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Report Highlights:

FAS Colombo (Post) forecasts Sri Lanka's market year (MY) 2021/2022 (October-September) rough rice production at 5.12 million metric tons (MMT), up by 121,000 metric tons (MT), and increasing by 2.5 percent compared to the U.S. Department of Agriculture (USDA) official MY 2020/2021 figure of 5.0 million metric tons. The increase is due to favorable weather conditions combined with the expansion of government-backed water irrigation schemes; in addition to the state fomenting increased domestic production at the expense of imports. Sri Lanka's MY 2021/2022 wheat imports are forecast at 1.2 MMT, up by 200,000 MT, an increase of 20 percent above the USDA official 2020/2021 figure of 1.0 million metric tons. Sri Lanka's main wheat suppliers are Canada, Russia, the United States, Australia, Pakistan, India, and Romania. In 2020, U.S.-origin wheat represented 11 percent of Sri Lanka's imports.

EXECUTIVE SUMMARY

FAS Colombo (Post) forecasts Sri Lanka's market year (MY) 2021/2022 (October-September) rough rice production at 5.12 million metric tons (MMT), up by some 121,000 metric tons (MT), an increase of 2.5 percent compared to the U.S. Department of Agriculture (USDA) official MY 2020/2021 figure of 5.0 million metric tons. Post attributes the increase to continued favorable weather conditions combined with the expansion of government-backed water irrigation programs, along with the state striving to increase domestic production at the expense of imports.

Sri Lankan rice production incorporates a comprehensive irrigation system drawing heavily from rain-fed reservoirs. Paddy rice cultivation consists of both small- and large-scale rain-fed irrigation systems. About 40 percent of the country's arable land is under paddy rice cultivation.

Rice is a mainstay in Sri Lanka's diet and lifestyle. Twenty-seven percent of the population of this country of 23 million (Central Intelligence Agency, July 2020 estimate) is engaged in agriculture. Consumption is increasing marginally in keeping with modest annual population growth of about 0.63 percent. Assuming normal circumstances, total rice consumption and residual in MY 2021/2022 is set to reach 2.8 MMT, reflecting marginal increases in consumption and normal residual/loss levels.

With no domestic production of its own, Sri Lanka for decades has been importing wheat for flour milling. Recently the government has begun allowing wheat flour imports. FAS Colombo forecasts Sri Lanka's MY 2021/2022 (July-June) total wheat consumption at 960,000 MT, up by 90,000 MT, an increase of 10 percent from the USDA official MY 2020/2021 estimate figure of 870,000 metric tons. In MY 2019/2020 total consumption stood at 860,000 MT (USDA official figure). Consumption has suffered due to rising prices and the tightening of trade policies, as well as by depressed demand from the country's hotel-restaurant-institutional (HRI) sector affected by COVID-19 lockdowns.

Post forecasts Sri Lanka's MY 2021/2022 wheat imports at 1.2 MMT, up by 200,000 MT, an increase of 20 percent above the USDA official 2020/2021 figure of 1.0 million metric tons. Sri Lanka's main wheat suppliers include Canada, Russia, the United States, Australia, Pakistan, India, and Romania. In 2020, United States supplied 11 percent of Sri Lanka's wheat imports. There are only two flour millers (Prima Ceylon Ltd., and Serendib Flour Mills) operating in Sri Lanka. These millers are responsible for the majority of Sri Lanka's annual wheat (for human consumption) imports.

Due to recurring shortages in domestic corn (maize) production, for the first time Sri Lanka recently authorized imports of wheat for animal feed milling. The country's import substitution policy, in seeking to increase corn production, is placing restrictions on corn imports. In this same vein, a one-time quota of 185,000 MT opened running from August 1 to October 31, 2020, filling 170,000 metric tons. Within that period, the Sri Lankan Department of Agriculture (DOA)\National Plant Quarantine Service (NPQS) evaluated and revised national wheat import requirements to allow for alternative wheat end uses: flour milling for human consumption and lesser-quality wheat for feed milling.

Current import requirements prevent U.S.-origin wheat from entering the Sri Lankan market for animal feed processing. The current entry requirements are highly restrictive for de-husked, bulk wheat grains imported for animal feed production.

COMMODITIES:

RICE

Table 1. Sri Lanka: Commodity, Rice Milled, PSD

Rice, Milled Market Begin Year Sri Lanka	2019/2020		2020/2021		2021/2022	
	Oct 2019		Oct 2020		Oct 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested (1000 HA)	973	957	1090	1066	0	1065
Beginning Stocks (1000 MT)	567	567	737	752	0	1387
Milled Production (1000 MT)	3207	3122	3450	3482	0	3482
Rough Production (1000 MT)	4716	4591	5000	5121	0	5121
Milling Rate (.9999)	6800	6800	6900	6800	0	6800
MY Imports (1000 MT)	20	20	20	8	0	8
TY Imports (1000 MT)	20	16	20	9	0	9
TY Imp. from U.S. (1000 MT)	0	0	0	0	0	0
Total Supply (1000 MT)	3794	3709	4207	4242	0	4877
MY Exports (1000 MT)	7	7	5	5	0	5
TY Exports (1000 MT)	8	8	5	5	0	5
Consumption and Residual (1000 MT)	3050	2950	3150	2850	0	2850
Ending Stocks (1000 MT)	737	752	1052	1387	0	2022
Total Distribution (1000 MT)	3794	3709	4207	4242	0	4877
Yield (Rough) (MT/HA)	4.8469	4.7973	4.5872	4.8039	0	4.8085

Source: USDA official estimates and Post estimates.

