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Sri Lanka

Grain and Feed

Annual

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Report Highlights:

Sri Lanka's 2003/04 rice production is forecast at 2.1 million tons. 2002/03 rice production is estimated at slightly over 2 million tons, a 13 percent increase over last year, corresponding to an increase in area harvested. Wheat imports are forecast at 950,000 tons in 2003, up from 927,000 tons in 2002.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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SECTION I - SITUATION & OUTLOOK

RICE

Production Situation and Outlook

Sri Lanka's 2003/04 rice harvest is forecast at 2.1 million tons, given favorable weather conditions. The 2002/03 rice harvest is estimated at slightly over 2 million tons (milled basis), a thirteen percent increase from last year's level. The yala crop (harvested in the fall of 2002) is estimated at 738,000 tons and the maha crop (now being harvested) at 1.32 million tons. Last year's yala and maha harvests were 730,000 tons and 1.09 million tons, respectively. The increased harvest will be consumed among the local population. The weather plays a critical role in rice production in Sri Lanka, as most irrigation schemes are rain-fed and dependent on the timely arrival of the monsoons.

The availability of some paddy lands in the north-east has resulted in an increase of the area harvested in 2002. The peace process underway between the Government of Sri Lanka (GSL) and the Liberation Tigers of Tamil Eelam has enabled farmers to recultivate paddy lands previously abandoned due to the conflict. The heavy rains experienced during February/March caused flooding in certain areas, and led to poor quality of paddy in these cultivations but not necessarily a lower yield. The present maha harvest is expected to be completed towards the end of April. The average yield per hectare for the yala and maha season is estimated at 3.7 tons. Low farm gate prices continue to be of concern to paddy farmers. Although the Government has allocated funds for paddy purchases, inordinate delays occur due to lack of proper mechanisms to expedite the purchases.

The GSL was compelled to curtail budgetary allocations for rice research during early 2002, which severely affected the 2001/2002 maha and 2002 yala research programs for rice. These restrictions were imposed by the Government of Sri Lanka (GSL) due to the limited financial resources of the Treasury. It was the first time in the fifty-year history of the Rice Research Institute that the overall research program had to be abandoned due to budget cuts. Most of the planned research trials and seed production programs were not carried out. Only the most important breeding materials and nucleus seeds were harvested and the rest of the material was bulk harvested. The cost of production of rice is around Rs.8.50 per Kg. The cost of labor, farm power and tradable inputs constitutes 60%, 20% and 20%, respectively. The high cost of labor is an area of concern as it has seen a steady increase over the last 5-10 years.

Consumption

Rice is the staple food of Sri Lankans. The annual per capita consumption of rice is around 100Kg. Currently rice prices have stabilized due to the harvesting season. In mid 2002, rice prices increased drastically due to shortages. Rice prices have an effect on consumption, as segments of the population are compelled to consume more flour/flour based products at times of high rice prices. Around 65% of the population in Sri Lanka live in rural areas and are largely dependent on agriculture for their livelihood.

Trade

Rice imports in CY 2003 are forecast at 80,000 tons, as domestic production increases. The GSL has lifted licensing requirements for rice imports and has imposed a quantity-based tariff; the present import duty is Rs.5-6 per Kg. Although the present tariff is lower than the earlier tariff of Rs.7 per Kg, it is believed that the Government is yet again considering the revision of the import duty to protect the domestic producer. An increased tariff would certainly affect US rice exports already burdened with high freight costs. Rice imports increased to 92,000 MT in CY 2002 from 56,000 MT in CY 2001, registering a marked increase. The increase in imports was due to the sharp increase in rice prices during mid 2002, with the government permitting high import volumes in an effort to stabilize prices.

Sri Lanka’s rice imports continue to be dominated by India and Pakistan. Most rice imports are semi/wholly milled with some imports of broken rice also being brought into the country. Sri Lankan customs statistics indicate that the U.S. exported 2,000 tons of rice to Sri Lanka in 2002.

Marketing

The Government persists in its policy of market intervention in the domestic rice market to control prices. The Treasury has allocated Rs.460 million (approx. $4.79 million) to state entities for this season’s maha harvest paddy purchases. Alternative avenues are being reviewed for farmers to store excess production in order to obtain better prices by middlemen during the off-season. Although there is no direct impact on US rice suppliers as a result of these government actions, it does not permit market forces to determine demand and supply.

