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DEMAND FORECAST FOR PETROLEUM PRODUCTS
AND FACTORS AFFECTING THE PETROLEUM
DEMAND IN SRI LANKA

BY

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CHAPTER 1

INTRODUCTION

1.1 Background

Energy is a crucial resource for development and an important component for economic activity in a country. Especially, energy is a vital criteria for a developing country like Sri Lanka. In the case of Sri Lanka, events in the past have shown that the country is still dependent on oil despite efforts to decrease that dependency since oil crises of 1973 & 1979. Sri Lanka has been trying to decrease the energy intensity of her Gross Domestic Product but, since she is undergoing structural changes from traditional to modern methodologies she has met with only limited success. Increasing amounts of oil have been demanded by the economy of Sri Lanka which has been growing. The transport sector in the country, in particular, has generally been the principal demanding sector.

Sri Lanka meets her energy requirements from several sources of energy namely

- (i) Electricity
- (ii) Petroleum
- (iii) Fuelwood and renewable energy sources like biomass, bagasse etc.

The composition of Sri Lanka's energy consumption in 1991 was as follows:

TABLE 1.1 Composition of Energy Consumption - 1991

Source	Consumption in TOE	Percentage
Electricity	626	9.7%
Petroleum	1190	18.3%
Fuelwood & Others	4670	72.0%
TOTAL	6486	100.0%

Where TOE (1 TOE = 41.84 Giga Joules) stands for Tons of Oil Equivalent and TOE is the energy unit used to convert the consumption of different forms of energy into a common unit. This conversion factor is extracted from Sri Lanka Energy Balance and Energy Data (1989) prepared by Ceylon Electricity Board of Sri Lanka.

Based on Table 1.1, the relative consumption of electricity, petroleum and fuelwood & others (includes biomass, bagasse etc.) are estimated as 9.7%, 18.3% and 72% respectively. Therefore, it is evident that non commercial energy sources which consists of fuelwood, biomass, bagasse etc. is the biggest contributor (72%) to the total Sri Lankan energy consumption. The commercial energy sources consisting of petroleum, electricity and very small amount of coal contribute nearly 28% of the Sri Lanka's energy needs of which the share from petroleum is higher than that from electricity.

This dissertation deals with the petroleum needs in Sri Lanka, and therefore, it is important to give the

reader some understanding of the petroleum industry in Sri Lanka.

1.2 Petroleum Industry in Sri Lanka

Before April 1962, the entire petroleum business was performed by three multinational oil companies SHELL, ESSO & CALTEX. In 1961, the government of Sri Lanka set up the state organisation - THE CEYLON PETROLEUM CORPORATION (CPC) under the CEYLON PETROLEUM CORPORATION Act No.28 of 1961.

The corporation entered into the business of importing and marketing petroleum products in April 1962, in competition with the above three oil companies. As the oil companies were not operating to the satisfaction of the government, the CPC by government decision took over the entire business of import and marketing of oil products in 1964. Since then the CPC has been responsible to meet the petroleum needs in the country.

CPC is the only organisation responsible for the petroleum business in the country. The objectives of the CPC are;

- (i) To carry on business as an importer, exporter seller, supplier and distributor of petroleum products.
- (ii) To carry on business of exploring, producing and refining of petroleum.