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Report Highlights:

Sri Lanka's market year (MY) 2021/2022 (October-September) rough rice production of 2.57 million metric tons (MMT) was sharply lower, severely disrupted by the Sri Lankan government's banning of chemical fertilizer imports. Without the application of chemical fertilizers and relying solely on the previous season's residue fertilizer in the soil with the addition of limited amounts of organic fertilizers, the Maha 2021/2022 (October-March) crop failed to deliver the anticipated production volume. Maha 2021/2022 rough rice production is 1.93 MMT. The Yala 2022 season (harvested in August/September 2022) will see a steep drop with production at an estimated 640,000 metric tons (MT). Rough rice production is estimated at its lowest in level in the past five marketing years. Post forecasts rice production in MY 2022/2023 at a volume of 4.1 MMT, a lingering result of the disruption in the supply of fertilizers in MY 2021/2022. Yields are expected at around 4.1 MT per hectare.

EXECUTIVE SUMMARY

Sri Lanka's market year (MY) 2021/2022 (October-September) rough rice production was sharply lower, severely disrupted by the Sri Lankan government's banning of chemical fertilizer imports. Earlier on May 6, 2021, the government promulgated the "Imports and Exports (Control) Regulations No. 07 of 2021 (regulation), restricting and banning the import of fertilizers and agrochemicals including insecticides and herbicides. Through the National Framework – The Vistas of Prosperity and Splendor Agenda, the government had sought to improve the Sri Lankan peoples' (especially that of agricultural workers) health, seeking to eliminate the use of chemical fertilizers and agrochemicals in domestic crop cultivation. The framework promoted organic agriculture, organic fertilizers, organic food consumption, and the export of organic food and agricultural products. The measure was also intended to help the government reduce its expenditure on costly imported chemical fertilizers, which it was using to subsidize domestic rice production.

Without the application of chemical fertilizers and relying solely on the previous season's residue fertilizer in the soil with the addition of limited amounts of organic fertilizers, the *Maha* 2021/2022 (October-March) crop failed to deliver the anticipated production volume. *Maha* 2021/2022 rough rice production is 1.93 million metric tons (MMT). The *Yala* 2022 season (harvested in August/September 2022) will similarly see a steep drop with production at an estimated 640,000 metric tons (MT). It is anticipated that there will be a three-to-four month short in the domestic rice supply, requiring continuing rice imports to compensate.

Without adequate fertilizer availability, the damage to MY 2021/2022 rice production is done. The *Maha* 2021/2022 season rough rice production came in at 1.93 MMT, with area harvested reported at 685,164 hectares with average yields of about 2.8 MT per hectare. The *Yala* 2022 rice production will be off significantly as well due to the lack of fertilizers during this season's planting campaign. Around 604,000 hectares are being targeted for the rice harvest in August/September 2022, but as of the end of June 252,000 hectares are planted, with another 106,000 hectares being made ready for cultivation. It is estimated that only 358,000 hectares of rice paddy fields, or 60 percent of targeted acreage, will be cultivated in the *Yala* 2022 season resulting in production of 640,000 MT of rough rice. The *Yala* 2022 season yields being estimated at 1.78 MT/hectare will be insufficient to cover domestic requirements.

To bring rice production in MY 2022/2023 back up to the 4.1 MMT level, Sri Lankan farmers' will need imported chemical fertilizers. To obtain this production, Sri Lanka will need to import for MY 2022/2023 fertilizers urea, muriate of potash (MOP), and triple superphosphate (TSP). For the *Maha* 2022/2023 crop season alone, by some estimates it will need 150,000 MT of urea, 45,000 MT of MOP, and 36,000 MT of TSP. For the 2023 *Yala* season, it will need 30,000 MT of urea along with 17,500 MT of MOP. With urea prices of \$700/MT, MOP \$1,200/MT, and TSP going for \$1,150/MT, the cash strapped Sri Lankan government, without reaching a bailout agreement with the International Monetary Fund (IMF), is not able to resume chemical fertilizer imports (of \$265-\$300 million) on its own.

The World Bank is providing \$110 million (concessionary loan) to Sri Lanka to purchase fertilizers. The World Food Program (WFP) has also pledged to provide 365,000 urea bags free-of-charge for low-income farmers. Some \$35 million is being pledged by the Asian Development Bank (ADB) to purchase MOP for the *Maha* 2022/2023 season. Other donor states are poised to donate \$40 million for TSP. These measures will help significantly to bring back rice productive levels to a degree of normalcy.

COMMODITIES:

RICE

Table 1: Sri Lanka, Commodity, Rice Milled, Production, Supply, and Distribution (PSD)

Rice, Milled Market Begin Year Sri Lanka	2020/2021		2021/2022		2022/2023	
	Oct 2020		Oct 2021		Oct 2022	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested (1000 HA)	1090	1066	1100	1019	1100	1000
Beginning Stocks (1000 MT)	637	637	784	1020	722	615
Milled Production (1000 MT)	3390	3480	2645	1750	2995	2800
Rough Production (1000 MT)	4985	5118	3890	2574	4404	4118
Milling Rate (.9999)	6800	6800	6800	6800	6800	6800
MY Imports (1000 MT)	14	8	700	700	400	450
TY Imports (1000 MT)	147	9	650	700	300	400
TY Imp. from U.S. (1000 MT)	0	0	0	0	0	0
Total Supply (1000 MT)	4041	4125	4129	3470	4117	3865
MY Exports (1000 MT)	7	5	7	5	8	0
TY Exports (1000 MT)	7	5	7	5	8	0
Consumption and Residual (1000 MT)	3250	3100	3400	2850	3550	2950
Ending Stocks (1000 MT)	784	1020	722	615	559	915
Total Distribution (1000 MT)	4041	4125	4129	3470	4117	3865
Yield (Rough) (MT/HA)	4.5734	4.8011	3.5364	2.526	4.0036	4.118

Source: USDA official estimates and Post estimates.

