

SELECTION OF MATTALA AS THE ALTERNATIVE INTERNATIONAL AIRPORT OF SRI LANKA AND ITS OPERATIONS.

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AUDITOR GENERAL'S DEPARTMENT

PERFORMANCE AND ENVIRONMENT AUDIT DIVISION



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1. Executive Summary

The operations of the International Aviation Services of the Katunayake International Airport, Sri Lanka commenced in the year 1967, whilst those Aviation Services prior to that were operated from the Rathmalana Airport. A loan Agreement under the Chinese Government Concessional Loan Scheme was entered into between the Democratic Socialist Republic of Sri Lanka and the People's Republic of China on 23 December 2009 for the construction of the Mattala International Airport to fulfill the need for the establishment of an alternate International Airport. The value thereof amounted to U.S.\$ 209 million. The construction work on a land 2,000 hectares in extent was commenced on 17 November 2009 and the total expenditure incurred amounted to U.S.\$ 243.7 million. The International Airport was opened for operations on 18 March 2013. The Airports and Aviation Services (Sri Lanka) Company Ltd. is in charge of its operations. Accordingly the objective of this Performance Audit was the evaluation of the selection of Mattala for the construction of an alternative International Airport and the performance of its operations.

In the selection of a suitable area for the construction of the alternative International Airport, the then Governments had identified places such as Palali, Koggala, Hingurakgoda, Kuda Oya and Weerawila and conducted preliminary studies, followed by preparation of reports, surveys and foundation stone laying ceremonies, incurring a sum of Rs.52,438,788. Despite incurring such expenditure, the construction of the Airport had been abandoned due to reasons such as public protests, changes of Governments and such other reasons. As such it was observed that the selection of a suitable site had not been done with long term vision.

In view of the unemployment of the younger generation, and the economic set back of the Southern Province resulting in revolts against the Government, the then Government, whilst giving priority to the Southern Province, had prepared plans in the year 1994 for the construction of an International Port and an International Airport under the Hambantota City Development Project for the creation of economic development. Accordingly Weerawila area had been selected at the initial stage for the construction of the International Airport to carry out development work together with the Hambantota Port. That site was later abandoned due to the public protests and Mattala area was selected subsequently for the construction of the Airport.

In view of the close proximity of the selected site to the National Sanctuary in that area, environmental problems such as the obstruction caused to the Runway by the wild animals and the danger to the existence of the wildlife due to the interference in their natural habitats had emerged.

Since the opening of the Mattala International Airport, 3 Domestic Aircraft and 3 Foreign Aircraft had commenced operations from the Airport and by the end of the year 2015, that had been limited only to one Aircraft. The arrival of local and foreign passengers to and the departure from the Mattala International Airport during the years 2013 and 2014 had been 36,137 and 40,386 respectively whilst the number of passengers had dropped 4,945 by June 2015. The income earned in the years 2013 and 2014 amounted to Rs.48 million and Rs.136 million respectively and that amounted to Rs.49 million up to June 2015. Nevertheless, the total costs incurred on employees' salaries, maintenance of the Airport, electricity and water in the years 2013 and 2014 had been Rs. 2,153 million and Rs.2,865 million respectively whilst the total expenditure incurred up to June 2015 amounted to Rs. 1,323 million. Along with the political changes in the year 2015, the flights of domestic and foreign aircraft maintained incurring losses had been ceased and the operations of the Airport had been limited to one aircraft. Despite the decrease of the income of the year 2015 due to such situation, the administrative and maintenance costs had to be incurred continuously as the Airport had to be kept open day and night. In view of the paddy storage crisis in Sri Lanka in the year 2015, the Stores Complex of the Mattala International Airport had been released, without the removal of the valuable equipment, to the Paddy Marketing Board, on an agreement, for a period of 3 months for storage of paddy. It was also observed that the Company is facing a severe liquidity crisis due to reasons such as the annual income earned being less than the expected targets and being inadequate to meet its operating expenses, the repayment of the loan obtained out of the operating income of the Company. The loan obtained from the Government of China should be repaid after the grace period of 5 years, that

is, in 15 years from the year 2015 in installments at 2 per cent interest. Accordingly the Treasury had paid a sum of Rs.1,989,815,019 during the grace period as 0.5 per cent commitment fees and management fees. Similarly, the first repayment installment which fell due in September 2015 amounting to U.S.\$ 8.4 million had been paid by utilizing the short term Dollar Deposits of the Airports and Aviation Services (Sri Lanka) Company Ltd.

It was observed that this Airport has been constructed according to very high standards and provided with modern equipment at heavy costs and that it is necessary to increase the volume of aircraft operations in order to make it productive in operations. As the construction of the Alternative International Airport is an investment made for the future development, the facilities providing direct contribution to the improvement of other aviation services which should be identified as investments for the future development. As such the need for giving priority for the improvement of public transport, construction of expressways, improvement of infrastructure in the Mattala area, establishment of industries, hotels and such other essential facilities was identified in the Performance Audit.

2. Introduction

2.1 Background of the Construction of the Mattala International Airport.

The International Aviation Services of Sri Lanka prior to commencement of the operations of the Mattala International Airport were operated from the Katunayake International Airport. The need for the construction of an alternative International Airport for Sri Lanka had arisen from time to time.

Attention had been paid to the sites in various areas of the Island for the construction of an alternative Airport. This need became more acute after the aircraft accident caused at Kadirana in Negombo on 24 March 2000. Even though preliminary work was begun at Weerawila in the Hambantota District selected after carrying out the Feasibility Studies and the Environmental Studies, as a result of the objections from the general public, Mattala had been selected after a preliminary study as the site suitable for the constructions of the alternative Airport. The construction of the first stage of the Airport at Mattala, a small town 15 miles north of Hambantota had been commenced on 27 November 2009. Out of 2,000 Hectares covering the Project, 800 hectares of land had been utilized for the direct constructions whilst 1,200 Hectares of land had been utilized for the outlying environmental and infrastructure facilities. The amount utilized for the construction of the Airport had been U.S. \$ 243.7 million.