WHEAT

Production

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

Consumption

Flour consumption in Sri Lanka has averaged around 50 Kg per capita. Flour based industries have registered a steady increase with the popularity of local preparations together with the advent of fast food to the country. Fast food chains such as McDonald’s and Pizza Hut have been established in the country. However, both these restaurants have expressed dissatisfaction with the quality of flour produced in Sri Lanka. Many bakers are also reportedly unhappy with the quality of domestically produced flour. There is wide consensus among the flour based industries and the mill itself regarding the superior quality of US wheat. However, high prices resulted in US wheat being uncompetitive in 2002. High rice prices generally result in increased flour consumption. Most Sri Lankans consume one flour-based meal per day. This is subject to fluctuations in rice prices as some locals favor three rice meals per day. High rice prices also increase flour consumption among the low-income population. Although the flour industry is liberalized, the Government continues to intervene to ensure price stability as this is a politically sensitive commodity. Current retail flour prices are around Rs.22 per Kg. Flour distributed by the government totaled 639,159 metric tons in CY 2002 compared with 670,995 in 2001.

Monthly flour distribution in metric tons follows:

	2001	2002
January	62277	56182
February	50683	51246
March	56000	60011
April	48638	48638
May	52589	52756
June	52170	61709
July	57559	44887
August	58515	52871
September	61000	47916
October	53493	58916
November	63204	45171
December	54867	52769
Total	670995	639159
Average/Month	55916	53263

Prima (Ceylon) Ltd has operated the country's sole milling facility in Trincomalee since 1981. In 2001, the mill was sold to Prima by the GSL. Prima handles the entire operation including procurement, milling, storage, and distribution since the privatization of the wheat mill. Although the privatization purportedly allows the mill to operate in an open market environment, Prima is not permitted to increase prices according to market conditions. The GSL monitors the flour situation in the country in order to prevent shortages of this commodity. In the event of a forecasted flour shortage, imports are permitted free of duty to breach the shortfall. Flour shortages have not been experienced since the privatization of the flourmill, although concerns have been expressed regarding seemingly inadequate reserve stocks maintained by Prima to cover unforeseen circumstances. A second flourmill is scheduled to be constructed in the vicinity of the Colombo Port by a joint venture between a Sri Lankan company and a Singapore-based investor.

Trade and Competition

2003 wheat imports are forecast around the 950,000 MT mark. US wheat exports to Sri Lanka depend on competitive pricing of US suppliers. Prima has expressed a willingness to purchase

US wheat provided prices are competitive on the international market.

Sri Lanka's 2002 wheat imports were 928,000 tons compared with 925,000MT in 2001. All imports were commercial with the exception of 55,000 tons of wheat imported from the US under the PL 480 Program.

The above-mentioned flour milling facility was established for import substitution and to conserve the country's foreign exchange. The flour consumption has averaged around 5 percent annual growth since the mill was commissioned. US wheat exports to Sri Lanka recorded a marked decrease in 2002 due to high prices and an influx of Indian wheat into the country under a credit line established between the Government of India and the GSL. The GSL, during a high level visit to India in 2001, pledged to purchase 300,000 tons of wheat annually. Statistics reveal that Indian wheat accounted for approximately 23 percent of imports during 2002. A renewed appearance of Argentine wheat, which was blacklisted prior to privatization due to unreliability of quality and delivery, has also negatively affected US wheat exports to Sri Lanka. Since June 2001, Prima has introduced two additional grades of flour suitable for cakes and local food preparation, in addition to the normal 50-50 SW/HW mix flour.