PRODUCTION

Sri Lanka's rough rice (paddy crop) production in market year (MY) 2021/2022 (October-September) was sharply lower, severely disrupted by the Sri Lankan government's earlier banning of chemical fertilizer imports. Based on the Sri Lanka Department of Census Statistics and Department of Agriculture sources, rough rice production is estimated at 2.57 million metric tons (MMT), with yields 2.5 metric tons (MT) per hectare. In previous years production had been in the 4.6-4.9 MMT range.

Rough rice production in MY 2021/2022 is now down by over 1.3 MMT or 34 percent lower than the earlier projected U.S. Department of Agriculture (USDA) official figure of 3.89 MMT.¹ Rough rice production is estimated at its lowest in level in the past five marketing years. Post forecasts rice production in MY 2022/2023 at a volume of 4.1 MMT, a lingering result of the disruption in the supply of fertilizers in MY 2021/2022. Yields are expected at around 4.1 MT per hectare.

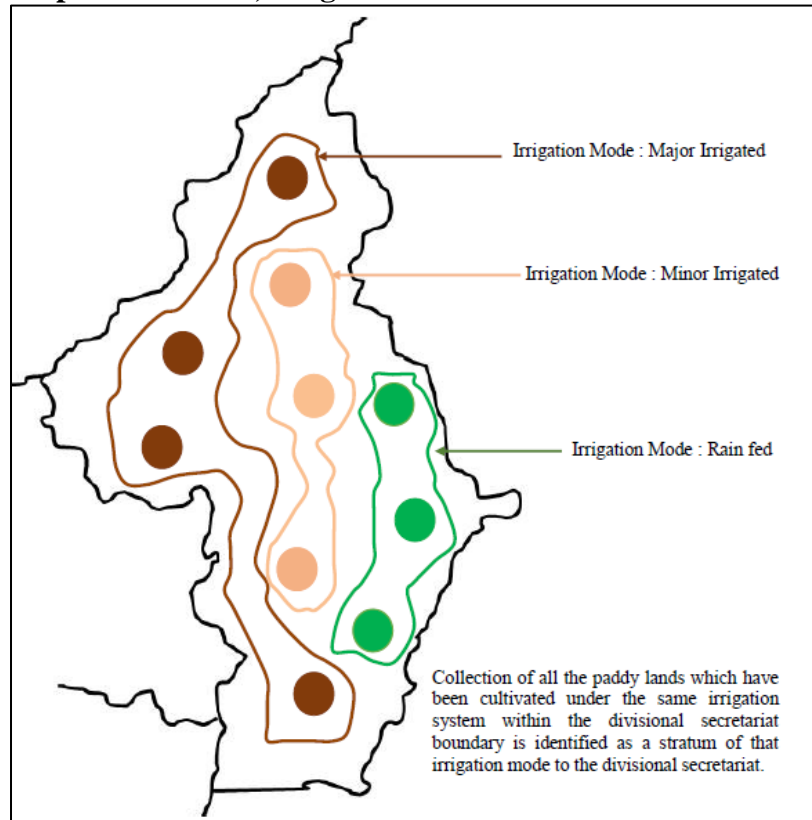
¹ Based on the Provincial Department of Agriculture crop cutting surveys, production of corn (maize) is similarly down, dropping 65-70 percent by some estimates. Corn yields are being placed at 80,000 MT in the Maha 2021/2022 season, down from 432,000 MT in the previous Maha 2020/2021 season. Production losses for both crops are estimated at around \$550 million. See, [GAIN-SRI LANKA | CE2021-0002 | Grain and Feed Annual – 2021](#) for the earlier, pre-fertilizer crisis production forecast figures.

Rice Planting Seasons: Rice plantings occur in two seasons, the *Maha* (the main season) and *Yala* (the minor, second season). Under normal conditions the Maha season (October-March) produces the country's major rice crop (60-65 percent of the annual production), with a March harvest date.

Water supply for rice crop cultivation is an essential factor. The Maha season ending in March, coincides with the withdrawal of the northeast monsoon (December-February/March). The crop's productivity is susceptible to the availability of good monsoon rains. The subsequent Yala season normally produces the country's minor rice crop (35-40 percent of annual production), with an August-September harvest date. This growing season tends normally to have lower water availability deriving from the southwest monsoon (May-September), resulting often in lower plantings and lower overall production.

Sri Lanka's rice (paddy) cultivation is dependent on rainfall water under the rainfed irrigation method. The minor irrigation mode of production includes recourse to the water tanks (*Wewa*) or reservoirs that can supply water with formal control system to the paddy field sufficient for about 80 hectares of paddy land area cultivation. The major mode of irrigation supplies water to fields greater than 80 hectares. For the Yala 2021 and Maha 2021/2022 seasons there have not been major weather-related disruptions leading, for example to drought like conditions. Reservoirs filled to adequate supply levels. The Yala 2022 southwest monsoon, however, was delayed by 1.5 months earlier this season.

Map 1: Sri Lanka, Irrigation Modes



Source: Sri Lanka Department of Census and Statistics.