PRODUCTION

FAS Colombo (Post) forecasts Sri Lanka's market year (MY) 2021/2022 (October-September) rough rice production at 5.12 million metric tons (MMT), up by some 121,000 metric tons (MT), an increase of almost 2.5 percent compared to the U.S. Department of Agriculture (USDA) official MY 2020/2021 figure of 5.0 million metric tons. Post attributes the increase to continued favorable weather conditions combined with the expansion of government-backed water irrigation initiatives aimed at fomenting domestic rice production.

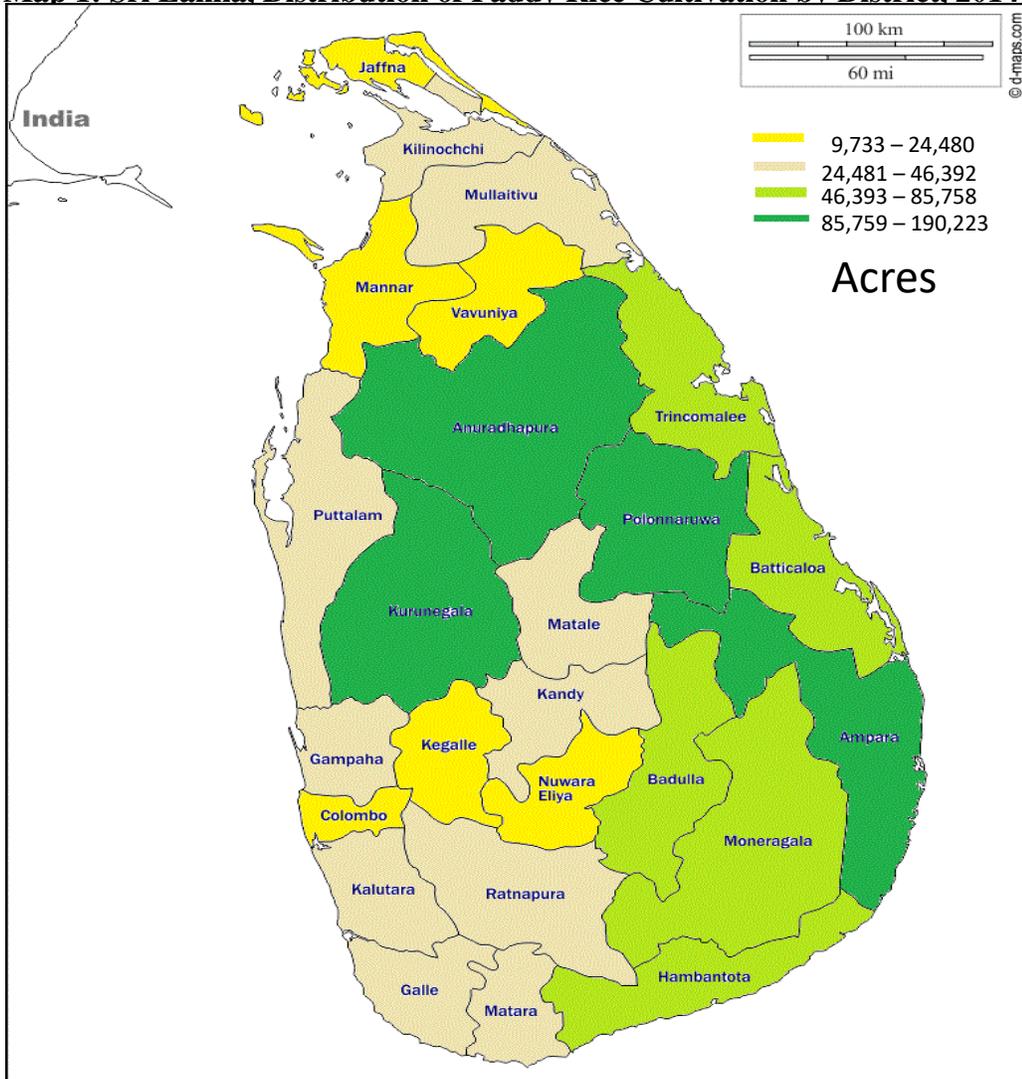
Rough (paddy) rice area harvested is forecast at 1.06 million hectares, down by 25,000 hectares compared to the MY 2020/2021 area of 1.09 million hectares. However, with yields coming in at 4.8 MT/hectare, thanks to favorable weather conditions and ample reservoir water availability, MY 2020/2021 production is set to expand to 5.12 MMT (estimate). The drop in acreage in 2021/2022 is however, attributed to some production lands being shifted to other field crops (i.e., vegetables).

The Sri Lankan government, in response to the coronavirus (COVID-19) pandemic outbreak, and seeking to ensure greater food security, diverted some paddy rice lands to other field crops. Despite changes to the cropping plan, the MY 2020/2021 crop will exceed expectations and surpass 5.0 million

metric tons. Milled rice production is at 3.48 MMT, up by 275,000 MT or 8.5 percent higher than the previous USDA official MY 2019/2020 figure of 3.27 million metric tons.

