemicals and petroleum products (15 per cent). The decline in chemicals and petroleum products, was due to the fall in the average price of petroleum imports.

Public Sector Industry

There were encouraging developments in the activities of several public sector industries during the year. In the face of strong competition from imports, the Sri Lanka Tyre Corporation initiated a programme for modernising plant and machinery in order to improve the quality of its products and reduce costs. The Corporation introduced new tyres of popular sizes and varieties in 1986. The Leather

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Products Corporation launched a modernisation and expansion programme during the year in order to increase the capacity and efficiency of the tannery and footwear plant. The Salt Corporation completed most of the work on its Koholankala Lewaya, a new saltern capable of producing 15,000 M.T. of salt a year.

TABLE 1.16

Public Sector Major Industry Output Index

(1977-100)

Category	1984	1985	1986(a)
1. Food, beverages and tobacco ...	52.5	48.6	46.8
2. Textile, wearing apparel and leather products ...	140.9	185.9	208.0
2.1 Textile ...	186.8	249.9	279.0
3. Wood and wood products ...	149.1	139.3	103.4
4. Paper and paper products... ..	117.2	142.8	160.6
5. Chemical products ...	125.1	109.5	114.9
5.1 Petroleum products ...	119.9	109.1	115.3
5.2 Tyre ...	126.4	130.2	136.4
6. Non-metallic mineral products ...	106.4	103.9	134.7
6.1 Cement ...	111.0	105.2	115.4
7. Basic metal products ...	72.7	40.5	64.1
8. Fabricated metal products ...	87.0	101.8	134.8
All categories	112.8	108.1	116.3
Excluding petroleum products	104.8	106.9	117.5

(a) Provisional.

Source: Central Bank of Sri Lanka.

In real terms, the output of public sector industrial enterprises increased by 8 per cent in 1986, as against a 4 per cent decline in 1985. This came mainly from a 6 per cent increase in the output of the petroleum refinery and a 12 per cent expansion in the output of textiles and leather products which accounted for about 52 per cent and 22 per cent respectively, of the total public sector industrial output. Other sub-categories of public sector industry, increased by 8 per cent in 1986.

The majority of public sector industrial enterprises displayed improved performance during the year. Large increases in output were recorded by Ceylon Steel Corporation (58 per cent), State Hardware (47 per cent), Sri Lanka Cement (47 per cent), National Salt (34 per cent), Ceylon Leather Products (31 per cent), National Textile and National Paper (12 per cent each), Sri Lanka Sugar (10 per cent), Ceylon Petroleum (6 per cent), Sri Lanka Tyre (5 per cent), British Ceylon Corporation (55 per cent) and Ceylon Silks (13 per cent). The low output base in 1985 which was the lowest since 1977, explains the higher growth in the output of the Ceylon Steel Corporation in 1986. Output of rolled products increased three-fold and wire products six-fold during the year. Increases in the output of mammothies, doors and window fittings and cast iron raised the output level of the State Hardware

Corporation. Improved performance of private salterns during the period July-October, 1986 partly contributed to an increase in the output of the National Salt Corporation. The higher level of output of the National Paper Corporation was reflected in a substantial rise in the output of the Embilipitiya Mill.

Decreases in output levels were experienced by Ceylon Plywoods (33 per cent), State Timber (16 per cent), Ceylon Mineral Sands (14 per cent) and Oils and Fats (6 per cent) Corporations.

The Paranthan Chemicals Corporation had to be closed down during the year due to security reasons. Civil disturbances adversely affected the output to Pulmoddai factory of the Ceylon Mineral Sands Corporation. The decline in the output of State Timber Corporation was due to the interruption in the supply of timber from the northern and eastern regions. Closure of Salawa factory for about 1½ months and inadequate supply of timber resulted in a decline in the output of Ceylon Plywoods Corporation. Output of the Oils and Fats Corporation declined due to marketing problems.

In keeping with the Government policy of operating public sector enterprises on a commercially viable basis, a majority of public sector industrial enterprises were able to generate profits during the year. The State Mining and Mineral Development Corporation and the National Paper Corporation increased their profits by 80 per cent and 58 per cent, respectively. Among the other public sector industrial enterprises that recorded profits in 1986 were the Sri Lanka Tyre Corporation, Ceylon Plywoods Corporation, Ceylon Ceramics Corporation, Ceylon Oils and Fats Corporation, National Salt Corporation, State Distilleries Corporation, State Timber Corporation, Ceylon Petroleum Corporation and Ceylon Mineral Sands Corporation. The Ceylon Steel and State Hardware Corporations were able to reduce their losses in 1986.

TABLE 1.17

Transfers of Government Funds to Industrial Enterprises 1984-1986

Rs. Million.