Fertilizer Import Ban Disrupts Rice Production: The Maha 2021/2022 crop failed to deliver the anticipated production volume. Maha 2021/2022 rough rice production came in at 1.93 MMT. Sources within the Department of Agriculture indicate that the Yala 2022 season will see a steep drop with production coming in at an estimated 640,000 MT.²

Post's previous production forecasts had been premised on the continuation of Sri Lanka's farmers obtaining high rice production with the use of ample supplies of largely imported chemical fertilizers; as was the case occurring with production in MY 2019/2020 (4.7 MMT) and MY 2020/2021 (4.9-5 MMT), with yields of around 4.5 MT per hectare coming from a land area of roughly 1 to 1.1 million hectares (see, [GAIN-SRI LANKA | CE2021-0002 | Grain and Feed Annual – 2021](#)). For those marketing years, such as was the case in MY 2021/2022, there were also no serious occurrences of weather-related production disruptions, arising from drought or floods or the monsoons being delayed.³

Maha 2021/2022 rice production was severely disrupted by the Sri Lankan government's banning of imports of chemical fertilizers. The government on May 6, 2021, promulgated the "Imports and Exports (Control) Regulations No. 07 of 2021 (regulation), restricting and banning the import of fertilizers and agrochemicals including insecticides and herbicides. Through the National Framework – The Vistas of Prosperity and Splendor Agenda, the government had sought to improve the Sri Lankan peoples' (especially that of agricultural workers) health, seeking to eliminate the use of chemical fertilizers and agrochemicals in domestic crop cultivation. The framework promoted organic agriculture, organic fertilizers, organic food consumption, and the export of organic food and agricultural products (see, [GAIN-SRI LANKA | CE2021-0007 | Sri Lanka Restricts and Bans the Import of Fertilizers and Agrochemicals](#)).⁴

The lack of adequate fertilizer availability reduced MY 2021/2022 rice production. The Maha 2021/2022 season rough rice production of 1.93 MMT, with area harvested at 685,164 hectares has led to average yields dropping to about 2.82 MT per hectare. The Yala 2022 rice production will be off significantly as well due to the lack of chemical fertilizers during this planting campaign.⁵ According to trade sources around 604,000 hectares were reportedly being targeted for planting for the rice harvest this coming August/September 2022, but as of the end of June 252,000 hectares were planted, with another 106,000 hectares then being made ready for cultivation. It is estimated that some 358,000

² The increase cost of production (crop production costs for rough rice paddy are twice that of other crops) a reduced number of farmers worked their fields in the Yala 2022 season.

³ Severe drought conditions in years leading up to the Maha 2018/2019 season severely depressed the local rice industry. While the Maha 2019/2020 season experienced a combination of drought and floods. The dry and moderate drought conditions prevailing from August to September 2020 in crop growing areas delayed the Maha 2020/2021 cultivation. Floods due to heavy rains towards the end of the season damaged the crop throughout the country. (See, [GAIN-SRI LANKA | CE2021-0002 | Grain and Feed Annual – 2021](#)).

⁴ The problem was the framework was that it lacked the necessary resources for immediate implementation from one crop year to the next. There was no training, no capacity-building, no infra-structure in place to produce organic fertilizers, little or no availability of organic fertilizers.

⁵ Sri Lanka political and economic crisis has driven the country to default for the first time in its history as an independent nation. Sri Lanka is near bankrupt, it has exhausted its foreign hard currency reserves, which makes paying for imports of fertilizers extremely challenging. The start date of the economic crisis is tied to the November 2019 Sri Lankan government's decision to cut the value-added tax rate down from 15 percent to 8 percent. Its foreign reserves that dropped by over 70 percent in the past two years alone, hitting \$1.93 billion at the end of March 2022. Persistent fiscal deficits have made the public debt burden unsustainable. This has left the Sri Lankan government struggling to pay for essentials, including fuel, medicines, and food.

hectares of rice fields, or about 60 percent of total targeted acreage, is being cultivated in the Yala 2022 season. Rough rice production is at 640,000 metric tons.⁶ The Yala 2022 season yields are estimated at 1.78 MT per hectare, and as such will be insufficient to cover domestic requirements. It is anticipated that there will be a three-to-four-month shortage of domestic rice supply requiring continued rice imports to compensate.

With farmers using limited amounts of fertilizers (chemical and organic) in the Maha 2021/2022 and Yala 2022 seasons and largely forced to forego the use of triple superphosphate (TSP), there are reports of phosphorous deficiencies in many rice production areas. Most noticeably this occurring especially in those areas with sandy soil types (including the Ampara and Batticaloa districts). Yala 2022 yields at about 1.78 MT per hectare, will be down from previous years' yield levels that had ranged from 4.3-4.5 MT per hectare.

Sri Lanka did manage to import in July for the Yala 2022 season some 44,000 MT of urea through an Indian credit line of \$55 million. Now about 21,000 MT of urea through this credit line have been imported in August for use in the upcoming Maha 2022/2023 season. Some farmers have now received bags of 50 kilograms of urea at the subsidized price of Sri Lankan rupees (LKR) 10,000 (\$28.00); the market rate for a 50-kilogram bag of urea was then LKR 42,000 (\$117).

What to Expect in MY 2022/2023: The World Bank is providing \$110 million (in a concessionary loan) to Sri Lanka to purchase fertilizers. The World Food Program (WFP) has also pledged to provide 365,000 urea bags free-of-charge for low-income farmers. Some \$35 million is being pledged by the Asian Development Bank (ADB) to purchase muriate of potash (MOP) for the Maha 2022/2023 season. Other donor states are poised to donate \$40 million for TSP fertilizers. These measures will help significantly to bring back rice productive levels to a degree of normalcy.