For the third year in a row, Sri Lanka in MY 2020/2021 is set to experience a rice bumper harvest; following earlier years' drought driven production dips. Sri Lankan rice production incorporates a comprehensive irrigation system, drawing heavily from rain-fed reservoirs. Paddy rice cultivation incorporates both small- and large-scale rain-fed irrigations systems. About 40 percent of the country's arable land is under paddy rice cultivation.

Map 1: Sri Lanka, Distribution of Paddy Rice Cultivation by District, 2014



Source: Sri Lanka Department of Census and Statistics – Economic Census 2013/14 General Report, Agricultural Activities.

Rice plantings occur in two seasons, the *Maha* (the main season) and *Yala* (a second season). Under normal conditions the *Maha* season (September-March) produces the country's major rice crop (60-65 percent of the annual production), with a March harvest. The *Maha* season normally ends in March with the arrival of northeast monsoon. The crop's productivity is susceptible to the fall of monsoon rains.

The *Yala* season produces the country's minor rice crop (35-40 percent of annual production), with an August-September harvest. This growing season tends normally to have lower water availability resulting in lower plantings and lower overall production.

The 2020/2021 *Maha* season's rains arrived late, delaying plantings until the first week of December 2020 in Sri Lanka's paddy rice growing areas. Nevertheless, overall rainfall this past *Maha* season remain above average, and favorable for growing rice.

Reservoir carry-over capacity in MY 2020/2021 initially hovered at average levels until cyclone *Burevi* made landfall on December 2, 2020. That weak cyclonic storm affected most reservoir catchment areas, allowing water levels to increase substantially. Intense rains subsequently fell in early January 2021, in the main paddy rice growing areas. Reservoir water levels, now at more than 50 percent carry-over capacity, are higher than normal, and adequate to irrigate the upcoming 2021 *Yala* season's crop in the intermediate-to-dry paddy rice growing areas. Post estimates that with sufficient water availability for irrigation, overall rough rice production in MY 2020/2021 will come in at 5.1 million metric tons.

The 2019/2020 *Maha* season experienced a combination of drought and floods. The dry and moderate drought conditions prevailing from August to September in crop growing areas delayed the *Maha* cultivation. Floods due to heavy rains towards the end of the season damaged the crop throughout the country. Despite arriving late, the inter-monsoonal rains and northeast monsoonal rains provided ample water for cultivation of the 2019/2020 *Maha* crop. Below normal rainfall in April 2020, delayed the *Yala* field preparations in rain-fed wet and intermediate zones. The water levels of major irrigation reservoirs remained adequate to start the 2020 *Yala* crop in dry and intermediate zones, but subsequent drier weather depleted water levels in the latter months, dragging MY 2019/2020 production down to 4.6 million metric tons.

Severe drought conditions in years leading up to the 2018/2019 *Maha* season severely depressed the local rice industry. Farmers, with limitations on water availability, had shifted to increased plantings of vegetables and field crops watered using AGRO-wells.¹ Pest attacks, particularly of Brown Plant Hopper (BPH), had also further diminished rice production across the main rice-producing areas. With the return of more favorable weather, and rains, combined with government-backed irrigation programs (especially the *Moragahakanda-Kalu Ganga* irrigation development project), farmers returned to planting in the main paddy-producing dry zone area.²

Irrigation water availability affects farmers' choices of planting varieties. Sixty percent of the plantings are of long-grain rice (*Nadu*) followed by plantings of 22 percent of short-grain (*Samba*) rice.

¹ AGRO-wells in Sri Lanka normally refer to wells used at least partially for agriculture, which are normally shallow and require minimal maintenance. AGRO-wells include lined dug-wells, unlined dug-wells, as well as tube-wells. Wells are about 4.5 meters in diameter and eight meters deep.

² *Moragahakanda-Kalu Ganga* has helped to ensure the availability of irrigation water throughout the cultivation period, leading to an increase in irrigable lands.

CONSUMPTION

Rice is a mainstay in Sri Lanka's diet and lifestyle. Twenty-seven percent of the population, of this country of 23 million (Central Intelligence Agency, July 2020 estimate), engages in agriculture. Consumption is increasing marginally on modest annual population growth of about 0.63 percent. Assuming normal circumstances, Post forecasts rice total consumption and residual in MY 2021/2022 at 2.8 MMT, reflecting marginal increases in consumption and normal residual/loss levels.

Due to the COVID-19 outbreak in 2020, rice consumption rose in MY 2020/2021, reaching an estimated 3.15 MMT (USDA official figure). The nationwide lockdown, beginning March 20, 2020, continuing for months, disrupted food distribution channels for most commodities, except for rice. Unsurprisingly the government is still prioritizing rice as a strategic commodity to ensure its availability and affordability.

Consumer access to alternative sources of carbohydrates (i.e., wheat flour-based noodles, pasta, bakery products, and root crops) dropped during the COVID-19 pandemic. With Sri Lankan incomes stumbling and prices increasing for wheat- and root-flour products, consumers have shifted to increase rice consumption. Consumption has increased from 3.05 MMT in MY 2019/2020, which was already up by some 250,000 MT from the previous year's level, to now an estimated 3.15 MMT in MY 2020/2021.³

The Sri Lankan government increased the quantity of rice provided in food baskets. On April 10, 2020, the government declared rice milling an essential service to ensure a continuous supply of rice even after the end of the harvest. With the spread of COVID-19 starting to abate in 2021, Post forecasts rice consumption in MY 2021/2022 at around 2.85 MMT, as consumers take up once again the increase consumption of wheat flour-based products.