The Certificate of Conformity and the Air Navigation Certificate had been awarded to the Mattala International Airport in March 2013 and the operations had been ceremonially commenced on 18 March 2013. The first commercial aircraft to touchdown was the Airbus A340 of the Sri Lankan Airlines arriving from Dubai. That and the Fly Dubai Aircraft arriving from Dubai with passengers and the Air Arabia Aircraft arriving from Sharja are the first International Airlines which operated at the Mattala International Airport.

2.2 Objectives of Construction of the Mattala International Airport

The primary objectives identified for the construction of the Mattala International Airport in brief are given below.

- (i) The achievement of a major role in the development activities of the Hambantota area and the acquisition of the market share of the Regional Air Traffic Development.
- (ii) Promotion as an air and marine exchange operational centre together with the Hambantota Port.
- (iii) Execution of a major role in the development activities of the Eastern and the Southern Coastline.
- (iv) Function as an alternative International Airport to the Bandaranaike International Airport.
- (v) Functions as a means of providing facilities for the creation of economic and investment opportunities for Sri Lanka.

2.3 Authority for Audit

The Performance Audit was carried out under my direction in pursuance of provisions in Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka.

2:4 Selection of the Subject for Audit

The Mattala International Airport constructed at a cost of U.S. \$ 243.7 million remains in a backward position in the achievement of its objectives was the reason for the selection of this subject for the Audit.

2:5 Objectives of the Audit

The Performance Audit carried out on this International Airport Project was based on the evaluation of the achievement of the following objectives,

- (a) Whether the site selected for the construction of the alternative International Airport as required, was suitable in every respect for its construction.
- (b) Whether the service facilities and other common amenities have been attractively fulfilled to meet the service facilities of aircraft and the needs of the passengers in connection with international air travel.
- (c) Whether market relating to the export of goods produced in the Eastern, South Eastern and the Southern Zone of the country by air, the import of air cargo, tourism industry of the area and travel abroad including the Middle East by people of the area has been attracted.
- (d) Whether the terms and conditions of the Lending Institutions relating to the supply of the financial resources for the implementation of the Project and the reports of the preliminary studies carried out before the commencement of the Project had been properly taken into considerations.

2:6 Scope of Audit

- (a) We expected to obtain sufficient appropriate audit evidence for reaching a fair conclusion and that included physical observations and obtaining evidence, information and explanations.
- (b) Our activities were pre-planned and included in the Audit Plan. The Performance Audit was carried out subjects to the availability of time and the human resources.

2:7 Limitations

- (a) Our audit was limited to the operations thereof to the year 2013 in which the operations of the International Airport were commenced, 2014 and 2015.

- (b) We did not look into the technological confirmation of the standards of construction of the International Airport and the Licence issued by the Civil Aviation Authority of Sri Lanka was considered in connection with the development work, operating activities and maintenance activities of the International Airport.

3. Detailed Audit Observations, Recommendations and Response of the Agency

3:1 Selection of Alternative Sites for the Construction of the Mattala International Airport

The matters revealed at the examination of the attention paid by the Airport and Aviation Services (Sri Lanka) Company Ltd. to the other sites suitable for that purpose other than the Mattala area selected for the construction of the alternative International Airport are as follows.

3:1:1 Abandoning Selected Sites

- (a) Nine sites situated in different areas of Sri Lanka had been selected as suitable for the construction of the alternative International Airport from the year 1971 to the year 2006. All those sites had been abandoned subsequently. An examination of the reasons for abandoning the sites revealed that the Airport and Aviation Services (Sri Lanka) Company Ltd., did not have the data for abandoning the sites at Kankesanthurai (1971/1972) and Koggala (1994-2004) whilst the Company had only the Preliminary Study Reports on Trincomalee (1986) and Palali (2003-2012), that the sites at Matugama (2001), Badagiriya (2003) and Weerawila (2006) had not been suitable due to environmental and archaeological problems and that the further studies on Hingurakgoda (1992-2003) and Kudaoya (2003) had been ceased due to the financial provision not made available after changes in the Governments.

- (b) According to the information made available to Audit, it was observed that a sum of Rs.52,438,788 had been spent on the preparation of the Preliminary Project Reports and other activities. Detailed had been as follows.

	Site selected for Construction of the Alternative International Airport -----	Nature of Expenditure incurred -----	Expenditure Rs. -----
i.	Koggala	Surveys of lands for the preparation of the Preliminary Project Report.	100,000
ii.	Higurakgoda	Surveys of lands for the preparation of the Preliminary Project Report.	3,608,355
iii.	Kudaoya	Construction of Access Road to Work Site For other work	3,274,000 479,572
iv.	Weerawila	Geological Surveys, Survey of Lands, construction of temporary office building, construction of access roads, preliminary action on land acquisition, foundation stone laying ceremony, officers travelling, lodging and other expenses.	44,976,861
			----- 52,438,788 =====

(c) Instead of comparing with the International Standards of the International Civil Aviation Organization in the selection of the above alternative sites and taking into account the suitability of those, those sites had been abandoned subsequently due to various other external reasons. Even though the basic matters leading to abandoning the alternative sites already studied should have been taken into account, it was observed that the land at Mattala had been selected and construction had been done without so doing.

According to the above information it was observed that during a period of 35 years from the year 1971 to the year 2007, action had been taken for the selection of sites in the Island for the construction of the Alternative International Airport of Sri Lanka and for execution of certain preliminary work at those sites without a long terms vision with regard to the expansion of the Aviation Services of Sri Lanka.

3: 1: 2 In considering the basic factors having an impact on the construction of an International Airport, it was observed that the Manual on Planning Airports of the International Civil Aviation Organization (Doc 9184 – An/ 902) contains 12 matters on which the primary attention should be paid. They are as follows.

- * Outlying area of the Airport and utilization of land.
- * Position of the atmosphere
- * Obstruction factors
- * Access roads
- * Geological features
- * Environment
- * Social Impact
- * Air Traffic management and control
- * Calamities
- * Close to demand centres for airport
- * Infrastructure facilities and utilities
- * Facilities for acquisition of lands

Surveys under the above matters had been carried out during the course of the Feasibility Study on this project and the observations thereon had been submitted. The audit observations there are given below.