The critical requirement for bringing back agricultural production, and in particular rice production, will be determined by farmers' access to imports of chemical fertilizers. With the help of imported chemical fertilizers, rough rice production in MY 2022/2023 could commence to recover, reaching an initial level of about 4.1 MMT. Fertilizers imports need to commence arriving no later than mid- to late-September 2022, to clear Sri Lankan Customs and be readied for distribution in time for application at the beginning of October when the new Maha season begins. Maha 2022/2023 rough rice production will also depend on increased fuel availability for assisting farmers with land preparation activities.

How Much Fertilizer is Potentially Needed: To bring rice production back in line with that of previous years, Sri Lanka will need to import for the upcoming MY 2022/2023 fertilizers urea, MOP, and TSP. For the Maha 2022/2023 crop season alone, by some estimates it will need around 150,000 MT of urea, 45,000 MT of MOP, and 36,000 MT of TSP. For the following 2023 Yala season, it will need at least by some estimates 30,000 MT of urea along with 17,500 MT of MOP. With prices for urea at about \$700/MT, MOP \$1,200/MT, and TSP going for \$1,150/MT, the cost of fertilizers is around \$265 million at current prices.⁷

⁶ Official production statistics have not been made available publicly as of yet.

⁷ For plantation agriculture, that is, tea, rubber, and coconuts, these will require a similar volume and value of fertilizer inputs. The plantation crops are traditional hard currency export revenue earners for Sri Lanka.

CONSUMPTION

Sri Lanka domestic rice consumption requires a volume of around 3.5 to 4 MMT of rice per year. With production dropping by around 50 percent in MY 2021/2022, Sri Lanka has been forced to turn to imports to make up for the shortfall at a time in which it does not have foreign currency reserves necessary to make these purchases (except for those that are being provided through the Indian \$1 billion line of credit).

Rice is a mainstay in Sri Lanka's diet and lifestyle, two of the three daily meals are comprised of rice and curry. It is the staple food of the vast majority of Sri Lanka's population of 23.1 million (Central Intelligence Agency, 2022 estimate).

Drastically reduced agricultural production in Sri Lanka, compounded with rising fuel prices (and scarcity) and the cost of basic food items, has made food increasingly unaffordable for a segment of the population. The Sri Lankan government has warned that there will be food shortages, including of rice during the next several months. It is estimated that around 5.7 million Sri Lankans need urgent humanitarian assistance or could otherwise go hungry.⁸ Surveys indicate that up to 70 percent of households have had to reduce food consumption, including the skipping of meals, as prices have soared by over 70 percent in the past two years.⁹

Roughly 2 million Sri Lankans, or nine percent of the population, are farmers; about 40 percent of the population (~8.1 million) engage in agriculture (including livestock production). Consumption had been increasing marginally on modest annual population growth of about 0.63 percent. Assuming a return to more normal production circumstances, Post forecasts rice total consumption and residual in MY 2022/2023 at 2.9 MMT, reflecting marginal increases in consumption and normal residual/loss levels.

For Better, Worse or Just Sputter Along: Sri Lanka during the MY 2021/2022 period and into the MY 2022/2023 has fallen by all accounts into a grave economic situation. The public debt crisis and the lingering effects of COVID-19 pandemic are contributing to the food, fuel, fertilizer, foreign exchange, and a cooking gas availability crisis in Sri Lanka. Rice consumption in MY 2021/2022, is reaching an estimated 2.85 million metric tons.

With rice production dropping by over 50 percent in MY 2021/2022, due to the 2021 fertilizer import ban, consumption fell to 2.85 MMT, down by 250,000 MT from MY 2020/2021. Rice consumption in MY 2022/2023, with a recovery in production is forecast by Post at 2.95 million metric tons.

The COVID-19 nationwide lockdowns of 2020, continuing for months, had earlier disrupted food distribution channels for most commodities, except for rice. The government prioritized back in 2020 rice production by channeling resources into the sector in the form of subsidized fertilizers. The government categorized rice as a strategic commodity to ensure its availability and affordability.

⁸ The United Nations has identified that 5.7 million people need humanitarian assistance. Of which the Humanitarian Needs and Priorities (HNP) Plan is targeting 1.7 million of the most vulnerable people and requesting \$47.2 million. Of this amount, \$34.5 million is earmarked to address immediate food and nutrition needs. See, Sri Lanka Humanitarian Needs and Priorities Plan (June 9, 2022) at <https://srilanka.un.org/en/185471-sri-lanka-humanitarian-needs-and-priorities-plan>.