Consumer Preferences: Throughout the country, consumers' varietal preference can include both short- and long-grain rice, in raw or parboiled form, as well as white or red pericarp. Long-grain raw rice (non-parboiled), however, is the most-consumed type. On average, most households consume about 16 kilograms of long-grain raw rice per month (white or red). Though white rice remains the most popular type, red rice is now gaining in popularity.⁴ Consumers are identifying red rice and bran as having better nutritional qualities (i.e., being richer in vitamin B, minerals, protein, fat, and fiber content). Red rice is gaining popularity also thanks to it possessing a low glycemic index; preferences are shifting in Sri Lanka, a country that is concerned about the prevalence of diet-related diseases such as diabetes and obesity.

Interest in traditional rice varieties such as *Suwadel*, *Pacchchaperumal*, *Kalu Heenati*, and *Madathawalu*, is rising in recognition of their nutritional qualities. Nonetheless, low supply and high retail prices limit their consumption. A small portion of Sri Lanka's rice consumption consists of imported (Indian and Pakistani) Basmati rice, but high prices limit Basmati to a narrow market.

³ On a per capita basis, consumption is estimated at 107 kilograms/person calculated by Sri Lanka's Department of Agriculture that takes a population figure of 21.8 million (2019) as the basis of its crop forecast calculations.

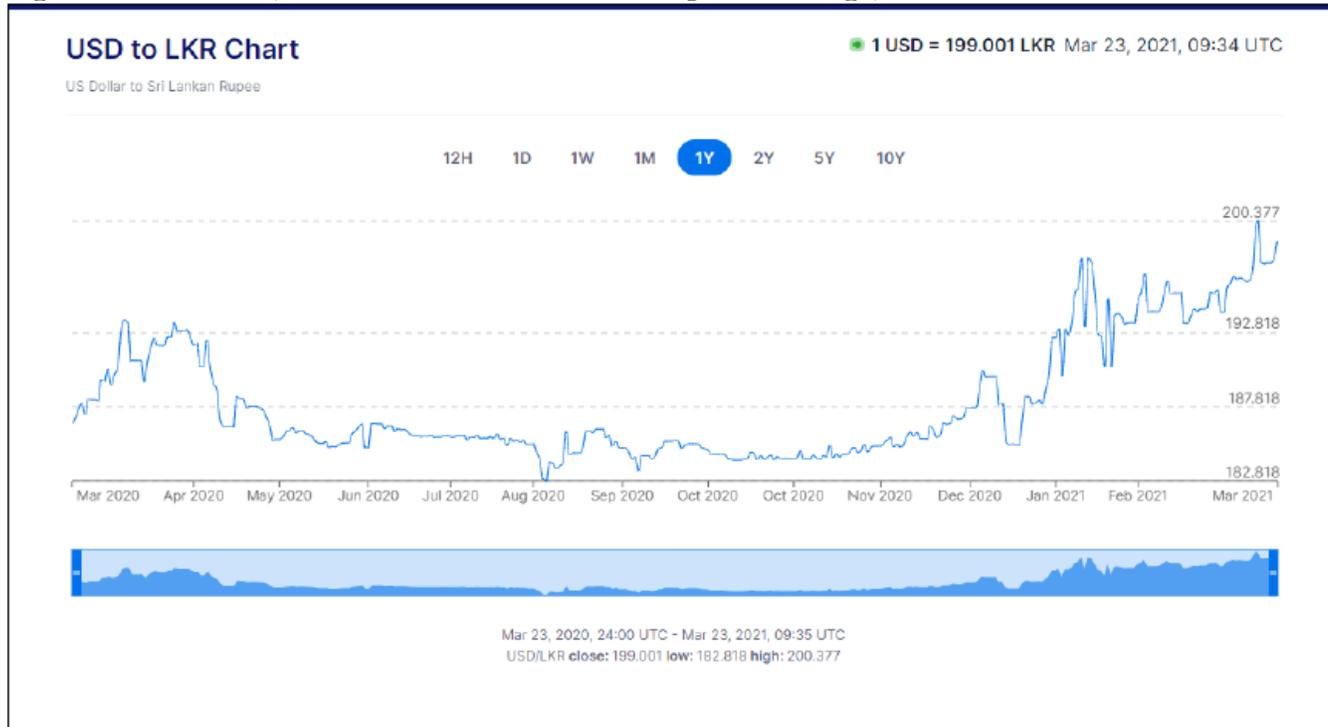
⁴ National Thematic Research Program on Food Security of National Science Foundation of Sri Lanka, Institute of Policy Studies of Sri Lanka 2017 (see, [GAIN-SRI LANKA – Grain and Feed Annual - 2020](#)).

TRADE

Imports: FAS Colombo forecasts Sri Lanka's MY 2021/2022 rice imports at 8,000 MT, down by 12,000 MT or 60 percent lower compared to the USDA official MY 2020/2021 estimate figure of 20,000 metric tons. Post attributes the drop in import volumes to bumper rice harvests occurring in the 2019/2020 and 2020/2021 seasons, as well as potentially again in the 2021/2022 *Maha* seasons helping to build up stock levels. The government will permit rice imports if domestic rice prices surge due to increase consumer demand outpacing domestically produced rice supply.⁵ A handful of rice millers control supply.