SECTION II - STATISTICAL TABLES

Table 1: Commodity, Rice, PSD Table

PSD Table							
Country:	Sri Lanka						
Commodity:	Rice, Milled						
		2001		2002		2003	UOM
	Old	New	Old	New	Old	New	
Market Year Begin		10/2001		10/2002		10/2003	(MONTH/YEAR)
Area Harvested	735	735	730	806	0	810	(1000 Hectares)
Beginning Stocks	338	338	173	173	0	133	(1000 MT)
Milled Production	1,820	1,820	1,900	2,058	0	2,108	(1000 MT)
Rough Production	2,676	2,676	2,794	3,026	0	3,100	(1000 MT)
Milling Rate(.9999)	6,800	6,800	6,800	6,800	0	6,800	(1000 MT)
TOTAL Imports	35	35	80	80	0	75	(1000 MT)
Jan-Dec Imports	80	56	100	92	0	80	(1000 MT)
Jan-Dec Import U.S.	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	2,193	2,193	2,153	2,311	0	2,316	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Jan-Dec Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Dom. Consumption	2,020	2,020	2,020	2,178	0	2,180	(1000 MT)
Ending Stocks	173	173	133	133	0	136	(1000 MT)
TOTAL DISTRIBUTION	2,193	2,193	2,153	2,311	0	2,316	(1000 MT)

Table 2: Commodity, Wheat, PSD

PSD Table							
Country:	Sri Lanka						
Commodity:	Wheat						
		2001		2002		2003	UOM
	Old	New	Old	New	Old	New	
Market Year Begin		01/2001		01/2002		01/2003	(MONTH/YEAR)
Area Harvested	0	0	0	0	0	0	(1000 Hectares)
Beginning Stocks	100	100	100	100	0	100	(1000 MT)
Production	0	0	0	0	0	0	(1000 MT)
TOTAL Mkt. Yr. Imports	850	925	850	928	0	950	(1000 MT)
Jul-Jun Imports	850	925	850	928	0	950	(1000 MT)
Jul-Jun Import U.S.	432	488	0	224	0	275	(1000 MT)
TOTAL SUPPLY	950	1025	950	1028	0	1050	(1000 MT)
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0	(1000 MT)
Jul-Jun Exports	0	0	0	0	0	0	(1000 MT)
Feed Dom. Consumption	0	0	0	0	0	0	(1000 MT)
TOTAL Dom. Consumption	850	925	850	928	0	950	(1000 MT)
Ending Stocks	100	100	100	100	0	100	(1000 MT)
TOTAL DISTRIBUTION	950	1025	950	1028	0	1050	(1000 MT)

Table 3: Commodity, Rice, Import Trade Matrix

Import Trade Matrix			
Country:		Units:	Metric Ton
Commodity:			
Time period:	Jan - Dec		
Imports for	2001		2002
U.S.	0	U.S.	2000
Others		Others	
India	21346	India	54433
Pakistan	28673	Pakistan	25358
France	1163	Australia	9792
Thailand	244		
Total for Others	51426		89583
Others not listed	4574		407
Grand Total	56000		91990

Table 4: Commodity, Wheat Import Trade Matrix

Import Trade Matrix			
Country:		Units:	Metric Ton
Commodity:			
Time period:	Jan-Dec		
Imports for	2001		2002
U.S.	562,133	U.S.	300,000
Others		Others	
Australia	310,000	India	209,000
Canada	52,500	Australia	275,875
Total for Others	362,500		484,875
Others not listed			143,000
Grand Total	924,633		927,875

Table 5: Wheat Imports by Month, CY 2001 and CY 2002 by Country of Origin (metric tons)

			2001			2002
	US	Non-US 1/	Total	US	Non-US 2/	Total
January	0	0	0	58,925	52,500	111,425
February	63,749	52,500	116,249	63,000	61,140	12,4140
March	86,249	0	86,249	0	74,000	74,000
April	0	52,500	52,500	59,547	22,000	81,547
May	52,495	52,500	104,995	0	113,047	113,047
June	52,498	52,500	104,998	0	21,350	21,350
July	0	0	0	0	60,450	60,450
August	62,743	0	62,743	0	80,175	80,175
September	64,399	52,500	116,899	62,130	18,831	80,961
October	0	100,000	100000	56,000	45,500	101,500
November	120,000	0	120,000	0	78,100	781,000
December	60,000	0	60,000	0	0	60,000
Total	56,2133	362,500	924,633	299,602	627,093	926,695

1/- NON-U.S. INCLUDES 310,000 TONS AUSTRALIAN WHEAT AND 52,500 TONS CANADIAN WHEAT
2/- NON-U.S. INCLUDES 275,875 TONS AUSTRALIAN WHEAT AND 209,000 TONS INDIAN WHEAT