(a) Atmospheric Conditions

Attention on the wind direction of the area in which the International Airport was constructed had been paid and a study of the wind direction and the impact of the wind in each month had been studied.

According to those data, observations had been made that the variance in the wind direction during the inter-monsoon periods is considerable. A further survey of the wind direction and impact had been carried out after the commencement of operations and graphs of data had been prepared. According to those graphs, the impact of the wind had increased in April, October and November and the severity of the wind had been very high in April. It was reported that on the overall there is 95 per cent suitability for air traffic operations.

(b) Disasters

The land allocated for the construction of the International Airport had basically been a forest of about 2,000 hectares in extent. Out of the 800 hectares of land selected out of that for this construction, the impact caused by wild elephants in an area of 168 hectares had been studied. Even though that did not indicate any movements of wild elephants, according to the opinion of the people living in that area, about 100 to 150 wild elephants roam the area.

In view of the construction of an International Airport in this area, the natural habitats of the wild animals in the area had been cleared thus resulting in the loss of the environmental equilibrium. Specially in access road constructed from the Mattala Airport to Lunugamavehera had bifurcated the natural habitat of the wild animals and as a result the wild animals used to roam on the road. As such it could not be identified as a freeway.

According to the information made available by the Southern Zonal Office of the Department of Wildlife Conservation, it was observed that due to the human – elephant conflict after the construction of the Mattala International Airport an oppressive condition had befallen on both on the community life and the lives of elephants.

The details are as follows.

Reason / Year	2012	2013	2014	2015 up to July
Deaths of Wild Elephants	22	21	28	11
Loss of Life	10	03	09	04
Bodily harm	--	11	09	02
Damage to property	--	99	135	66

Further straying wildlife such as peacocks on to the runway very often hampering the flights of aircraft had been reported.

(c) Others

In addition to the above, the other matters such as the other infrastructure facilities and the close proximity of demand centres had not been completed as at present and those had an impact on the effectiveness of the project.

According to the above matters it is evident that the actual position of certain matters out of the matters considered in the preliminary studies of this Project had not been disclosed and that had an impact on the effectiveness of the Project.

3:1:3 Importance of the Area selected for the Project

The following matters were observed in this connection.

(a) Importance of Upliftment of the Area

In view of the revolts and strikes against the Government organized in this area in several instances due to the unemployment and economic backwardness of the youth of the Southern Province of Sri Lanka, the then Government had taken action to give priority to the development of the Southern Province and according to the Hambantota Development Project 1994, plans had been made for the construction of an International Port and an International Airport. Accordingly the need for the construction of an International Airport had emerged in view of reasons such as facilitating development along with the Hambantota Port by taking into account the possibility of obtaining lands without resorting to acquisition of lands, and giving consideration to the natural resources and production of the Southern, Eastern and Uva Provinces.

(b) Availability of Bumper Crops of Vegetables, Fruit, Cereals and Livestock Products

The major livelihood of the people living in Hambantota, Moneragala, Badulla, Ampara, Bandarawela and Welimada areas is agriculture. Even though the major products of those such as vegetables, fruit, cereals and livestock products are at a high level the non-receipt of a fair price and the short term perishable nature of the products had been an obstruction in raising the living conditions of those people and the regional development arising therefrom had also been backward. Even though it was expected to open the market for those products through the construction of the Mattala International Airport, the programmes for the achievement of those expectations have not been implemented.

(c) High Demand for Ornamental Flowers

In view of the possibility of capturing the foreign market for the products of the exclusive horticulture industry of Bandarawela, Nuwara Eliya and Welimada areas through the Mattala International Airport, the maintenance of air transport facilities closer to those areas is important in order to satisfy that demand. Nevertheless, the International Airport constructed had not been able to achieve the expected expansion of the ornamental flower market.

(d) Export of Fish

Even though it was expected to open the foreign market for the bumper harvest of fish of the Fishery Harbours at Mirissa, Devinuwara, Kudawella, Tangalla, Hambantota and Kirinda situated close to the Mattala International Airport, the total quantity of goods exported through the Mattala International Airport had been only 27,000 kilogrammes from March to December 2013 and 6,645 kilogrammes in the year 2014 as against the expected annual transport of 40,000 metric tons of air cargo.

(e) Exports through the Airport

In view of the location of the Hambantota Port close to the Mattala International Airport and the establishment of factories in close proximity, the possibility of exporting their products to the international market exists. In view of the availability of lands and labour the investors could easily obtain lands and labour for establishing large factories, the availability of the Port and the Airport is important to enter into international relations for re-export. It was observed that an adequate course of action had not been taken to induce the investors for establishment of the factories in this area through the intervention of the Government for developing the area.

(f) Opportunity for the Tourism Industry

Yala, Bundala, Horton Plains, Lunagala, Kumana and Kataragama situated around the Mattala International Airport have the natural scenic landscapes capable of attracting the foreign tourists. In addition the tourism industry has already expanded to the Southern Coastline. As such there is potential for the creation of a tourism city targeting the Mattala International Airport. Even though attention had been paid in the initial stages to make it an airport for tourism it was observed that such course of action has not been taken so far despite the possibility of making the airport successful through the implementation of such programme.

Indication

The construction of alternative International Airport had been undertaken without a long term vision and the different sites selected had been later abandoned after spending preliminary expenditure. Even the potential of site at Mattala situated for the purpose had not been fully exploited.

Recommendations

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- (i) Increase the productions in the area and create an awareness among the parties/ authorities concerned the importance of the utilization of the Mattala International Airport for the export of such production.
 - (ii) Implementation of the passenger transport programmes needed for the utilization of the Mattala International Airport for the transport of passengers related to the Tourism Industry.
 - (iii) With regard to the environmental problems, co-ordinate with the relevant institution for minimizing them.

