

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Required Report - public distribution

Date: 4/17/2012

GAIN Report Number: CE2001

Sri Lanka

Grain and Feed Annual

2012

Approved By:

Thom Wright

Prepared By:

Adrian Mendis

Report Highlights:

Sri Lankan 2011/12 paddy production is estimated at 4.869 million tons, a record high. Record rice production is leading to increased consumption and ballooning stocks. Despite surplus production, Sri Lankan exports are limited due to a lack of grades and standards and low demand for indigenous Sri Lankan rice varieties. Sri Lanka donated 7,500 tons of rice to the World Food Program in 2011, signaling a shift from a rice deficit country to a rice surplus country. Sri Lanka does not produce wheat, and wheat imports have stagnated over the last decade as Sri Lankan agricultural policy has shifted towards promoting self-sufficiency in rice production.

Commodities:

Rice, Milled

Production:**Normal Weather Conditions and Record Plantings Result in Record Production**

Following normal weather conditions and record rice plantings, Sri Lanka's 2011/12 rice crop is at a record high. 2011/12 area harvested is estimated at 1.262 million hectares (2 harvests combined on an October/September year). 2011/12 paddy production is estimated at 4.869 million tons, a leap of 32 percent over the 2010/11 year. Sri Lanka's production jump can be attributed to two factors. First, following the end of armed conflict in 2009, Sri Lanka was able to greatly increase the amount of available paddy production land (estimated at 30 percent). Additionally, the 2010/11 Maha crop faced significant losses due to flooding and poor sunlight conditions during key growing periods. Given excellent growing conditions in the 2011/12 season, Sri Lanka has become a surplus rice producer.

2012/13 Production Expected to Remain High

Post forecasts 2012/13 Sri Lankan rice production to remain at surplus levels given Sri Lankan agricultural policies which limit farmer production choices and promote rice production. The Government of Sri Lanka (GoSL) currently requires that paddy land be used uniquely for rice production. This policy remains largely inflexible during the Maha period, although some alternative planting choices are possible during the Yala season as water availability is lower and rice is not a viable option. Given current surplus production and the resulting lower rice prices, more farmers may opt for alternate crops during the 2012 Yala season. However, industry and government sources in Sri Lanka have stated that under current production policies, rice production will remain elevated (assuming normal weather conditions). 2012/13 paddy production is currently forecast at 4.6 based on slightly lower area harvested, assuming average plantings.

2010/11 area harvested and paddy production are revised to 1.117 million hectares and 3.662 million tons, based on final GoSL estimates.

Sri Lankan rice production incorporates a comprehensive irrigation system which sources heavily from rain-fed tanks and 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 Sri Lankan political stability has greatly improved over the last few years and local rice production continues to increase, the country continues to consume more staple crops. As a result, 2011/12 rice consumption grew to 2.8 million metric tons, 280 thousand tons over the previous year. 2011/12 consumption also reflects slightly higher residual consumption (waste/spoilage) carried over from the previous year's crop. Increased storage losses are directly attributable to lower quality grain which was produced under flooding and poor sunlight conditions during the 2011 Maha crop. 2012/13 consumption is estimated slightly lower at 2.7 million tons, assuming fewer storage losses. However, given Sri Lanka's booming production and bulging stocks, higher losses may occur if local storage capacities are greatly exceeded.

Rice is the preferred staple food in Sri Lanka and production includes significant varietal differences based on local preferences. 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. As a result, imports are limited to small quantities of specialty products, such as basmati rice from India and Pakistan. 2011/12 marketing year imports are therefore estimated at 20 thousand metric tons, while 2010/11 marketing year imports are finalized at 20 thousand metric tons, based on trade data. 2012/13 marketing year imports are also projected at 20 thousand metric tons.

Sri Lanka Becomes a Food Aid Donor

As recently as 2008, Sri Lanka received food aid shipments of rice. In an interesting turn of events, Sri Lanka donated 7,500 metric tons of rice to the horn of Africa region through the World Food Program in calendar year 2011. Although the total donation amount is small, it indicates the magnitude to which the rice production scenario in Sri Lanka has shifted. Despite being a surplus rice producer, the export market for Sri Lankan rice remains small due to challenges such as a lack of grades and standards and low demand for indigenous Sri Lankan rice varieties. Sri Lankan rice exports therefore serve specialty consumers, in particular Sri Lankan citizens living abroad. (Note that trade data indicates that the majority of Sri Lankan exports are sent to the United Arab Emirates and Canada, two countries with large Sri Lankan expatriate populations). Given these factors, 2011/12 marketing year exports are set at 10 thousand metric tons. 2010/11 exports are set at 17 thousand tons (based on trade and World Food Program data) and 2012/13 marketing year exports are also projected at 10 thousand metric tons. Additional food aid donations for marketing year 2011/12 are currently not foreseen.