Corporation/Enterprise	Capital			Current			Total		
	1984	1985	1986(a)	1984	1985	1986(a)	1984	1985	1986(a)
1. National Milk Board...	7.5	10.3	2.5	25.1	50.0	35.0	32.6	60.3	37.5
2. Ceylon Oils and Fats	99.1	6.0	—	—	—	—	99.1	6.0	—
3. Sri Lanka Sugar ...	410.2	508.3	150.0	7.1	—	—	417.3	508.3	150.0
4. National Textiles ...	127.2	—	42.0	—	30.4	—	127.2	30.4	42.0
5. National Paper ...	5.6	—	—	—	27.1	8.0	5.6	27.1	8.0
6. State Fertilizer Manufacturing ...	26.1	—	—	537.3	43.0	27.3	563.4	43.0	27.3
7. National Packaging Materials ...	—	—	—	1.0	—	—	1.0	—	—
8. State Printing ...	51.6	3.7	—	—	—	—	51.6	3.7	—
9. Ceylon Oxygen Ltd. ...	—	—	—	6.1	7.6	—	6.1	7.6	—
Total ...	727.3	528.3	194.5	576.6	158.1	70.3	1,303.9	686.4	264.8

(a) Approved Estimates.

Source: General Treasury.

In 1986, government transfer payments to public sector enterprises amounted to Rs. 265 million, consisting of 74 per cent (Rs. 195 million) in capital transfers and 26 per cent (Rs. 70 million) in current transfers. The Sri Lanka Sugar Corporation received Rs. 150 million or 57 per cent of total government transfers to public sector industry. National Textile Corporation, National Milk Board and the State Fertilizer Manufacturing Corporation were the other important recipients of these transfers. Transfers to public sector industry further declined in 1986 reflecting the reduced dependence of public sector industries on the government budget observed in recent years.

Power and Fuel

The sales of industrial fuel excluding those to the Ceylon Electricity Board decreased by 8 per cent in 1986. Sales of heavy diesel registered a decrease of 2 per cent and those of furnace oil by 9 per cent over 1985. This indicates a shift to electricity as the main source of power, following its increased availability.

Electricity continued to be the most widely used source of energy in industry, with consumption rising by 8 per cent when compared with the previous year. This was made up of increases 14 per cent in large industries, 3 per cent in medium scale industries and 4 per cent in small industries.

TABLE 1.18

Power and Fuel Use in Industry 1984 - 1986

Item	1984	1985	1986(a)
1. Electricity (Gwh) ...	790.9	850.4	922.0
1.1 Small Industry ...	31.7	34.7	36.0
1.2 Medium Industry ...	371.9	411.4	424.1
1.3 Large Industry ...	387.3	404.3	461.9
2. Domestic Sales of Industrial Fuel(b) (000 metric tons)	283.5	163.2	149.5
2.1 Heavy Diesel ...	23.7	20.3	19.8
2.2 Furnace Oil ...	214.8	142.9	129.7

(a) Provisional.

Sources: Ceylon Electricity Board.

(b) Sales other than to the Ceylon Electricity Board.

Ceylon Petroleum Corporation.

Investment Promotion Zones

In 1986, ten new projects were approved by the Greater Colombo Economic Commission (GCEC), bringing the total number of projects approved to 221 by the end of 1986. Of these, 126 had already signed agreements with the GCEC. A total of 68 enterprises were in commercial production within the Katunayake Investment

1. 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.

Promotion Zone (KIPZ), while 19 were in production outside the KIPZ. By the end of 1986, four projects were in operation in the Biyagama Investment Promotion Zone (BIPZ). Of the projects in operation, 33 were engaged in the manufacture of readymade garments.

The projects approved in 1986 were in the product categories of electrical goods, granite slabs, porcelain figuring, jewellery and lapidary, steel nuts and bolts, garments, cosmetics, brushes, fishing nets, computer soft-ware and assembling of clocks and watches.

Gross export earnings of GCEC enterprises in 1986 were Rs. 5,449 million (SDR 166 million), which was an increase of 43 per cent in Sri Lanka rupees and 20 per cent in SDR terms over the earnings in the previous year. Textiles and readymade garments sector accounted for four-fifths of export earnings in 1986 as in the previous year.

TABLE 1.19

Investment Promotion Zone—Employment and Export Earnings 1985-1986

Category	1985		1986(a)	
	Employment (End Dec.)	Gross Export Earnings (f.o.b.) Rs. Mn.	Employment (End. Dec.)	Gross Export Earnings (f.o.b.) Rs. Mn.
1. Food beverages and tobacco ...	—	6.4	471	21.8
2. Textiles wearing apparel and leather products ...	26,541	3,051.8	33,937	4,415.4
3. Wood and wood products (Including furniture) ...	11	0.4	24	1.1
4. Chemicals, petroleum, coal, rubber and plastic products ...	1,399	141.1	1,655	217.7
5. Non-metallic mineral products (Except petroleum and coal) ...	1,267	122.0	1,648	206.0
6. Fabricated metal products machinery and transport equipment ...	135	51.3	149	94.2
7. Products not elsewhere specified ...	2,493	234.7	3,237	259.3
8. Services(b) ...	494	193.9	493	233.7
Total ...	32,340	3,801.6	41,614	5,449.2

(a) Provisional.

(b) Excluding "Air Lanka Ltd".

Source: Greater Colombo Economic Commission.