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GAIN Report

Global Agricultural Information Network

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Report Highlights:

Sri Lankan rice production in marketing year (MY) 2012/13 is reduced from 3.127 to 2.675 million tons due to lower than expected yields. 2013/14 rice production is estimated to reach 2.76 million tons, assuming normal conditions, average production and average yields. 2012/13 rice production exceeded Sri Lanka's domestic consumption, limiting demand for imported rice to small quantities of specialty products. Sri Lankan wheat flour exports are expected to soften in 2013 due to low export demand in Indonesia, a key Sri Lankan export market.

General Information:

RICE, Milled

Production:

Sri Lankan rice production in marketing year (MY) 2012/13 is reduced from 3.127 to 2.675 million tons due to lower than expected yields in both the *Yala* and *Maha* seasons. 2012/13 yields are estimated at 3.35 tons per hectare, a near 10 year low (only the 2010/11 yield was lower). Total area harvested is estimated at 1.17 million hectares, reflecting higher plantings following the end of conflict in 2009.

2012 *Yala* production suffered from drought. Harvested *Yala* area dropped to 395 thousand hectares, nearly 10,000 hectares less than the previous *Yala*, and 22 percent lower than Government of Sri Lanka (GoSL) forecasts. Drought damaged an estimated 47,000 hectares in the 2012 *Yala*, of which more than 23,000 hectares experienced 100% losses. GoSL reports for the 2013 *Maha* crop indicate losses due to flooding. While area harvested is estimated at a record 775,606 hectares, flood losses have driven yields down to 3.5 tons per hectare, which is slightly below average. Flooding has damaged up to 75,888 hectares, of which more than 18 thousand hectares experienced 100 percent losses.

MY 2013/14 rice production is estimated to reach 2.76 million tons, and 2013/14 area harvested is forecast at 1.17 million hectares, assuming normal conditions, average production and average yields. Post expects that plantings will not fluctuate significantly given Sri Lankan production incentives which limit farmer planting decisions and favor rice production. Rice production policies include a producer price floor, a 90 percent fertilizer subsidy, and a requirement that lands in paddies be used uniquely for rice production. (Some paddy lands may be used for alternative crops during the *Yala*, depending on water availability). Drought and flooding continue to be the most variable factor in forecasting Sri Lankan rice production.

MY 2011/12 rice production is revised down from 3.311 to 3.138 million tons based on revised official data. Area planted is also revised down from 1.262 to 1.195 million hectares based on revised official data.

Sri Lankan rice production incorporates a comprehensive irrigation system which sources heavily from rain-fed reservoirs. Typically, *Maha* plantings benefit from annual monsoon rains, enabling larger plantings. The *Yala* season, conversely, tends to have lower water availability, resulting in lower plantings and lower overall production. The *Maha* season is typically harvested in March/April and provides about 60 to 65 percent of Sri Lanka's annual rice production. The *Yala* season is typically harvested in September/October provides 35 to 40 percent of Sri Lanka's annual rice production.

Consumption:

As political stability improves, Sri Lankans have started to consume more staple crops. Rice consumption has grown from a low of 2.5 million tons in 2010/11 to a high of 2.8 million tons in 2011/12. High consumption numbers in 2011/12 reflect higher than usual residual (losses) due to the poor quality of rice produced which resulted from poor light conditions and flooding. 2012/13 and 2013/14 consumption has reached a plateau at 2.7 million tons annually, reflecting higher consumption and normal residual/loss levels.

Rice is the preferred staple food in Sri Lanka and production includes significant varietal differences. Generally, about 60 percent of consumption is made up of long grain white rice, 30 percent short grain white rice, and the remaining 10 percent parboiled “red” rice and other local varieties. A small portion of Sri Lanka’s rice consumption consists of imported basmati rice varieties. Assuming a population of 21 million people, Sri Lankan per capita annual rice consumption is approximately 130 kg.

Trade:

Sri Lanka discourages rice imports by maintaining a base import duty of 20 rupees per kg (approximately 30 percent of the maximum retail price of local rice). A 5 percent Port and Airport Levy (PAL) and a 2 percent Nation Building Tax (NBT) are also charged. These policies, along with fertilizer subsidies, water subsidies, a minimum support price and limited planting options have grown Sri Lanka rice production to the point of self-sufficiency over the past three years. Demand for imported rice is thus limited to small quantities of specialty products, such as basmati rice from India and Pakistan. MY 2012/13 rice imports are expected to reach 20 thousand tons, and MY 2013/14 imports are forecast at 20 thousand tons. MY 2011/12 rice imports are set at 40 thousand metric tons, based on final trade data.