Comments of the Institution

Paragraph 3:1:1

I do not agree with the words “ It was observed that action had been taken without a long term vision with regard to the expansion of the aviation services of Sri Lanka”

The Governments in power during those periods highlighted to need for the alternative International Airport and issued instructions to the Airport and Aviation Services (Sri Lanka) Company Ltd., and the Civil Aviation Authority of Sri Lanka to construct a second International Airport. Accordingly, the Government in power prior to the year 1994 had, in accordance with the physical criteria for consideration in the construction of an airport and in consideration of the economic benefit, decided that Hingurakgoda area is very suitable and that planning should be done accordingly. But that was not implemented by the succeeding Government. Nevertheless, the next Government in power laid the foundation stone in the year 2001 for the construction of an International Airport in the Kuda Oya area in the Wellawaya Electorate. But the succeeding Government did not implement that and proceeded with the preliminary work on the construction of an alternative Airport by identifying lands in the Kalutara District. According to the proposals of the next Government, the foundation stone for the construction of an International Airport was laid in Weerawila. As that also failed priority was given to Mattala area in the year 2010 and the International Airport was constructed in the year 2013. As such, this Company as an institution had taken action in accordance with the strategies of the Governments in power during the respective periods for the construction of an alternative airport”.

Had not been commented for paragraphs 3.1.2 and 3.1.3.

3:2 Aircraft Operations

3:2:1 Planning of Aviation Operations

In addition to the use as an Alternative International Airport, the other major objectives of the Project, namely the increase of air traffic operations, the number of flights, air passengers and the transport of air cargo were also expected. In addition to the international recognition of the airport, the climatic and meteorological conditions, the basic facilities of the airport and conformity with the International Standards of International Airports are also of foremost relevance.

An analysis of the performance relating to the number of flights, passengers and air cargo handled to date since the commencement of the operations of this International Airport in the year 2013 revealed that the achievement of the expected targets of each area had been at a very weak level. The level of non - achievement of each area exceeded 75 per cent and there was further deterioration by mid 2015. The following matters had an impact on the inability to achieve the expected progress.

(a) Exchange of Ideas with the Airline Companies at Preliminary Studies

The primary reason for planning for the construction of the Mattala International Airport had been the anticipated air-traffic congestion of the Katunayake International Airport. It was not established that such survey had been conducted during the Feasibility Studies conducted for the construction of an alternative International Airport in the Mattala area.

(b) Corporate Plan

Since the opening of the Mattala International Airport, the strategies for the achievement of the objectives had not been selected and implemented by preparing a Corporate Plan for the years 2013 to 2017.

(c) Action Plan

Five major activities in the Action Plan prepared under the Marketing Plan for the years 2013 to 2017 can be identified and those had not been taken in accordance with a plan for each year consisting of the activities that should be executed in each such year. The persons in charge or responsible for the execution of the major activities identified as referred to above and the particulars of the time frames had not been given.

(d) Marketing Plan

According to the Marketing Plan prepared for the years 2015 to 2017 ideas had been exchanged with 19 Airline Companies for maintenance of airline services and only 05 Airline Companies expressed concurrence. The other Airlines had stated that they were considering the issue. Following strategies had been prepared to attract the Airline Companies.

- To allow a 50 per cent discount on the charges payable at the Katunayake International Airport for the ground operations, landing operations and parking.
- To supply fuel at a discounted price as decided by the Petroleum Company.
- To pay incentives to air travel passengers for using Mattala.

Further, it was observed that out of 05 Airline Companies that expressed concurrence that only one Airline Company is involved in the operations. Therefore, it is not possible to be satisfied with the steps taken to hold further discussions with the Airline Companies which did not respond for the attraction of the air travel services through Mattala.

(e) Creation of the Direct and Indirect Infrastructure Facilities.

The direct and indirect infrastructure facilities that should be maintained associated with the Airport to ensure air services at the optimum level had not been developed at the adequate level up to date

The statistical data relevant to the above observations are given below.

Particulars	2013			2014			2015 (Upto June)		
	Expected	Actual	Difference Percentage	Expected	Actual	Difference Percentage	Expected	Actual	Difference Percentage
Number of Aircraft Flights	2,145	1,520	(29)	2,226	2,984	34	1,348	506	(62)
Passengers (Arrival /Departure)	160,873	36,137	(77)	171,153	40,386	(76)	106,240	4,598	(95)
Air Cargo (Metric Tons)	22,029	64	(99.70)	23,204	221	(99)	14,212	19	(99.8)
Total Income (US\$)	5,302,566	367,196 (*)	(93)	5,518,499	1,039,793 (*)	(81)	2,873,079	337,400 (*)	(88)

(*) Computed at the Dollar Rate at the end of the year

3:2:2 Programme implemented for increasing Air-traffic Operations

Expenditure of Rs.210,088,015 and Rs. 54,231,197 had been incurred in the years 2013 and 2014 respectively for achieving an increase of passengers for air travel and transport of air cargo by increasing the promotional activities and operating activities of the Mattala International Airport and thereby increasing the income. Even though Market Surveys of the Air Travel Market, the study of the International Air Transport Standards, Conventions and the Air Transport Operation Policies followed by developed Airports, new technology, the relations to be made among the Governments and identification of changes to be made by following the developed Marketing Policies should have been the primary requirements for the purpose, that included only the incentives and promotion activities of Air Transport Meetings and the promotional activities among the local and foreign social media. In addition the promotion of the official logo of the Mattala International Airport had been made an objective thereof and a larger expenditure for that purpose had been incurred in the

year 2013. The details of this programme and the particulars of the expenditure are given in the following Table. It was not possible to be satisfied with the progress achieved as compared with the expenditure incurred. Instead of the progress that should have been achieved from programme, it was observed that a position retrogressive from that prevailed previously had been created.

As such it was further observed that the expenditure incurred had become fruitless.

Details appear below.