Further restraining import volumes is the Sri Lankan government actively discouraging imports to relieve downward pressure on the Sri Lankan rupee (LKR).⁶ COVID-19's macroeconomic-related impacts have depressed the value of the Sri Lankan rupee. The government is addressing the drop in its hard currency reserves by restricting imports. India and Pakistan are the main source for rice imports.

Figure 1: Sri Lanka, U.S. Dollar to Sri Lankan Rupee Exchange, March 2020 to March 2021



Source: XE.com – XE Live Exchange Rates.

On March 19, 2020, the Central Bank of Sri Lanka directed commercial banks to suspend facilitation of imports of non-essential goods and vehicles. On April 16, 2020, the government announced placing restrictions on the import of 156 food and other commodities, including rice.

⁵ There is no Basmati rice production in Sri Lanka. Basmati rice prices do not go into the government's permit decision-making processes.

⁶ The Sri Lanka rupee (LKR) trades at LKR 199.23 to \$1.00 at current mid-market rates as of March 23, 2021.

Exports: FAS Colombo forecasts Sri Lanka's MY 2021/2022 rice exports at 5,000 MT, a volume that remains unchanged compared to the USDA official MY 2020/2021 estimate. The potential for Sri Lankan rice exports is limited. Inhibiting greater volumes of exports is the absence of grades and standards for Sri Lankan rice, combined with low demand for the country's indigenous rice varieties. The exports that do occur go mainly to Sri Lankan expatriates working in Germany, the United Kingdom, Canada, and the United Arab Emirates.

STOCKS

FAS Colombo forecasts Sri Lanka's MY 2021/2022 rice ending stocks at 2.02 MMT, up by 970,000 MT, or increasing by 92 percent compared to the USDA official MY 2020/2021 figure of 1.05 million metric tons. This major increase results from the combination of bumper harvest volumes with millers' hoarding, and limited exports.

Paddy Rice Stocks to soar in 2020/2021 and Beyond: The Sri Lankan government provides no official statistics on Sri Lanka's paddy and rice stocks – complicating actual stock level estimations. Paddy rice stocks began to increase following the government's defeat of the Liberation Tigers of Tamil Eelam (LTTE) in 2009 and with the reestablishment of government control over the entire country. Growth in consumption over time has increasingly absorbed reserves. Stock levels also suffered from poor (drought stricken) harvests commencing in 2012/2013 and lasting through the 2018/2019 *Maha* crop season.

With the return of better harvests, stock levels rose to 750,000 MT in MY 2019/2020. With bountiful rice production expected from the MY 2020/2021 harvest season, stocks are set to reach at 1.3 MMT (estimate). With limited export opportunities, combined with now only marginal increases in consumption, an increase to 2.02 MMT in ending stock levels in MY 2021/2022 is likely considering favorable weather conditions.

Post estimates the ending stock level on the assumption that there is no diversion, or illegal use of rice in animal feed meal formulation. Since July 2020, Sri Lanka bans the [use of paddy and rice for animal feed](#). However, sources do indicate utilization of significant quantities of rice illegally going to animal feed due to corn (maize) shortages.

The Government-set Guaranteed Price (GP): The state-run Paddy Marketing Board (PMB) purchases paddy rice at a government-set guaranteed price (GP). When market prices exceed the GP, farmers may sell their crop on the open market. Prior to MY 2018/2019, due to low rice production volumes, the government held no stocks. Starting in MY 2018/2019 the government began to establish strategic stock reserves, which initially reached 50,000 metric tons. It then had set the long-grain paddy rice (*Nadu*) GP at LKR 38/kilogram (\$0.24/kilogram) and for short-grain paddy rice (*Samba*) at LKR 41/kilogram (\$0.26/kilogram).⁷ The government maintains 323 warehouses (with a capacity of 300,000 MT); it will likely stock some 150,000 MT in MY 2020/2021 as means of assisting to reduce market shortages and to control prices.

⁷ FOREX Sri Lanka rupee (LKR) 158.29 to \$1.00 as of July 1, 2018.

In MY 2019/2020, to ensure that farmers provided the government with the necessary volume of stocks, a new fixed GP-set purchase price of LKR 50/kilogram (\$0.28/kilogram) was set.⁸ The government had sought to link distribution of the fertilizer subsidy to farmer commitment to supply 1.0 MT of paddy rice to the Paddy Marketing Board. With farmers obtaining higher prices on the open market, the PMB was unable to acquire adequate stock volumes. It has been forced to raise the GP-set purchase price to LKR 52/kilogram (\$0.29/kilogram) and subsequently to LKR 55/kilogram (\$0.31/kilogram).⁹ The board has now received cabinet approval to purchase paddy rice at competitive, open market prices.

Control over Rice Stocks: Millers, paddy middlemen, and farmers primarily hold Sri Lanka's rice stocks. Private sector paddy milling in Sri Lanka comprises a few large millers, a middle layer of medium-scale millers, and thousands of small-scale millers. The large-scale millers are equipped with state-of-the-art storage facilities and milling plants, which are integrated operations that include loading, cleaning, sorting, and packaging for distribution.