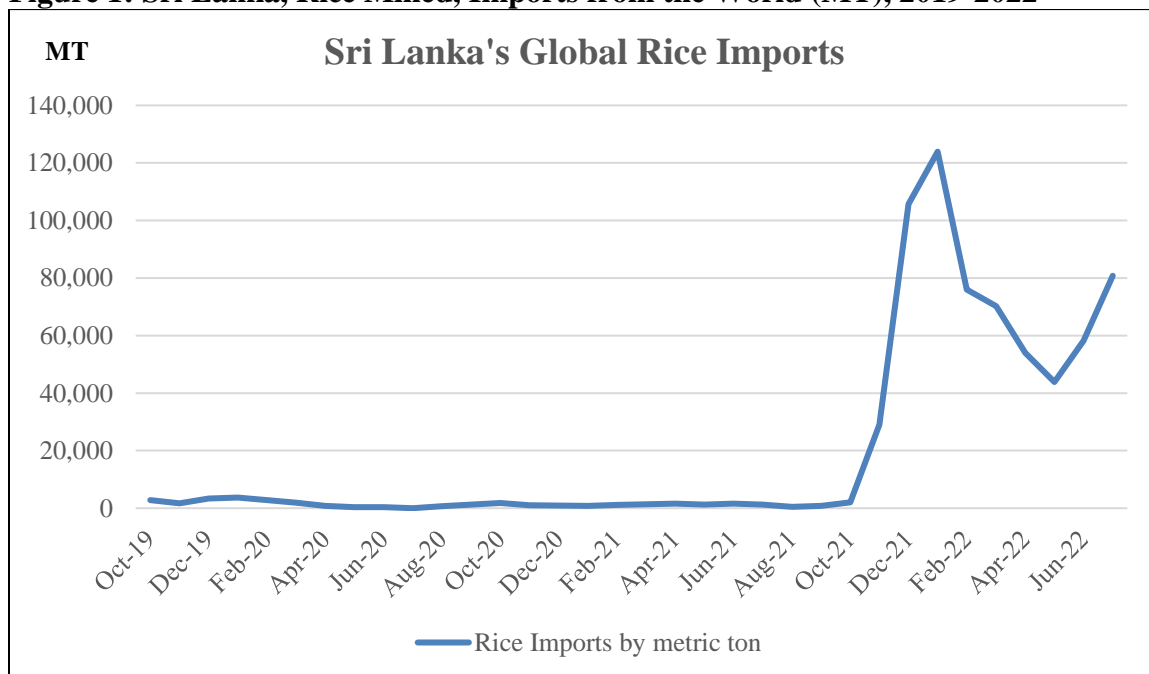
⁹ Prices for most commodities, including rice, have increased since the end of 2021. The Colombo Consumer Price Index is measuring price increases of over 57 percent over the year May 2022, up from 10 percent compared to September 2021.

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 commencing to fall and prices increasing for wheat- and root-flour products, consumers shifted to increase rice consumption. Consumption increased from 3.05 MMT in MY 2019/2020, which was already up by 200,000 MT from the previous year's level, to 3.1 MMT in MY 2020/2021.¹⁰

TRADE

Imports: FAS Colombo estimates Sri Lanka's MY 2021/2022 rice imports at 700,000 MT in response to the domestic rice crop's massive production drop in this market year. Imports commenced to jump from a low of 2,000 MT in October 2021, to as high as 124,000 MT by January 2022, followed by drops in February and March to the mid-70,000 MT range, and by June to 58,000 MT as foreign exchange available to pay for imports became scarcer. However, by July imports started to climb upwards of 80,000 MT. Post anticipates MY 2022/2023 rice imports to commence to ease and come in at 450,000 MT as the Sri Lankan rice sector commences to return to higher production volumes with the use of imported chemical fertilizers.

Figure 1: Sri Lanka, Rice Milled, Imports from the World (MT), 2019-2022



Source: Trade Data Monitor, FAS Colombo office research.

¹⁰ 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.

Table 2: Sri Lanka, Rice Milled, Monthly Imports from the World (MT), 2019-2022

Market Year	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP
2019/2020	2,770	1,649	3,402	3,647	2,804	1,957	848	355	410	5	700	1,281
2020/2021	1,819	996	949	776	1,128	1,356	1,620	1,263	1,610	1,244	505	815
2021/2022	2,056	29,011	105,706	123,913	76,024	70,219	54,021	43,820	58,237	80,724	---	---

Source: Trade Data Monitor, FAS Colombo office research.

As has been the case in the past, the government will permit rice imports if domestic rice prices surge due to increase consumer demand outpacing domestically produced rice supply.¹¹ A handful of rice millers will continue to control supply. Milled rice production is increasingly being concentrated in fewer hands. There has been a drop in the number of small-to-medium size millers from 6,000 to 800 in the past couple of years.

Import Tariffs: The Sri Lankan government in October 2021, made effective as of November 2, 2021, a Special Commodity Levy (SCL) lowering the amount collected on imports of semi/wholly milled rice – Nadu and Samba varieties (whether white or red). The levy reduction is valid for a period of six months; Sri Lanka has been assessing a levy of LKR 0.25 (\$0.0007) per kilogram (previously the SCL was LKR 65 per kilogram). The reduced levy remains in place past the May 1, 2022, expiration date.

Sri Lanka imposed effective January 12, 2022, for a period of six months a Special Commodity Levy on imports of husked and non-basmati semi/wholly milled rice (whether white or parboiled) at a rate of LKR 250 (\$0.70) per metric ton of rice. The government repealed previous orders setting the rate of LKR 65,000 (\$179) per metric ton for the Special Commodity Levy on imports of semi/wholly milled raw, Nadu, and Samba rice (whether white or red), as well as outlined a waiver to the levy. The provisions of this levy, however, remains still in effect despite its July 12 expiration date.

Exports: Rice exports occurring in MY 2022/2023 are not foreseen as the rice sector will be struggling to recover production for domestic consumption. Should exports occur, these should be negligible.

STOCKS

The Sri Lankan government provides no official statistics on Sri Lanka’s paddy and rice stocks – complicating actual stock level estimations. What has been reported by Sri Lankan government sources is that the economic crisis occurring in MY 2021/2022 has devastated rice stocks volumes. Renewed imports of chemical fertilizers will support Maha 2022/2023 production and help build up stock levels that have taken a beating in MY 2021/2022.

¹¹ There is no basmati rice production in Sri Lanka. Basmati rice prices do not go into the government’s permit decision-making processes.

Maha rice production normally supplies about nine months of rice supply and the Yala production provides an additional six months for a total of 15 months of supply. With production in MY2021/2022 now off by 50 percent, the rice supply is set to plummet to 3.47 million metric tons.

Accusations abound that there has been hoarding by traders and that farmers have also held back rice in hopes of obtaining higher prices. What is apparent is that retail outlets and supermarkets are evidencing scant supplies of rice from time-to-time, and if available these are offered at exceedingly high prices.