Strategy -----	Activity -----	Expenditure incurred	
		2013 Rs.	2014 Rs.
Incentive Packages for expected Airline Services	* Meetings	1,500,000	--
International Promotions	* International Digital Media Publicity Activities	67,058,244	1,468,972
	* Print Media Publicity	4,753,886	36,240,032
Local Media	* Local Digital Media Publicity Activities	81,145,663	2,522,193
	* Mattala Airport Publicity Activities	--	6,300,000
	* Large Advertising Boards	47,000,000	--
Social Media	* Development of Web Pages and Face Book of creative concepts	4,315,111	--
	* Development of Web Sites, Face Book App, Preparation of Sports Clubs Media Pages, Hospitality Maintenance of Social Media, Maintenance of Web Sites and Services.	2,800,000	--
	* Creation of Main Logo and Art Works Creation Cost	1,515,111	--
For the development of the name of the Mattala Airport	* For printing of Publicity Brochures	--	4,100,000
	* Documents	--	3,600,000
		-----	-----
		210,088,015	54,231,197
		=====	=====

3:2:3 Operating and Maintenance

Even though the Mattala International Airport is not in full use up to date, heavy expenditure had to be incurred for maintaining the airport. An important observation revealed in an analysis of this expenditure according to each period, is that despite the retrogression of the operating activities by more than 80 per cent of the expected levels during the past several years, that the maintenance expenditure of the Airport had exceeded the expected position in abnormal proportions. Details appear below.

Year	Expected According to Feasibility Report	Expenditure	Actual (*)	Percentage of Difference
	<u>U.S. \$</u>		<u>U.S.\$</u>	
2013	1,500,000		16,468,910	997
2014	1,530,000		21,865,442	1329
2015 (Up to June)	780,300		9,121,344	1068

(*) Computed at the Dollar Rate at the end of the year.

The excess on the expected expenditure as shown in the above analysis had a substantial impact on the financial position of the Airport and Aviation Services (Sri Lanka) Company Ltd. The value of communication equipment included a sum of Rs.13,146,335 spent the March 2015 on the Platform Mobile Track Equipment and a sum of Rs.2,666,557 spent on the Instrumental Landing System.

In a situation where a permanent course of action for increasing the operations of the Airport has not been identified and implemented as dealt with in the other paragraphs of this report, such equipment had been purchased.

Indication

Even though the sources for the generation of income had been identified the attention paid by the management for converting them to active status is inadequate.

Recommendations

- (i) Provide opportunities to the stakeholders who are interested in opening Aircraft Training Schools, Aviation Services Training Schools and Aircraft Maintenance Workshops, examine their qualifications and expertise, prepare a methodology for charging suitable fees from them in accordance with the prevailing laws, rules and regulations and take action for generation of income through the utilization of the Airport with their co-operation.
- (ii) As the Mattala Airport is designated as an Alternative International Airport, emphasis to them the importance of the utilization of the Mattala International Airport as the Sri Lankan Airline, the National Airline of Sri Lanka is using the Airport as it saves fuel for the Airline.
- (iii) Undertake a fresh review of the amount of the Customs Duty Concessions provided to the passengers travelling through the Mattala International Airport.

Comments of the institution

Had not been commented for paragraph 3.2.1 and 3.2.2

“Propose to add the following recommendations to the recommendations as iv of paragraph 3.2.3,”

“Reduce the Embarkation Tax by 50 per cent to the air travel passengers commencing their travel from the Mattala Airport and pass on that benefit to the air travel passengers”.

3:3 Essentials of the International Airport

3:3:1 Services associated with an International Airport

The creation of sectors supplying the sundry essential services for the maintenance of the International Airport had been primary requirement. The following observations are made in this connection.

(a) Investments associated with the International Airport

Even though the different service facilities required for the maintenance of the operations of the International Airport and the other income generation facilities connected with the Aviation Services was a primary item that should have been executed concurrently with the Project, the non-execution of those services had been an impediment to the improvement of the operations of the Airport. The Flying Schools, The Aviation Services Schools and the Aircraft Maintenance and Repair Workshops were important services included among them.

(b) Arrangements for Creation of Facilities

Even though the establishment of the basic facilities such as flying Schools, Aviation Services Training Schools, Air craft Maintenance Work Shops etc. have an impact on making the airport fully operational, the steps necessary in that directions had not been taken despite the elapse of nearly three years since the opening of the International Airport.

(c) Lack of Improvement of the Operations of the International Airport

Even though different courses of action had been taken for the creation of sources of income required for the maintenance of airline services, proper contribution had not been received for the increase of the income of the Airport from the sources such as the passenger terminal rent, charges for examination of goods, the subsidized charges for aviation fuel and ground

handling operations and surcharges on air operations for the Katunayake International Airport.



Non-use of Facilities at maximum level

3:3:2 Other Facilities to be supplied to the International Airport

In the Construction of an International Airport attention should be paid primarily for the required infrastructure facilities and the capacity available for the acquisition of lands. Even though the Airport had been constructed within the period as agreed in the contract agreement, the other facilities required for the attraction of the local and foreign passengers to the Airport such as the Hotels, Shopping Complexes, transport facilities, etc. should be constructed concurrently. As such it was observed that the non-supply of those services are the reasons for the unavailability of passengers travelling through the Airport as expected.



Land on which the facilities can be established

(a) Highway Facilities

The extent of the Greater Hambantota Development Plan prepared by the Urban Development Authority under the powers devolved in the Authority by the City Development Authority Act, No. 4 of 1998 for the development of the Hambantota City is 113,000 hectares and the development had been planned for construction centres around an International Airport and a Port. The extension of the Southern Expressway and the extension of the Railway Line up to Katharagama concurrently with this project are important aspects for the improvement of the transport facilities. The Southern Expressway extension connecting the Katunayake International Airport and the Mattala International Airport is special in this case. Even though the travel from the Capital City of the country to Mattala by normal roads is around 6 hours the travel time by the Expressway is around 2 ½ hours. This Expressway is scheduled for construction in 4 stages and the Contract Agreements and the Loan Agreements for the 4 stages as follows.

Stage	Date of Signing the Loans Agreement	Date of Signing the Contract Agreement
-----	-----	-----
Matara-Beliatta (30 Kilometres)	23 December 2014	31 October 2013
Beliatta – Wetiya (26 Kilometres)	--	29 September 2014
Wetiya-Andarawewa (15 Kilometres)	16 September 2014	23 August 2013
Andarawewa-Mattala	16 September 2014	19 November 2013
Mattala-Hambantota (25 Kilometres)	16 September 2014	

The following matters were revealed in this connection.