Paddy rice ageing is a common practice in Sri Lanka for improving the quality of rice and provides an easy justification for holding onto stocks. However, only large-scale millers have the working capital needed to hold onto stocks for extended periods. These millers also benefit from being able to more readily source working capital from the state-run banks, the latter of which issue loans primarily in relation to the miller's productive capacity. Small-scale millers remain disadvantaged by the system of preferences that rewards large-scale operations.

Nonetheless, with the pandemic outbreak, even the small-scale millers and farmers have sought to hold back paddy rice, nominally for emergency consumption. Large-scale millers along with some of the medium-scale millers and farmers will hold more stocks than usual in MY 2020/2021 and going into MY 2021/2022.

POLICY

The Sri Lankan government's agricultural policy promotes and supports paddy rice cultivation. The government supports farmers through the provision of free lands and irrigation water and facilitates fertilizer subsidies and price supports. The government is promoting the expansion of paddy rice cultivation, with the goal of ensuring rice self-sufficiency.

Free Irrigation Water for Production: The Sri Lankan government foments rice production through irrigation water programs. These programs provide free water through an extensive network of irrigation tanks and canals. Ninety-five percent of paddy production is smallholder farms of less than two hectares. Guidance to farmers is to cultivate varieties that mature and are harvestable within 3.5 months based on water availability.

Fertilizer Subsidy: A key component of Sri Lanka's agricultural policy is the provision of the fertilizer subsidy. The modality of the fertilizer subsidy and its distribution changes over time. Paddy rice

⁸ FOREX Sri Lanka rupee (LKR) 176.31 to \$1.00 as of July 1, 2019.

⁹ Ibid.

farmers receive free fertilizer allotments to cover a maximum of two hectares. Some sources estimate that imports of fertilizer for paddy rice production may reach 383,000 MT annually.

Promoting Rice Self-Sufficiency through Taxes: Sri Lanka is promoting self-sufficiency in rice by controlling/restricting rice imports. Starting November 2020, Sri Lanka set the current base import duty for rice at 15 percent or LKR 28/kilogram (\$0.15/kilogram), tacking on an additional CESS tax of 15 percent or LKR 28/kilogram (\$0.15/kilogram). Combined the duty and the CESS represent 70 percent of the local retail price.¹⁰ Sri Lanka also applies a 10 percent port and airport levy (PAL) and an eight percent value-added-tax (VAT) on rice imports. Previously, Sri Lanka applied a general duty rate of 30 percent or LKR 55/kilogram (\$0.30/kilogram) plus the PAL and VAT rates.¹¹ Demand for imported rice is restricted to small quantities of Basmati rice from India and Pakistan. Pakistan benefits from a tariff rate quota of 6,000 MT for Basmati rice per calendar year on a duty-free basis.

Import Substitution Policy: In 2020, the Sri Lankan government launched an LKR 2.0 billion (\$10 million) program to boost production of 16 commodities, including rice, over the next four years. The program's objective is to transform Sri Lanka into an agricultural self-sufficient, export-oriented economy. Ultimately, the success of the export-oriented program depends on farm gate prices, farmers' willingness to take on market risk, and the salability of Sri Lankan products in foreign markets.

Paddy rice farmers continue to enjoy a guaranteed price (GP) for their production. The government-set GP acts as the floor price. High floor prices for paddy rice provide an incentive to farmers to continue to grow rice rather than risk growing other crops. On the other hand, the government in April 2020, just prior to the planting (*Yala*) season, introduced a GP for an additional 14 field crops to encourage farmers to shift to other crops.

MARKETING

Pricing: Rice retail prices have experienced an upswing over the past two years (commencing in October 2019), punctuated by oscillations in seasonal pricing. Price spikes occur in December-January, which is the lean period before the *Maha* crop's harvest.

When retail prices surge in December-January, the Sri Lankan government sets a maximum retail price (MRP) through the state-run Consumer Affairs Authority (CAA). On November 4, 2020, earlier than usual, the MRP was revised to LKR 94/kilogram (\$0.51/kilogram) for *Samba* rice and LKR 92/kilogram (\$0.50/kilogram) for *Nadu* rice.¹² Raw rice prices remain fixed at LKR 89/kilogram (\$0.48/kilogram). Basmati rice from India and Pakistan remain priced at prevailing market rates.¹³

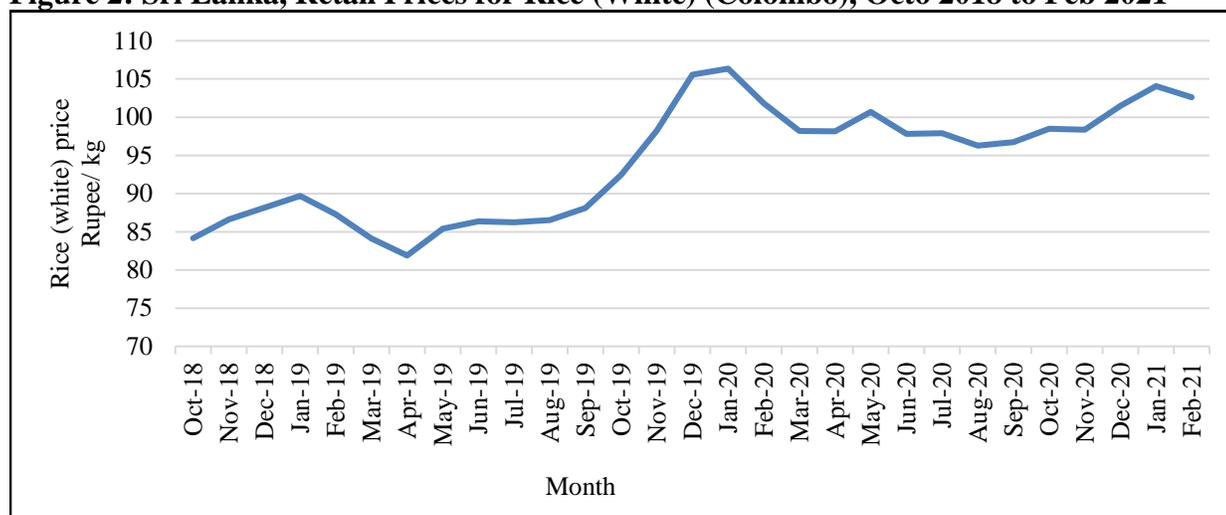
¹⁰ FOREX Sri Lanka rupee (LKR) 184.29 to \$1.00 as of November 1, 2020.