There is growing concern in some circles that the smaller farmers are eating into their rice seed stocks, which will potentially cause a Maha 2022/2023 planting seed shortage. About 80,000 MT of rice planting seed are required; the government counts with about 20,000 MT currently and aims to acquire another 20,000 MT by procuring from farmers for the upcoming Maha 2022/2023 season. The balance of 40,000 MT of seed will need to be procured from other sources.

POLICY

Government Subsidizes Rice Production: The Sri Lankan government normally subsidized the production of rice in pursuit of rice self-sufficiency, which is a national food security concern. In previous years, the government would import fertilizers and provide these to rice farmers in allotments sufficient to cover two hectares of paddy rice fields.

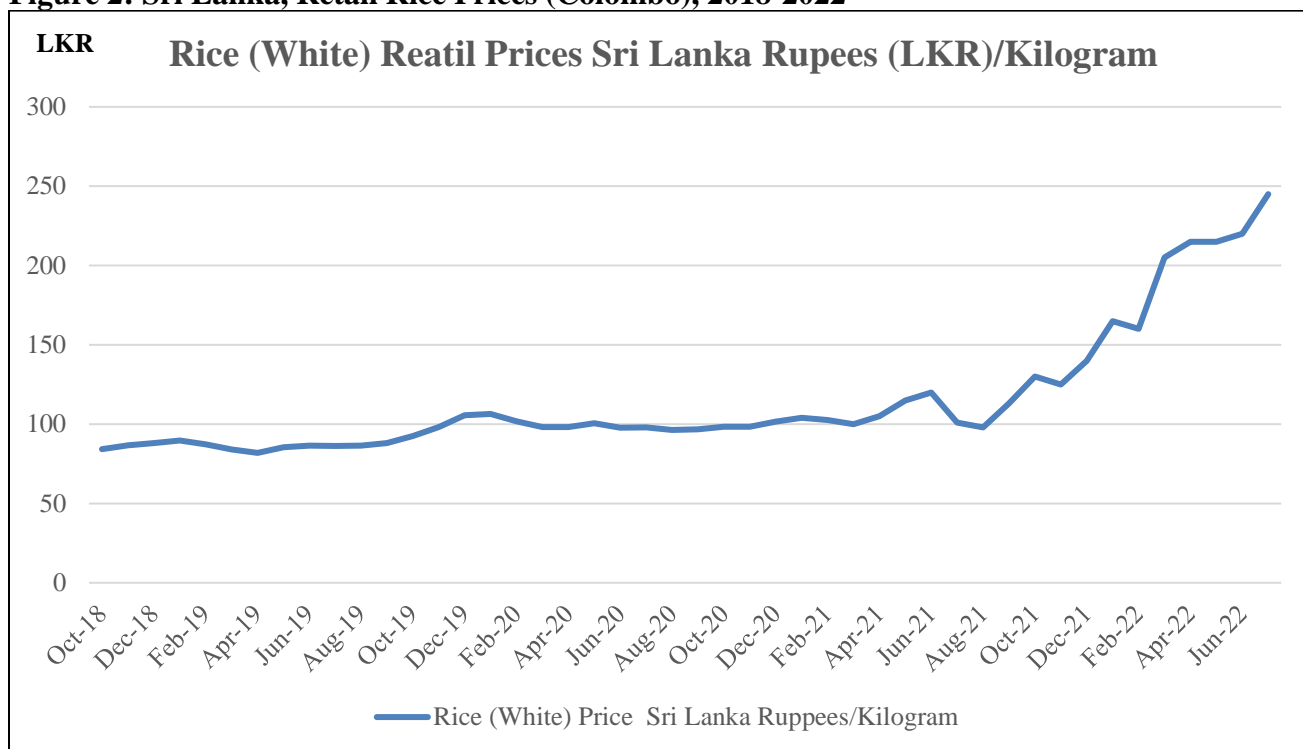
MARKETING

Pricing: Rice retail prices have been experiencing an upswing over the past few years (commencing in October 2019), punctuated by oscillations in seasonal pricing. Price spikes have been occurring increasingly in the December-January timeframe, which coincides with the lean period just before the Maha crop's harvest (in March).

The retail price of one kilogram rice (Samba variety) has jumped from the Sri Lanka rupees (LKR) 101 (\$0.50) in July 2021 to now upwards of LKR 245 (\$0.68).¹²

¹² XE Currency Converter, U.S. dollar to Sri Lankan rupees, www.xe.com.

Figure 2: Sri Lanka, Retail Rice Prices (Colombo), 2018-2022



SOURCE: Sri Lanka Department of Census and Statistics, Central Bank of Sri Lanka, FAS Colombo office research.

Table 3: Sri Lanka, Colombo District Open Market Average Retail Rice Prices, July 2021-2022

Item	Unit	Avg.Price (Rs.cts.)			% Chg. 3rd week of Jul. 2022 compared to :		Price range of this week	
		2021 Jul.	2nd Week Jul. 2022	3rd Week Jul. 2022	2021 Jul.	2nd Week Jul. 2022		
Raw Red - (Average)	1 Kg.	101.05	262.92	261.07	158.4%	-0.7%	210.00	320.00
Raw Red - No 1.	1 Kg.	107.41	262.92	260.88	142.9%	-0.8%	210.00	320.00
Raw Red - No 2.	1 Kg.	94.69	n.a	n.a				
Raw Red - Imported	1 Kg.			261.25			210.00	300.00
Raw White local	1 Kg.	111.77	245.71	248.33	122.2%	1.1%	210.00	320.00
Raw White Imported			225.56	215.00		-4.7%	190.00	260.00
Nadu - Red	1 Kg.	119.39	257.22	265.00	122.0%	3.0%	220.00	320.00
Nadu - White	1 Kg.	119.56	235.00	237.22	98.4%	0.9%	200.00	270.00
Nadu-White Imported			230.50	227.29		-1.4%	200.00	260.00
Samba - (Average)	1 Kg.	149.77	247.26	241.45	61.2%	-2.4%	200.00	280.00
Samba - No 1.	1 Kg.	149.77	252.86	251.50	67.9%	-0.5%	230.00	280.00
Samba - No 2.	1 Kg.	n.a	n.a	n.a				
Ponni Samba Imported	1 Kg.	n.a	241.67	231.40		-4.2%	200.00	270.00

SOURCE: Sri Lanka Department of Census and Statistics.

