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Approved by:

Holly Higgins
U.S. Embassy

Prepared by:

Adrian Mendis

Report Highlights:

Assuming favorable weather conditions, Sri Lanka's MY 2008/09 (Oct - Sep) rice production is forecast at 2.2 million tons, unchanged from the MY 2007/08 estimate. Wheat imports in CY 2007 declined to 850,000 tons from 1.2 million tons in CY 2006 due to high international prices. CY 2008 imports are forecast at 900,000 tons. After a long gap, Sri Lanka imported two shiploads of U.S. wheat totaling around 110,000 tons in CY 2007.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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RICE

Table 1: Commodity, Rice, Milled, PSD

| PSD Table | | | | | | | | | |
|----------------------|------------------|------------------|-------------------------|------------------|------------------|-------------------------|-----------------------------------|------------------|-------------------------|
| Country | Sri Lanka | | | | | | | | |
| Commodity | Rice, Milled | | | | | | (1000 HA) (1000 MT) (MT/HA) | | |
| | 2006 | Revised | | 2007 | Estimate | | 2008 | Forecast | |
| | USDA Official | Post Estimate | Post Estimate New | USDA Official | Post Estimate | Post Estimate New | USDA Official | Post Estimate | Post Estimate New |
| Market Year Begin | | 01/2006 | 01/2006 | | 01/2007 | 01/2007 | | 01/2008 | 01/2008 |
| Area Harvested | 846 | 846 | 846 | 800 | 800 | 800 | 0 | 0 | 852 |
| Beginning Stocks | 60 | 60 | 60 | 56 | 60 | 60 | 61 | 50 | 45 |
| Milled Production | 2145 | 2145 | 2145 | 2200 | 2200 | 2200 | 0 | 0 | 2194 |
| Rough Production | 3154 | 3154 | 3154 | 3235 | 3235 | 3235 | 0 | 0 | 3226 |
| Milling Rate (.9999) | 6800 | 6800 | 6800 | 6800 | 6800 | 6800 | 0 | 0 | 6800 |
| MY Imports | 50 | 11 | 11 | 55 | 15 | 75 | 0 | 0 | 70 |
| TY Imports | 50 | 11 | 11 | 55 | 15 | 75 | 0 | 0 | 70 |
| TY Imp. from U.S. | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Supply | 2255 | 2216 | 2216 | 2311 | 2275 | 2335 | 61 | 50 | 2309 |
| MY Exports | 4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TY Exports | 4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Consumption | 2195 | 2156 | 2156 | 2250 | 2225 | 2290 | 0 | 0 | 2270 |
| Ending Stocks | 56 | 60 | 60 | 61 | 50 | 45 | 0 | 0 | 39 |
| Total Distribution | 2255 | 2216 | 2216 | 2311 | 2275 | 2335 | 0 | 0 | 2309 |
| Yield (Rough) | 3.728132 | 3.728132 | 3.728132 | 4.04375 | 4.04375 | 4.04375 | 0 | 0 | 3.786385 |

Production Situation and Outlook

Sri Lanka's MY 2008/09 rice production is forecast at 2.2 million tons (milled basis), assuming favorable weather conditions and a stable political environment. The resumption of hostilities in 2006 has affected rice farming in some areas of the northern-province. However, the major rice growing eastern province has remained unaffected by the turmoil. Rice production in MY 2007/08 is officially estimated at 2.2 million tons, which includes a *yala* crop (harvested in the fall of 2007) of around 800,000 tons, and a *maha* crop, currently being harvested, of 1.4 million tons. However, recent untimely heavy rains have damaged the standing rice crop in major paddy producing areas, which could result in a downward revision in MY 2007/08 production, once a clearer picture emerges of the crop-loss.

Eastern districts account for about one-third of the country's rice production, with about 19 percent of the total production concentrated in Ampara district alone. The Northern Province is the second largest rice growing region, accounting for about 18 percent of national production. Although the retail rice price has increased sharply in recent months, farmers allegedly are not benefitting from the high prices due to inadequate marketing channels and lack of on-farm storage facilities, which force them to sell their produce at low prices. Water management is a challenge, particularly in the 'dry zone', as only 42 percent of total rice area (about 870,000 hectares) has assured irrigation.