- (i) The Loan Agreement for the Beliatta – Wetiya Stage of the above expressway had not been signed even by 20 November 2015. The land acquisition work of 03 kilometers of the Matara – Beliatta Stage, 02 kilometers of Beliatta – Wetiya Stage and 15 kilometres of the Hambantota – Mattala Stage had not been completed even by that date.

(ii) Mattala International Airport had been constructed in an area without any human habitation and as such movement of passengers is at a minimal level. The most convenient Airport for the people of the Southern Province and Eastern Province leaving for employment in the Middle East countries is the Mattala International Airport. If they are to travel through the Katunayake International Airport, they have to travel on the previous day and need temporary accommodation. Even though the people living in districts close to Mattala can minimize time and expenses by travelling to the Airport, they had to face the following difficulties.

- * Lack of Public Transport for travelling to and from the Mattala International Airport.
- * The passengers disembarking in the nights have to spend long hours in the Airport premises due to unavailability of accommodation facilities.



Airport Access Road

(b) Railway Travel Facilities

Creation of Railway travel facilities had been expected as an essential aspect for the development of the infrastructure facilities of the Southern Province. The need for the construction of an extension of the Railway Line to the Mattala International Airport for the efficient transport of fuel and passengers and goods had been included in the Master Plan of the Mattala International Airport. But it was observed that the Southern Railway Line is constructed only up to Matara and the proposed extension from Matara to Katharagama is limited only up to Beliatta. It was further observed that such matters having an impact on the development of the Airport has a direct impact on the achievement of the expected objectives.

(c) Hospital Facilities

Even though there should be Hospital facilities to provide medical facilities in case of an emergency the Hospitals at Hambantota, Ambalantota, Thanamalwila and Embilipitiya do not have the facilities to meet the requirements of passengers travelling through an International Airport. As these Hospitals are situated far off from the Airport is a further problem. As such the construction of a larger Hospital with modern facilities is an essential requirement.

(d) Hotel Facilities

The tourist arrivals in Sri Lanka had been 1,274,593 in the year 2013 and 1,527,153 in the year 2014 whilst the arrivals up to 30 November 2015 had been 1,592,266. Out of those tourists who came to Sri Lanka in the year 2014 there were 318,200 tourists had come to visit places around the Mattala International Airport. (Such as Yala, Udawalawa, Bundala). There were 326 Hotels by the end of the year 2014, which could be reached within one hour from the Airport. In view of the increasing trend in the tourist arrivals to Sri Lanka and the increase of tourists with scheduled tours in the Southern Province, the accommodation facilities as well should have increased in similar proportion. But it had not so happened.

(e) Execution of Primary Requirements of Person emigrating for Foreign Employment

The information on the number of persons from several districts closer to the Mattala International Airport had departed for foreign employment from the Katunayake International Airport is as given below. The number of departures from the Eastern Region which is closer to the Mattala International Airport is high.

District	2013	2014
-----	-----	-----
Ampara	18,610	20,392
Batticaloa	20,417	23,607
Moneragala	2,056	2,252
Galle	12,004	12,954
Matara	5,036	5,680
Badulla	7,090	6,543
	-----	-----
	<u>65,213</u>	<u>71,428</u>

Accordingly, the departures abroad from the above districts in the year, 2014 as compared with the year 2013 had increased by 10.6 per cent. Enquiries made with regard to the availability of prerequisites for emigration for employment such as obtaining medical reports and the final approval of the Sri Lanka Bureau of Foreign Employment in the districts around the Mattala International Airport revealed the following matters.

- (i) The Medical Reports of those departing for employment in the Middle East should be obtained from a Medical Centre approved by the countries concerned and there were 15 such centres as at 26 November 2015 situated in Colombo and Kurunegala Districts. As such persons in the Districts such as Trincomalee, Ampara, Batticaloa, Badulla and Moneragala have to come to Colombo or Kurunegala Districts for medical examination.
- (ii) The employment Agents have to visit the Colombo Office or a Regional Office of the Sri Lanka Bureau of Foreign Employment for obtaining the final approval for departure for foreign employment. But there are only 8 such Regional Offices at present.
- (iii) Even though it is convenient for the above persons to travel to Mattala International Airport, they are induced to travel through the Katunayake International Airport as such facilities are not available in the vicinity of the Mattala International Airport.

Indication

Even though the Airport operations were commenced in the year 2013 Airline Companies do not operate flights from Mattala due to the non-expansion of the services of the other State Institutions relating to departures required by the passengers.

Recommendations

-
- (i) Establishment of facilities for medical examination at District level with the co-operation of the countries concerned.
 - (ii) Increase the number of Regional Offices of the Sri Lanka Bureau of Foreign Employment to facilitate obtaining the final approval for departure.
 - (iii) Draw the attention of the institutions concerned through discussions to give priority for the construction of Highways and Railway.

Comment of the Institution

Had not been commented for paragraphs 3.3.1 and 3.3.2

3:4 Supply of Funds for the Project and Repayment

The following observations were made in this connection.

3:4:1 Supply of Funds

According to the Contract Agreement for the construction of the Mattala International Airport, the anticipated total expenditure amounted to U.S. \$ 209 million. The expenditure incurred after the construction amounted to U.S.\$ 243.7 million, thus indicating an excess cost of U.S.\$ 34.7 million or 16.6 per cent. Out of the cost of construction anticipated, U.S. \$ 190 million had been received as a loan from China whilst the balance U.S.\$ 19 million should have been met from domestic funds. But, in view of the escalation of the cost of completion to U.S. \$ 243.7 million, a sum of U.S.\$ 53.7 million had to be spent from domestic funds. That amounted to an excess of U.S.\$ 34.7 million or 182 per cent on the originally expected to be met from domestic funds.

3:4:2 Repayment of the Loan

The following observations were made in this connection.