In previous years, whenever retail rice prices surge in December-January, the Sri Lankan government sets a maximum retail price (MRP) through the state-run Consumer Affairs Authority (CAA). 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 MRP prices. In MY 2021/2022 there is a similar repletion of market prices exceeding the MRP prices.

Table 4: Sri Lanka, Regulation of Prices Current Maximum Retail Prices of Rice

Rice Types	Prices (Rupees)/ Kilogram	Effective
Keeri Samba-Local	260.00	May 2, 2022
White /Red Samba - Steamed/Boiled-Local (excluding Suduru Samba)	239.00	May 2, 2022
White /Red Nadu - Steamed /Boiled -Local (excluding Mottaikarupan and Attakari)	220.00	May 2, 2022
White /Red Raw Rice-Local	210.00	June 10, 2022

SOURCE: State Ministry of Co-operative Services, Marketing Development and Consumer Protection – Ministry of Trade/ Consumer Affairs Authority.

Figure 3: U.S. Dollar to Sri Lankan Rupees, 2020-2022



SOURCE: XE Currency Converter, U.S. dollar to Sri Lankan rupees, www.xe.com.

Sri Lanka, Supermarket Rice Prices (June 2022)



Sources: FAS Colombo/New Delhi office research, June 17, 2022.

COMMODITIES:

WHEAT

Table 5: Commodity: Wheat - Production, Supply and Distribution (PSD)

Wheat	2020/2021		2021/2022		2022/2023	
Market Begin Year	Jul 2020		Jul 2021		Jul 2022	
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)	263	263	347	350	202	185
Production (1000 MT)	0	0	0	0	0	0
MY Imports (1000 MT)	1481	1481	1200	1032	1450	1300
TY Imports (1000 MT)	1481	1481	1200	1032	1450	1300
TY Imp. from U.S. (1000 MT)	129	129	0	0	0	0
Total Supply (1000 MT)	1744	1744	1547	1382	1652	1485
MY Exports (1000 MT)	97	97	120	15	100	15
TY Exports (1000 MT)	97	97	120	15	100	15
Feed and Residual (1000 MT)	100	75	125	127	125	140
FSI Consumption (1000 MT)	1200	1222	1100	1055	1100	1130
Total Consumption (1000 MT)	1300	1297	1225	1182	1225	1270
Ending Stocks (1000 MT)	347	350	202	185	327	200
Total Distribution (1000 MT)	1744	1744	1547	1382	1652	1485
Yield (Rough) (MT/HA)	0	0	0	0	0	0

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 2022/2023 (July-June) wheat total consumption at 1.27 MMT, up by 88,000 MT, from Post's MY 2021/2022 estimate of 1.18 MMT. The slight increase is seen as a result of gradual recovery from the economic crisis of 2021-22. Increased consumption levels would occur as more foreign exchange becomes available for wheat imports. Economic recovery hinges on the Sri Lankan government managing to come to an agreement with the IMF on a bailout. Sri Lanka has about \$12 billion in overseas debt with private creditors.

Rising prices and the tightening of trade policies affected wheat consumption in MY 2021/2022. With the exhaustion of Sri Lanka's hard currency reserves, imports of foreign origin wheat for flour milling dropped precariously. With less wheat flour-based products, as well as the drop in rice availability, consumers have reduced their consumption, while turning to alternative sources of carbohydrates namely derived from root-flour and even jackfruit.

The earlier COVID-19 lockdowns of 2020-21, 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 country's economic crisis of 2022.

TRADE

Imports: FAS Colombo forecasts Sri Lanka's MY 2022/2023 imports at 1.30 MMT, up by 268,000 MT, from MY 2021/2022 volume of 1.03 MMT. Sri Lanka's main wheat suppliers include Canada, Russia, Australia, Pakistan, India, and Romania. Due to recurring shortages in domestic corn (maize) production, Sri Lanka will continue to authorize the imports of wheat for animal feed milling.¹³

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 (i.e., including silos).

Exports: FAS Colombo forecasts Sri Lanka's MY 2022/2023 wheat product exports at about 15,000 MT. The lower export volume going forward compared to previous years is premised on the drop in imported volumes in MY 2021/2022 through MY 2022/2023. The Sri Lankan market had prior to the economic crisis of 2021-22 been saturated with domestically milled wheat flour. The country's two millers had previously sought to offload excess wheat flour production in neighboring and regional foreign markets. The main export destinations then include the Maldives, Thailand, Malaysia, and Singapore.

STOCKS

FAS Colombo forecasts Sri Lanka's MY 2022/2023 wheat ending stocks at 200,000 MT. With wheat imports increasing, along with marginal increments in consumption combined with a slower pace in exports, ending stocks should again commence to rise. Some wheat for flour milling will go into storage, contributing to rising stocks.

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 most 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 in previous years was making its way to other Asia-Pacific region countries as milled wheat flour exports.

¹³ According to sources in Sri Lanka's Department of Agriculture, corn (maize) production in Maha 2021/2022 through Yala 2022 will drop from 500,000 MT to 100,000 MT because of the fertilizer crisis.