Consumption

Rice is the most preferred staple in Sri Lanka and accounts for the largest share of household food expenditure. With annual per capita consumption of around 100 kilograms, rice is the major source of calorie (45 percent) and protein (40 percent) in the Sri Lankan diet. Although prevailing high rice prices are affecting consumption in the short term, consumption is expected to grow in the long-term, as the government is encouraging citizens to substitute rice for wheat to reduce the dependency on imported wheat and flour. Retail rice prices ranged from Rs. 40 (50 cents) to Rs. 100 (\$1) per kilogram in 2007.

Trade

Rice imports in CY 2008 are forecast at 70,000 tons, compared with 85,000 tons imported in CY 2007. The current import tariff on rice is 20 percent. The GSL typically applies a seasonal tariff on rice to protect domestic farmers. Sri Lanka imports rice mainly from India and Pakistan, and smaller volumes from Australia and Thailand. Under the Sri Lanka/Pakistan free trade agreement, 6,000 tons of basmati rice imports are allowed duty free during the lean production season.

Import Trade Matrix

| Import Trade Matrix | | | |
|---------------------|--------------|----------|------------|
| Country | Sri Lanka | | |
| Commodity | Rice, Milled | | |
| Time Period | Jan-Dec | Units: | metric ton |
| Imports for: | 2006 | | 2007 |
| U.S. | | U.S. | |
| Others | | Others | |
| Pakistan | 9,805 | India | 52,590 |
| India | 623 | Pakistan | 22,630 |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| Total for Others | 10,428 | | 75,220 |
| Others not Listed | 572 | | 0 |
| Grand Total | 11,000 | | 75,220 |

Marketing

The government and private trade handle paddy marketing in the country. The government has re-established the Paddy Marketing Board, which will oversee government paddy purchasing. The wholesalers in the Colombo market handle an estimated 60 percent of the total paddy production. Multiple and fragmented supply chains, lack of market information,

difficulty in accessing the market in the conflict affected northern and eastern provinces are factors contributing to low price realization by farmers.

WHEAT

Table 2: Commodity, Wheat, PSD

| PSD Table | | | | | | | | | |
|---------------------------|---------------|---------------|-------------------|---------------|---------------|-------------------|-----------------------------------|---------------|-------------------|
| Country | Sri Lanka | | | | | | | | |
| Commodity | Wheat | | | | | | (1000 HA) (1000 MT) (MT/HA) | | |
| | 2006 | Revised | | 2007 | Estimate | | 2008 | Forecast | |
| | USDA Official | Post Estimate | Post Estimate New | USDA Official | Post Estimate | Post Estimate New | USDA Official | Post Estimate | Post Estimate New |
| Market Year Begin | | 01/2006 | 01/2006 | | 01/2007 | 01/2007 | | 01/2008 | 01/2008 |
| Area Harvested | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Beginning Stocks | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 105 |
| Production | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| MY Imports | 1025 | 1170 | 1170 | 1000 | 1000 | 855 | 0 | 0 | 900 |
| TY Imports | 1025 | 950 | 950 | 1000 | 0 | 855 | 0 | 0 | 900 |
| TY Imp. from U.S. | 58 | 9 | 9 | 0 | 0 | 115 | 0 | 0 | 100 |
| Total Supply | 1125 | 1270 | 1270 | 1100 | 1100 | 955 | 100 | 100 | 1005 |
| MY Exports | 208 | 0 | 0 | 200 | 0 | 0 | 0 | 0 | 0 |
| TY Exports | 208 | 0 | 0 | 200 | 0 | 0 | 0 | 0 | 0 |
| Feed Consumption | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| FSI Consumption | 817 | 1170 | 1170 | 800 | 1000 | 850 | 0 | 0 | 945 |
| Total Consumption | 817 | 1170 | 1170 | 800 | 1000 | 850 | 0 | 0 | 945 |
| Ending Stocks | 100 | 100 | 100 | 100 | 100 | 105 | 0 | 0 | 60 |
| Total Distribution | 1125 | 1270 | 1270 | 1100 | 1100 | 955 | 0 | 0 | 1005 |
| Yield | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Production

There is no wheat cultivation in Sri Lanka. The country's entire wheat needs are met through imports.