Sri Lankan exports in MY 2012/13 are estimated at 20 thousand tons, based on increasing export trends and sufficient stocks. MY 2013/14 exports are also forecast at 20 thousand tons. MY 2011/12 exports are increased from 10 to 25 thousand tons based on final trade data. Sri Lankan rice exports are limited by several factors, including a lack of grades and standards and low demand for indigenous Sri Lankan rice varieties. There are, however, significant exports to the United Arab Emirates, implying that Sri Lankan expatriates may constitute a large market for Sri Lankan rice exports.

Sri Lanka made no new food aid donations in 2012 and none are expected in 2013. The Government of Sri Lanka committed 10,000 metric tons of rice to the World Food Programme for donation to the horn of Africa region in 2011.

Stocks:

Production increases which followed the end of conflict in 2009 have led to stock increases. The increases, however, have stabilized as consumption has grown, and have been drawn down with low-yielding crops in 2012/13. 2012/13 stocks declined from 1.12 million metric tons to 493 thousand metric tons, as consumption exceeded production. 2013/14 stocks are expected to stabilize at slightly over 550 thousand tons, based on the assumption of normal weather conditions and average production in excess of estimated consumption. 2011/12 stocks have been revised down from 685 to 517 thousand tons based on revised production data. Looking to the future, Sri Lankan stocks are expected to stabilize, as average production is about 2.8 million tons, or slightly greater than estimated

consumption. In the event of a bumper crop, however, it is possible that Sri Lankan stocks will be pushed to the limit, as consumption is not expected to increase greatly and there are limited export opportunities.

Policy:

Sri Lankan agricultural policy emphasizes self-sufficiency in rice production and encourages rice consumption. The GoSL attempts to guarantee a minimum price to farmers through the Paddy Marketing Board and also maintains a maximum retail price for consumers. However, private traders do not always conform to the minimum price set by the government. In addition to these measures, the GoSL has implemented a tariff on rice imports of RP 20 per kg and has also maintained tariffs on competing goods (e.g. wheat) to discourage competition with local production. The GoSL subsidizes up to 90 percent of the cost of fertilizer and provides free irrigation water through Sri Lanka’s vast reservoir system. Finally, through the [Agricultural Lands Act \(No. 42 of 1973\)](#), the GoSL obligates farmers to grow rice on paddy lands. Alternate crops are permitted only between paddy cultivation seasons or if authorized by the Agricultural Authorization Committee.

Government officials report that rice yields in Sri Lanka average less than 4 tons per hectare. Current policy is addressing the need for improved yields through research and development, specifically in the areas of seed development and availability, improved management, and irrigation practices. Additional outreach is focused on improving agronomic practices intended to lower input usage and decrease post harvest losses, as well as address challenges related to soil fertility and salinity.

Production, Supply and Demand Data Statistics:

Table 1: Commodity, Rice, Milled, PSD

| | | | | |
|---------------------------|--------------------------------|--------------------------------|--------------------------------|--|
| Rice, Milled Sri Lanka | 2011/2012 | 2012/2013 | 2013/2014 | |
| | Market Year Begin: Oct 2011 | Market Year Begin: Oct 2012 | Market Year Begin: Oct 2013 | |

| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post | |
|--------------------------|------------------|-------------|------------------|-------------|------------------|-------------|--------------|
| Area Harvested | 1,262 | 1,195 | 1,135 | 1,170 | | 1,170 | (1000 HA) |
| Beginning Stocks | 164 | 164 | 695 | 517 | | 493 | (1000 MT) |
| Milled Production | 3,311 | 3,138 | 2,650 | 2,676 | | 2,764 | (1000 MT) |
| Rough Production | 4,869 | 4,615 | 3,897 | 3,935 | | 4,065 | (1000 MT) |
| Milling Rate (.9999) | 6,800 | 6,800 | 6,800 | 6,800 | | 6,800 | (1000 MT) |
| MY Imports | 40 | 40 | 20 | 20 | | 20 | (1000 MT) |
| TY Imports | 40 | 35 | 20 | 20 | | 20 | (1000 MT) |
| TY Imp. from U.S. | 0 | 0 | 0 | 0 | | 0 | (1000 MT) |
| Total Supply | 3,515 | 3,342 | 3,365 | 3,213 | | 3,277 | (1000 MT) |
| MY Exports | 22 | 25 | 10 | 20 | | 20 | (1000 MT) |
| TY Exports | 26 | 28 | 10 | 10 | | 10 | (1000 MT) |
| Consumption and Residual | 2,798 | 2,800 | 2,800 | 2,700 | | 2,700 | (1000 MT) |
| Ending Stocks | 695 | 517 | 555 | 493 | | 557 | (1000 MT) |
| Total Distribution | 3,515 | 3,342 | 3,365 | 3,213 | | 3,277 | (1000 MT) |
| Yield (Rough) | 4. | 3.861 9 | 3. | 3.363 2 | | 3.474 4 | (MT/HA) |
| TS=TD | | 0 | | 0 | | 0 | |

WHEAT

Production:

Sri Lanka does not produce wheat. In Sri Lanka two wheat milling companies operate, which import the entirety of Sri Lanka's wheat needs. The larger of the two companies has a milling capacity of 3,600 tons per day and accounts for a significant majority of Sri Lanka's milling activity. This level is well in excess of Sri Lanka's local demand, implying that a large portion of Sri Lankan wheat imports are re-exported as flour throughout the Asia-Pacific region, spanning from Indonesia to Korea.