¹¹ Ibid.

¹² FOREX Sri Lanka rupee (LKR) 184.27 to \$1.00 as of November 4, 2020.

¹³ Ibid.

Figure 2: Sri Lanka, Retail Prices for Rice (White) (Colombo), Octo 2018 to Feb 2021



SOURCE: Sri Lanka Department of Census and Statistics, Food and Agricultural Organization (FAO) – Global Information and Early Warning System (GIEWS), FAS Colombo office research.

Notwithstanding regulations, private traders do not always conform to the government-set maximum prices. Despite government efforts to control prices, and keep rice affordable for the public, market prices in MY 2020/2021 exceeded the MRP prices.

While there are reports of shortages of some of the popular rice types, the shortages appear artificially induced as millers are holding back on supplies. To compensate, and help control prices, the government is releasing a volume of its rice stocks and distributing it through state-run retail outlets (i.e., through the *Sathosa*).

COMMODITIES:

WHEAT

Table 2: Commodity: Wheat - Production, Supply and Demand (PSD)

Wheat	2019/2020		2020/2021		2021/2022	
Market Begin Year	Jul 2019		Jul 2020		Jul 2021	
Sri Lanka	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested (1000 HA)	0	0	0	0	0	0
Beginning Stocks (1000 MT)	410	410	536	521	0	741
Production (1000 MT)	0	0	0	0	0	0
MY Imports (1000 MT)	1,100	1,255	1,000	1,300	0	1,200
TY Imports (1000 MT)	1,100	1,255	1,000	1,300	0	1,200
TY Imp. from U.S. (1000 MT)	136	136	0	0	0	0
Total Supply (1000 MT)	1,510	1,665	1,536	1,821	0	1,941
MY Exports (1000 MT)	114	114	80	120	0	120
TY Exports (1000 MT)	114	114	80	120	0	120
Feed and Residual (1000 MT)	0	170	0	100	0	100
FSI Consumption (1000 MT)	860	860	870	860	0	860
Total Consumption (1000 MT)	860	1,030	870	960	0	960
Ending Stocks (1000 MT)	536	521	586	741	0	861
Total Distribution (1000 MT)	1,510	1,665	1,536	1,821	0	1,941

Source: USDA official estimates and Post estimates.

PRODUCTION

Sri Lanka does not produce wheat. With no domestic production of its own, Sri Lanka for decades has been importing wheat for flour milling. Recently the government began to allow wheat flour imports.

CONSUMPTION

FAS Colombo forecasts Sri Lanka's MY 2021/2022 (July-June) wheat total consumption at 960,000 MT, up by 90,000 MT, an increase of 10 percent from the USDA official MY 2020/2021 estimate figure of 870,000 metric tons. In MY 2019/2020 total consumption stood at 860,000 metric tons.

Rising prices and the tightening of trade policies is affecting consumption. The COVID-19 lockdowns, however, significantly depressed demand from the country's hotel-restaurant-institutional (HRI) sector. Going forward, consumption levels should start increasing in tandem with recovery from the pandemic.

Wheat Flour Milling: There are only two flour millers (Prima Ceylon Ltd., and Serendib Flour Mills) operating (milling wheat for human consumption) in Sri Lanka. These millers are responsible for the

majority of Sri Lanka's annual wheat imports. With a 3,600 MT/day milling capacity, the larger of the two millers, accounts for the bulk of Sri Lanka's flour milling. Sri Lanka has excess milling capacity that outpaces domestic demand for wheat flour. [Note: The largest milling facility has 350,000 MT storage capacity]. A significant volume of Sri Lanka's wheat imports makes its way to other Asia-Pacific region countries as milled wheat flour exports.

TRADE

Imports: FAS Colombo forecasts Sri Lanka's MY 2021/2022 wheat imports at 1.2 MMT, up by 200,000 MT, an increase of 20 percent above the USDA official MY 2020/2021 figure of 1.0 million metric tons. Sri Lanka's main wheat suppliers include Canada, Russia, the United States, Australia, Pakistan, India, and Romania. In 2020, United States supplied 11 percent of Sri Lanka's wheat imports.