- (a) An examination of the repayment plan of the loan revealed that the repayment had been commenced in September 2015, and the first installment of U.S.\$ 8.4 million had been paid by utilizing the short term Dollar deposits of the Airport and Aviation Services (Sri Lanka) Company Ltd.
- (b) The Management Fees, the Commitment Fees, and interest on the loan from the year 2010 to the year 2015 amounting to Rs.109,484,835, Rs.172,403,390 and Rs.1,707,926,794 respectively had been paid by the Treasury. As such it was observed that instead of making a contribution to the national economy as expected in the establishment of the Airport, domestic funds had to be utilized for the repayment of the loan as the expected income could not be generated and that had resulted in an adverse impact on the economy of the country.
- (c) As at present the income earned by the Airport is not adequate for covering its maintenance cost. It was observed as a reason for causing a liquidity problem to the Company.

Comments of the Institution

Had not been commented for paragraphs 3.4.1 and 3.4.2

3:5 Expected Objectives of the Construction of the International Airport

3:5:1 Existence of Multiple Objectives

The International Airport constructed with the target of developing the comparatively underdeveloped Districts of Hambantota, Monaragala, Badulla and Ampara consisted of multiple objectives such as the creation of a foreign market of the produce of those regions, creating a convenience to the people of that area travelling abroad, helping the Tourism Industry already penetrated the region and of course serving as the alternative International Airport of Sri Lanka.

Further, nearly 2,000 hectares of land had been allocated for the initial constructions of the Airport. The Runway of 3,500 metres had been constructed with facilities for landing and take off of large aircraft as A 380. The land required for the construction of the other facilities is reserved near the Airport. The use of the Mattala International Airport as an alternative International Airport in the event of the Katunayake Airport reaching its maximum capacity and its inability to further expand and reducing the congestion of roads around the City of Colombo are some of the many objectives expected from this project.

3:5:2 Direct and Indirect Employment Opportunities of the Airport.

 Details are as follows.

(a) Direct Employment Opportunities

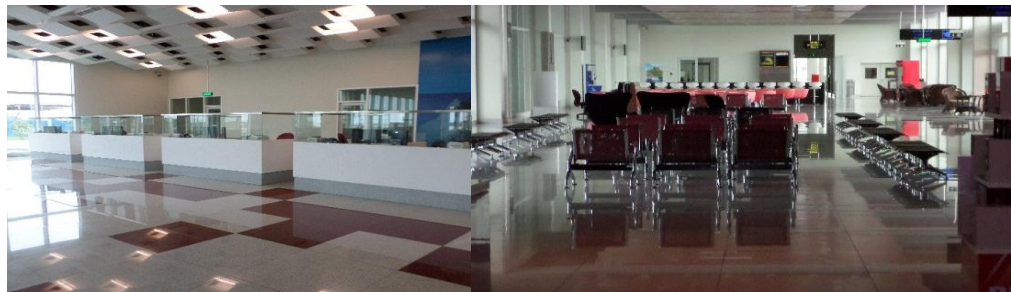
 An examination of the anticipated employment opportunities according to the Master Plan of the Mattala International Airport revealed that there were 2,580 direct employment opportunities in Stage I. The details are as given below.

	Employment Opportunities – Stage I		
	Management (Executives)	Non-Executives	
Airport Operations	100	400	
Aircraft Operations	200	500	
Ground Services	50	200	
Health	10	20	
Customs	20	10	
Immigration and Emigration	20	10	
Postal	10	10	
Police	20	10	
Narcotics	10	10	
Shop operations	100	200	
Goods transport	50	150	
Transport	50	75	
Food and Beverages	10	20	
Fuel	10	20	
Banks	20	15	
Other	50	200	
Total	730	1850	2580

Nevertheless, the staff of the Airport and Aviation Services (Sri Lanka) Company Ltd, deploy at the Mattala International Airport in the years 2013 and 2014 and as at 30 November 2015 had been 565;612 and 465 respectively. It was observed during the field inspection of the Airport, that the trading at all the shops of the Duty Free Shopping Complex established in the Airport had dropped to a very low level. The operations and services had not been at the expected levels. As such the anticipated local employment opportunities had not been achieved therefrom.

Even though the following facilities had been established at the Airport Complex, those had been idling as the aircraft operations had been at the minimal level.

- i. Check in Counters
- ii. Quarantine Counters
- iii. Customs Facilities
- iv. Restaurants and Accommodations
- v. Sanitary Facilities
- vi. Duty Free Shopping Complex
- vii. Diplomats/ VIP Rooms
- viii. Waiting Areas



Empty Check in Counters

Empty Restaurants



Empty Duty Free Shopping Complex

Closed VIP Room

Nevertheless, huge expenditure had to be incurred for the maintenance of the premises of those facilities.

(b) Indirect Employment Opportunities

In addition to the direct employment opportunities referred to above, the creation of other employment opportunities related to the activities such as the new industries, the supply of transport to and from the Airport, the supply of Hotel facilities in close proximity of the Airport, Communication Centres, Medical Centres, Transport Service Centres, Garages, Boutiques and shops for people accompanying passengers to and from the Airport, were expected, it was observed that such industries or service centres had not been established despite the elapse of 3 years after the opening of the transport.

Indication

Lack of contribution to the national economy because of the non-achievement of the multiple objectives.

Recommendation

Consider the suitable strategies for the development of the activities of the Airport for the achievement of the multiple objectives.

3:5:3 Use of the International Airport for other Purposes

The Stores Complex of the Airport had been constructed with the objective of carrying out air cargo operations and had been constructed with special technological equipment needed for the purpose and included two scanners valued at U.S.\$ 0.24 million. The Store Complex consists of 50,000 square feet of floor area. This building as well had been idle since the opening of the Airport due to lack of Airport operations. An agreement had been entered into with the Paddy Marketing Board for a monthly rental of Rs.835,135 for the Yala Season 2015 for the storage of paddy.

The Paddy Marketing Board had stored 4,055 metric tons of paddy valued at Rs.182.46 million as at 30 November 2015. The Paddy Marketing Board had purchased paddy from the persons of the area at a premium of Rs 20 per kilogrammes. As the scanners referred to above had not been removed, there was the risk of affecting their operations efficiency.



Air Cargo Buildings used for Storage of Paddy

Comments of the Institution

Had not been commented for paragraphs 3.5.1 and 3.5.2

Paragraph 3.5.3 – Use of the International Airport for other Purposes

Reply is not relevant.