Consumption

High domestic flour prices in response to high international prices resulted in a decline in wheat consumption in CY 2007. Furthermore, the Sri Lankan government is encouraging its citizens to substitute rice for wheat to reduce the dependency on imported wheat. Average monthly consumption of wheat flour and bread per household is currently placed at 3.1 kg and 7.4 kg, respectively.

Prima Ceylon Ltd., a Singaporean firm, is the largest flourmill in Sri Lanka, which supplies most of the country's flour requirements. The company has a milling capacity of 3,600 tons per day and is one of the largest mills under a single complex in the world. In 2002, Prima was able to upgrade its port operation, which now has the capacity to berth larger bulk

vessels. A second flourmill near Colombo is expected to provide more competition in flour production.

The government considers wheat flour an essential food item. Mills are not allowed to revise flour prices without the government's permission but there were several sharp hikes in flour prices in 2007, which has retarded flour consumption. Wheat flour now attracts a 15 percent import tariff. A preferential tariff is applicable to imports from Pakistan at 10 percent. The government revises tariffs depending on domestic and international market conditions. The current import duty on wheat is 6 percent.

Trade and Competition

CY 2008 wheat imports are forecast at around 900,000 tons. Wheat imports in CY 2007 declined to 850,000, mostly from Canada, from 1.2 million tons in CY 2006 due to high international prices. Commercial wheat imports from the U.S. resumed in 2007 after a long gap with two shipments totaling 115,000 tons.

Import Trade Matrix

| Country | Sri Lanka | | |
|-------------------|-----------|--------|-------------|
| Commodity | Wheat | | |
| Time Period | Jan-Dec | Units: | Metric Tons |
| Imports for: | 2006 | | 2007 |
| U.S. | 8,780 | U.S. | 114,600 |
| Others | | Others | |
| Canada | 1,154,754 | Canada | 693,156 |
| Australia | 9,724 | China | 25,872 |
| | | | |
| Total for others | 1,164,478 | | 719,028 |
| Others not listed | | | 21,958 |
| Grand total | 1,173,258 | | 855,586 |

Wheat Imports by Month (metric ton)

| | 2006 | | | 2007 | | |
|-----------|-------|-----------|-----------|---------|-----------|---------|
| | US | Non-US 1/ | Total | US | Non-US 1/ | Total |
| January | 8,780 | 48,663 | 57,443 | 0 | 66,199 | 66,199 |
| February | 0 | 70,137 | 70,137 | 0 | 65,459 | 65,459 |
| March | 0 | 132,188 | 132,188 | 0 | 72,522 | 72,522 |
| April | 0 | 61,000 | 61,000 | 56,716 | 108,587 | 164,927 |
| May | 0 | 123,300 | 123,300 | 57,876 | 65,048 | 123,300 |
| June | 0 | 137,053 | 137,053 | 0 | 62,204 | 62,204 |
| July | 0 | 132,702 | 132,702 | 0 | 70 | 70 |
| August | 0 | 68,871 | 68,871 | 0 | 94 | 94 |
| September | 0 | 129,488 | 129,488 | 0 | 94 | 94 |
| October | 0 | 0 | 0 | 0 | 46 | 46 |
| November | 0 | 128,771 | 128,771 | 0 | 0 | 0 |
| December | 0 | 132,305 | 132,305 | 0 | 300,671 | 300,671 |
| Total | 8,780 | 1,164,478 | 1,173,258 | 114,592 | 740,994 | 855,586 |

1/ Non-US includes India, Australia, Argentina, Canada, etc.