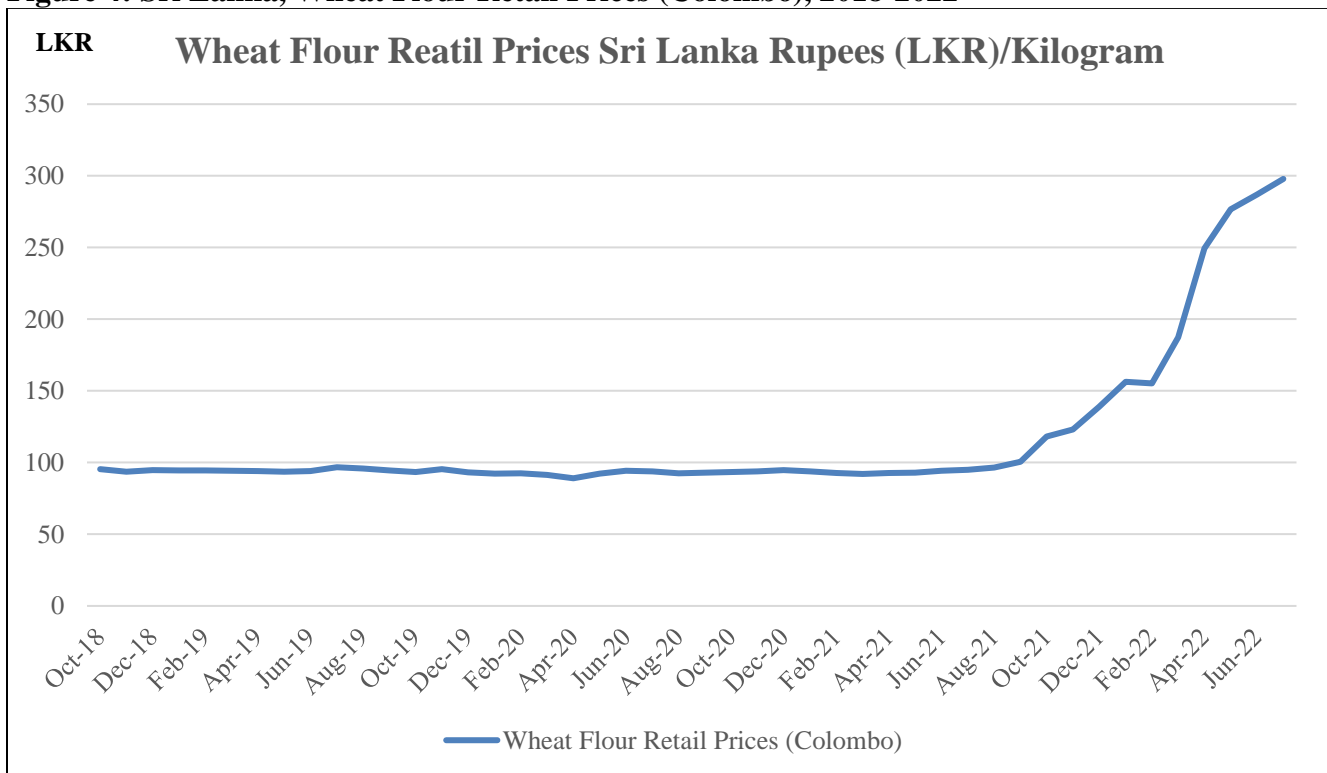
POLICY

Sri Lankan agricultural policy has focused over the years on achieving self-sufficiency in rice. It has favored rice production over wheat imports. Given the staunch support for rice, wheat consumption has been increasing only marginally. Imported wheat is milled under controlled conditions at the port of entry. Wheat flour products pasta and roti (that is, round flatbread native to the Indian subcontinent) is often used to feed plantation workers and their families.¹⁴

MARKETING

Pricing: The Sri Lankan rupee's depreciation in MY 2021/2022 contributed to wheat flour-based products' price increases. In Colombo, the open market retail price of 1 kilogram of wheat flour has jumped from LKR 95.52 (\$0.48) in July 2021, to LKR 297.86 (\$0.83), up 212 percent because of the country's self-inflicted economic crisis, along with its rice production disruption brought about by the 2021 chemical fertilizer import ban.¹⁵ This occurred at the time when rising global wheat prices also made it increasingly more difficult for the foreign currency starved Sri Lankan economy to finance wheat imports for flour milling.

Figure 4: Sri Lanka, Wheat Flour Retail Prices (Colombo), 2018-2022



SOURCE: Sri Lanka Department of Census and Statistics, Central Bank of Sri Lanka, FAS Colombo office research.

¹⁴ Roti is an unleavened flatbread made of whole wheat flour. It is light and has no filling and is served with vegetables, pulses, and or meat preparations. Naan bread by comparison is a leavened flatbread that is fancier and heavier than roti and has a filling inside of it.

¹⁵ XE Currency Converter, U.S. dollar to Sri Lankan rupees, www.xe.com.

Table 6: Sri Lanka, Colombo District Open Market Average Wheat Flour Retail Prices, July 2021-2022

Item	Unit	Avg. Prices (Rs. Cts.)			% Chg. 3 rd week of Jul. 2022 compared to:		Price range of this week	
		2021 Jul.	2 nd Week Jul. 2022	3 rd Week Jul. 2022	2021 Jul.	2 nd Week Jul. 2022		
Wheat Flour	1 Kg.	95.52	288.95	297.86	211.8%	3.1%	260.00	370.00

SOURCE: Sri Lanka Department of Census and Statistics.

Attachments:

No Attachments