Consumption:

Sri Lankan agricultural policy continues to focus on self-sufficiency at the expense of food imports. This results in a strong emphasis on domestic rice production over wheat imports. Wheat consumption has thus leveled off between 750 and 850 thousand MT per year, reflecting static institutional demand. Consumption may decline slightly in the short to medium term given the relatively high cost of wheat flour vis-à-vis rice, although declines will be limited due to inelastic demand from bakeries and institutional buyers (noodle manufacturers, biscuit manufacturers, food service industries, etc.).

Wheat imports were subsidized prior to 2004. Wheat imports are currently charged a duty at the rate of 15 percent or RP 10 per kilo, (whichever is higher). A 5 percent Port and Airport Development Levy and a 2 percent nation building tax are also charged. Wheat is not used as a feed grain in Sri Lanka.

Trade:

Trade contacts report that exports to Indonesia have started to decline due to Indonesia's implementation of countervailing duties on wheat flour imports. As Sri Lanka's most important wheat export market, millers expect that flour exports will decline significantly in 2013. Additionally, the imposition of a new energy tax in Sri Lanka will increase the mill's operating costs, which may limit milling in Sri Lanka. As a result, MY 2013/14 exports are forecast at 200 thousand tons. MY 2013/14 imports are forecast at 1 million tons, slightly down from MY 2012/13, based on static Sri Lankan consumption and declining flour exports. MY 2012/13 flour exports declined slightly, based on lower than expected exports to Indonesia, Singapore and Thailand. MY 2012/13 imports increased 330 thousand tons based on final trade data. MY 2011/12 imports are unchanged.

Sri Lanka benefits from a free trade agreement with India. While Indian agricultural goods do not benefit from a preferential tariff arrangement in Sri Lanka, some Sri Lankan agricultural goods benefit from tariff reductions on exports to India. In order to qualify for this benefit, at least 30 percent of the product (by value) must originate in Sri Lanka. In the case of wheat flour, Sri Lanka adds less than 30 percent value to imported wheat, and as a result, Sri Lankan exporters claim that wheat and wheat flour exports to India are not significant at this time.

The U.S. primarily exports soft white wheat to Sri Lanka.

Stocks:

MY 2012/13 stocks are revised up to 530 thousand tons, based on higher than expected imports and reduced exports. 2011/12 stocks are unchanged at 456 thousand tons. 2013/14 stocks are forecast at 430 thousand tons. 2013/14 stock fluctuations may be dramatic given the uncertainty of Indonesian import demand.

Production, Supply and Demand Data Statistics:

Table 2: Commodity, Wheat, PSD

| Wheat Sri Lanka | 2011/2012 | | 2012/2013 | | 2013/2014 | | |
|--------------------|--------------------------------|-------------|--------------------------------|-------------|--------------------------------|-------------|--------------|
| | Market Year Begin: Jan 2011 | | Market Year Begin: Jan 2012 | | Market Year Begin: Jan 2013 | | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post | |
| Area Harvested | 0 | 0 | 0 | 0 | | 0 | (1000 HA) |
| Beginning Stocks | 468 | 261 | 396 | 456 | | 530 | (1000 MT) |
| Production | 0 | 0 | 0 | 0 | | 0 | (1000 MT) |
| MY Imports | 1,058 | 1,355 | 1,000 | 1,130 | | 1,000 | (1000 MT) |
| TY Imports | 1,121 | 1,100 | 1,000 | 900 | | 900 | (1000 MT) |
| TY Imp. from U.S. | 123 | 0 | 0 | 0 | | 0 | (1000 MT) |
| Total Supply | 1,526 | 1,616 | 1,396 | 1,586 | | 1,530 | (1000 MT) |
| MY Exports | 280 | 310 | 250 | 206 | | 200 | (1000 MT) |
| TY Exports | 366 | 275 | 250 | 350 | | 200 | (1000 MT) |
| Feed and Residual | 0 | 0 | 0 | 0 | | 0 | (1000 MT) |
| FSI Consumption | 850 | 850 | 850 | 850 | | 850 | (1000 MT) |
| Total Consumption | 850 | 850 | 850 | 850 | | 850 | (1000 MT) |
| Ending Stocks | 396 | 456 | 296 | 530 | | 480 | (1000 MT) |
| Total Distribution | 1,526 | 1,616 | 1,396 | 1,586 | | 1,530 | (1000 MT) |
| Yield | 0. | 0. | 0. | 0. | | 0. | (MT/HA) |
| TS=TD | | 0 | | 0 | | 0 | |