3:6 Deployment of the International Airport in a manner to make a Contribution to the National Economy

The benefit accrued since the opening of the Mattala Airport as the second International Airport of Sri Lanka relates to both Domestic and International Flights. The use of this Airport when it is not possible to use the Katunayake International Airport due to sudden changes in the weather conditions will result in immense benefits and it is of special benefit to the Sri Lankan Airlines, the National Airline of Sri Lanka.

3:6:1 International Aircraft flying over Sri Lankan Aviation Zone.

 According to the International Laws on International Flights every flying aircraft has to name an alternative Airport. According to that requirement, the relevant Airline Companies should pay such fees according to the size and weight of the aircraft.

Since the opening of the Mattala International Airport, an increasing trend in naming the Mattala International Airport as such alternative International Airport. In addition to the fees earned through that source, the establishment of the Mattala International Airport has ensured the safety of the aircraft flying in the Zone. There was an increased improvement of the aircraft flying over the Zone from the year 2011 to mid 2015. The fees charged according to the size and weight of the aircraft and the number of aircraft movements are as follows.

Type of Aircraft	Flight Fee U.S \$	Number of Aircraft				
		2011	2012	2013	2014	2015 July
5-90	100	6,099	6,183	6,377	7,796	4,259
90-175	150	11	36	343	304	338
175-260	200	4,881	4,896	4,736	6,023	3,843
> 260	250	11,755	12,720	16,073	31,600	10,449
		-----	-----	-----	-----	-----
		22,746	23,835	27,529	45,723	18,889
		=====	=====	=====	=====	=====
Income received from flying over Aviation Zone			606	724	830	
Rs. Millions						

According to the statistical information appearing above, relating to the period since the commencement of operation of the Mattala International Airport in the year 2013 up to July 2015, the aircraft of the above types flying over the Aviation Zone of Sri Lanka had increased considerably. Out of those, the aircraft Maximum Take off Weight (MTOW) 90-175 had increased substantially. This position is observed as an important matter that can have impact on the productivity of the Airport.



Control Tower with Modern Facilities

Further, the Mattala International Airport has better facilities than the Katunayake International Airport for any emergency landings of very large Aircraft as A380 and also has a wider area for aircraft parking. It can be inferred that in availability of such had an impact on the increase of aircraft flights over the Aviation Zone of Sri Lanka.



Runway with Capacity for large Aircraft

According to the details of the income earned from aircraft of foreign countries flying over the Aviation Zone of Sri Lanka, there had been regular improvement during the several preceding years as compared with the preceding year.

3:6:2 Deployment as the Alternative International Airport

Since the opening of the Mattala International Airport in the year 2013 up to November 2015 there had been 14 diversions of International aircraft to the Mattala International Airport due to the inability to land at the Katunayake International Airport due to reasons such as bad weather, for obtaining fuel and aircraft faults. The particulars of such instances are as follows.

Date	Type of Aircraft	Departed Airport of Aircraft	Katunayake Airport Access Route	Reasons for inability to land at Katunayake Airport
2013.04.03	A 332	Maldives	A7/8	For fuel filling
2014.01.05	A 320	Thiruchchi	A3	Runway Obstruction
2014.01.05	A 320	Chennai	A4	Aircraft fault
2014.01.05	A 320	Madras	A6	Aircraft fault
2014.03.18	A 321	Jakarta	A6	Bad Weather
2014.03.18	A 320	Cochin	A4	Bad Weather
2014.05.05	A 320	Katunayake	A1	Bad Weather
2014.05.21	Ravin 500	Hong Kong	A6	Short of fuel before flying to Maldives
2014.06.01	A 320	Oman	A1	Bad Weather
2014.08.01	A 332	Kuwait	A1	Bad Weather
2014.11.04	A 332	London	A1	Bad Weather
2014.03.06	A 320	Pakistan	A1	Bad Weather
2014.09.16	A 332	London	A1	Bad Weather
2014.11.02	A 332	Kuwait	A3	Land not clear

In such emergency situation before the construction of the Mattala International Airport, the Airports in the neighboring countries such as India and Maldives had been used. Further, in view of the terrorist activities that prevailed in Sri Lanka in the past there were instances of using the Airports of the neighboring countries due to the conditions that prevailed at the Katunayake International Airport.

Comments of the Institution

Had not been commented for paragraph 3.6.1

Paragraph 3.6.2 – Deployment in the Alternative International Airport.

The Observations Report on the aircraft accident in Kadirana area, Negombo in March 2000 had been published in the Gazette Extraordinary dated 22 August 2003 of the Democratic Socialist Republic of Sri Lanka and according to the recommendations therein, the need for a second International Airport for ensuring the safety of Civil Aviation Services had been highlighted.

The Sri Lankan Airlines can save a substantial quantity of fuel per year through the construction of an alternative International Airport and it is one of the criteria of the Feasibility Study on the Mattala International Airport. Such Savings on fuel as informed by the Sri Lankan Airlines are as follows.

Type of Aircraft	Fuel Saving Gallons) (Per year)	U.S.	Fuel Saving (Value) U.S. \$
-----	-----		-----
A 320	790,293		2,755,278
A 330	1,225,544		4,272,737
A 340	1,766,951		6,160,297
Total	3,782,788		13,188,313

(Price of Fuel – U.S.\$ 3.49 per U.S. Gallon)

4. Conclusion

- i. It is concluded that the Mattala International Airport despite being a useful alternative to the 327 aircraft arriving weekly at the Katunayake International Airport, has failed to achieve its expected productivity due to reasons such as the income generation being at the barest minimal level, the non-generation of the expected employment opportunities, had lack of any contribution to the economic advancement of the country as well as the need for the utilization of the financial resources of the Airport and Aviation Services (Sri Lanka) Company Ltd. and the General Treasury for the repayment of the loans obtained for constructions.

- ii. As the construction of the Alternative International Airport of the country was undertaken as an investment for the future development of the country, it is emphasized that a review of the strategic marketing plans for the airport should be undertaken and the activities thereof such as the creation of facilities such as transport, express ways, factories and Hotels for tourists should be undertaken at an accelerated pace on the urgent and essential basis in order to make the Airport a productive economic centre.