Due to recurring shortages in domestic corn (maize) production, Sri Lanka recently authorized the imports of wheat for animal feed milling for the first time. The country's import substitution policy, in seeking to increase corn production, is placing restrictions on corn imports. In this same vein, a one-time quota of 185,000 MT opened running from August 1 to October 31, 2020, filling 170,000 metric tons. Within that period, the Sri Lankan Department of Agriculture (DOA)\National Plant Quarantine Service (NPQS) evaluated and revised national wheat import requirements to allow for alternative wheat end uses: flour milling for human consumption and lesser-quality wheat for feed milling.

Current import requirements disallow U.S.-origin wheat feed wheat. Entry requirements are highly restrictive for de-husked, bulk wheat imported for animal feed production. Unlike the case of wheat imports for human consumption, where the two millers' production locations are easily verifiable by authorities, small- to medium-sized feed mills are scattered and often lack adequate infrastructure (including silos).

Exports: FAS Colombo forecasts Sri Lanka's MY 2021/2022 wheat exports at 120,000 MT, up by 40,000 MT, an increase of 50 percent above the USDA official 2020/2021 estimate. With the Sri Lankan market saturated with domestically milled wheat flour, the country's two millers are searching to offload excess wheat flour production in neighboring and regional foreign markets. The main export destinations include the Maldives, Thailand, Malaysia, and Singapore.

STOCKS

FAS Colombo forecasts Sri Lanka's MY 2021/2022 wheat ending stocks at 861,000 MT, up by 275,000 MT, an increase of 47 percent above the USDA official 2020/2021 figure of 586,000 metric tons. With wheat imports increasing, along with marginal increments in consumption combined with a somewhat slower pace in exports, ending stocks levels are rising. Some wheat for flour milling is going into storage, contributing to rising stocks. Feed wheat imports from MY 2020/2021 also are pending their full utilization, contributing to MY 2021/2022 carry-over volumes. Contributing to feed wheat's incomplete utilization, are sources reporting the diversion (although illegal) of rice into the manufacture of animal feed meal formulations.

POLICY

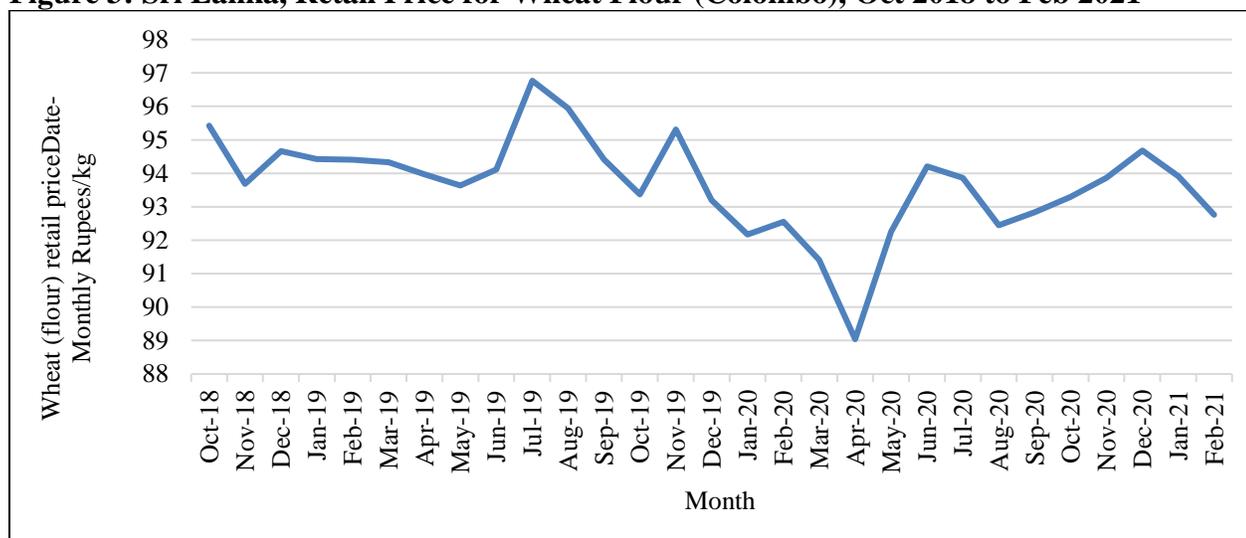
Sri Lankan agricultural policy, focusing on achieving self-sufficiency in rice, is emphasizing rice production over wheat imports. Given the strong support for rice, wheat consumption is increasing only marginally.

The current base import duty on wheat grain is 15 percent or LKR 12/kilogram (\$0.06/kilogram) along with a PAL of five percent.¹⁴ The duty on wheat flour underwent several changes. Formerly, imports of wheat flour were subject to high taxes to promote wheat milling. The current general duty on wheat flour is the 15 percent or 16 LKR/kilogram (\$0.08/kilogram) and has a PAL of a 10 percent.¹⁵

MARKETING

Pricing: Tighter trade policies, along with a further depreciation of the Sri Lankan rupee are setting the stage for higher prices going forward in MY 2020/2021.

Figure 3: Sri Lanka, Retail Price for Wheat Flour (Colombo), Oct 2018 to Feb 2021



Source: Sri Lanka Department of Census and Statistics, Food and Agricultural Organization (FAO) – Global Information and Early Warning System (GIEWS), FAS Colombo office research.

Attachments:

No Attachments

¹⁴ FOREX Sri Lanka rupee (LKR) 199.23 to \$1.00 as of March 23, 2021.

¹⁵ Ibid.