Stocks:

Stocks Bulge to Record Levels

While Sri Lankan rice production has grown significantly, local consumption has not increased with the same magnitude. Combining record production and minimal export options, Sri Lankan rice stocks are growing to levels unseen before. 2011/12 marketing year stocks are therefore estimated at a record 685 thousand tons. With no significant changes foreseen in Sri Lanka's rice production policies, 2012/13 stocks are projected to grow to 1.122 million tons, also a record. Note that record stock levels are straining Sri Lankan storage facilities. If adequate storage for grain stocks is unavailable in 2012/13, it is possible that the final number may decline due to spoilage. 2010/11 stocks are set at 164 thousand tons.

Policy:

The Government of Sri Lanka has a policy intended to create self-sufficiency in rice production and to encourage rice consumption. The GoSL guarantees a minimum price to farmers through the Paddy Marketing Board and also maintains a maximum retail price for consumers. In addition to these measures, the GoSL has implemented a tariff on rice imports of RP 20 per kg and has also increased the tariff on competing goods (ie wheat) to discourage competition with local production. The GoSL further subsidizes up to 95 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 the challenges related to soil fertility and salinity.

Production, Supply and Demand Data Statistics:

Table 1: Commodity, Rice, Milled, PSD

Rice, Milled Sri Lanka	2010/2011		2011/2012		2012/2013		
	Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: Oct 2012		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Harvested	950	1,117	1,100	1,262		1,192	(1000 HA)

Beginning Stocks	191	191	171	164		685	(1000 MT)
Milled Production	2,400	2,490	2,900	3,311		3,127	(1000 MT)
Rough Production	3,529	3,662	4,265	4,869		4,599	(1000 MT)
Milling Rate (.9999)	6,800	6,800	6,800	6,800		6,800	(1000 MT)
MY Imports	40	20	40	20		20	(1000 MT)
TY Imports	40	27	40	20		20	(1000 MT)
TY Imp. from U.S.	0	0	0	0		0	(1000 MT)
Total Supply	2,631	2,701	3,111	3,495		3,832	(1000 MT)
MY Exports	10	17	10	10		10	(1000 MT)
TY Exports	10	12	10	10		10	(1000 MT)
Consumption and Residual	2,450	2,520	2,800	2,800		2,700	(1000 MT)
Ending Stocks	171	164	301	685		1,122	(1000 MT)
Total Distribution	2,631	2,701	3,111	3,495		3,832	(1000 MT)
Yield (Rough)	4.	3.2784	4.	3.8582		3.8582	(MT/HA)
TS=TD		0		0		0	

Commodities:

Wheat

Production:

Sri Lanka does not produce wheat. There are two wheat milling companies operating in Sri Lanka which import the entirety of Sri Lanka's wheat needs. The larger of the two milling companies has a milling capacity of 3,600 tons per day and accounts for a significant majority of Sri Lanka's milling activity.

Consumption:

Wheat imports were subsidized prior to 2004. As Sri Lanka has set rice production self-sufficiency as a policy goal, the wheat import subsidy was removed and a duty on wheat has been added (15 percent or RP 16 per kilo, whichever is higher). A 5 percent PAL and 2 percent NBT are also charged. This has

lead to total consumption leveling off at around 750,000 to 850,000 tons annually. Wheat is not used as a feed grain in Sri Lanka.

Domestic consumption of wheat products takes various forms, including pan style white breads, whole grain Indian flat breads (roti), and various Asian noodle products. There is additional demand for wheat products (buns) in quick service restaurant.

Trade:

2011/12 marketing year imports are set at 1.355 million tons and 2010/11 data is finalized at 945 thousand tons, based on trade data. 2012/13 imports are estimated at 900 thousand tons. While demand for wheat for local consumption has softened due to the abundance of local rice and high tariffs on wheat, a fair quantity of wheat is milled and exported throughout Southeast Asia. This is possible as Sri Lankan wheat millers benefit from duty free imports on re-exported wheat products. As a result, exports have grown over the last decade, while imports have remained stagnant. 2011/12 marketing year exports are thus set at 310 thousand tons and 2010/11 exports are set at 279 thousand tons, based on trade data. 2012/13 marketing year exports are estimated at 350 thousand metric tons.

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:

The government does not maintain reserve wheat stocks. Post estimates industry held-stocks at approximately 456 thousand metric tons in 2011/12 and 261 thousand metric tons in 2010/11.

Production, Supply and Demand Data Statistics:

Table 2: Commodity, Wheat, PSD

Wheat Lanka	Sri	2010/2011		2011/2012		2012/2013		
		Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		
		USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Harvested		0	0	0	0		0	(1000 HA)
Beginning Stocks		445	445	445	261		456	(1000 MT)
Production		0	0	0	0		0	(1000 MT)
MY Imports		1,200	945	1,200	1,355		900	(1000 MT)
TY Imports		1,248	1,218	1,200	1,100		900	(1000 MT)
TY Imp. from U.S.		130	119	0	200		0	(1000 MT)
Total Supply		1,645	1,390	1,645	1,616		1,356	(1000 MT)
MY Exports		350	279	350	310		350	(1000 MT)
TY Exports		410	302	400	250		350	(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		445	261	445	456		156	(1000 MT)
Total Distribution		1,645	1,390	1,645	1,616		1,356	(1000 MT)
Yield		0.	0.	0.	0.		0.	(MT/HA)
TS=TD			0		0		0	