

Voluntary Report – Voluntary - Public Distribution

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Report Name: Temporary Suspension of Imports Due to COVID-19 - Impact on Food and Agriculture Trade

Country: Sri Lanka

Post: Colombo

Report Category: Agricultural Situation, Agriculture in the News, Dairy and Products, Fresh Fruit, Poultry and Products, Livestock and Products, Oilseeds and Products, Fishery Products, Beverages, Food Service - Hotel Restaurant Institutional, Retail Foods, Snack Foods

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Report Highlights:

The government of Sri Lanka (GOSL) has enacted stringent measures to counter the economic impact of the COVID-19 crisis. This includes temporary suspension of imports in several stages and forms that have ramifications for food and agricultural commodity imports.

Background on imposition of trade restriction srelated to COVID -19

Sri Lanka, like many countries, is a victim of the COVID-19 pandemic. GOSL's response has been imposition of several rounds of trade restrictions. The first restriction, imposed along with the islandwide lock down, was a temporary import suspension of live animals and animal products, in the belief that this may help contain the spread of COVID-19. The next round of trade restrictions came in several stages as temporary measures to ease the pressure on the exchange rate.

Apparel and garments generate about half of Sri Lanka's foreign exchange earnings through exports. Movement restrictions associated with global response to the COVID-19 crisis has collapsed U.S. and European demand for these textile products. Besides losing demand for apparel, which constitutes over 50 percent of Sri Lanka's exports, the contraction in world demand also cut off other foreign exchange revenue streams such as remittances and income from tourism. Overseas remittances to Sri Lanka generate additional foreign exchange earnings which equate to as much as 60 percent of annual export earnings, half of it coming from the Middle East region. Sri Lanka's tourism industry also has suffered mightily in recent time: almost exactly one year ago, on April 21, 2019, terrorists bombed two churches and the restaurants of three leading hotels. Widespread fear of further attacks all but halted the tourism and convention trade. By year end a smattering of tourism had begun afresh, only to be slammed to a halt by the nationwide lockdown March 20, 2020 in response to the COVID-19 pandemic. Since nearly all normal sources of foreign exchange earnings had suddenly ceased activity, GOSL temporarily imposed harsh restrictions on imports to prevent a rapid depreciation of the Sri Lankan Rupee.

What follows is a chronological summation of the main trade restrictions on food and agriculture, recently introduced by GOSL.

March 20 - Temporary suspension of imports of live animals, animal products, and animal by-products

On March 20, the Department of Animal Production and Health, the GOSL's regulator of imports and exports of animals and animal products, published a [notice to importers](#) restricting certain products as an additional precaution to contain the spread of COVID-19. The notice, effective immediately, announced a prohibition on importing live animals, animal products, and animal by-products (meat and bone meal, bristles, hair etc.), with the notable exception of dairy products. The notice did not specify a date by which the new restriction will be lifted.

April 16 - Temporary restriction of imports for three months

The first round of restrictions came on March 19 with Central Bank of Sri Lanka (CBSL) [requesting commercial banks](#) to suspend facilitation of importation of motor vehicles and non-essential goods for three months as listed in the directive along with some other measures, however no food or agricultural commodities were listed in the first round of restrictions. After several revisions, on April 16 the GOSL imposed new trade restrictions which are still in effect.

The April 16 [temporary suspension of imports](#) apply on commodities under 156 Harmonized System (HS) code headings, which include a range of food and agriculture commodities. Sri Lanka Customs and commercial banks in turn are requested to suspend facilitation of imports of items with HS codes stipulated in Schedule I from April 16 to July 15, 2020. The Schedule I identifies commodities on an 8-HS digit basis.

Table 1: Some of the food and agriculture commodities which were suspended in Schedule I

HS Heading	Description
03.01	Live Fish
03.04	Fish fillets and other fish meat (whether or not minced), fresh, chilled or frozen.
10.06	Rice
10.08	Buckwheat, millet and canary seeds; other cereals (+).
11.02	Cereal flours other than of wheat or meslin.
11.06	Flour, meal and powder of the dried leguminous vegetables of heading 07.13, of sago or of roots or tubers of heading 07.14 or of the products of Chapter 8
11.07	Malt, whether or not roasted.
12.02	Ground-nuts, not roasted or otherwise cooked, whether or not shelled or broken (+).
12.08	Flours and meals of oil seeds or oleaginous fruits, other than those of mustard
15.07	Soya-bean oil and its fractions, whether or not refined, but not chemically modified.
15.11	Palm oil and its fractions, whether or not refined, but not chemically modified (+).
15.13	Coconut (copra), palm kernel or babassu oil and fractions thereof, whether or not refined, but not chemically modified (+).
17.04	Sugar confectionery (including white chocolate), not containing cocoa.
18.06	Chocolate and other food preparations containing cocoa.
19.01	Malt extract; food preparations of flour, groats, meal, starch or malt extract, not containing cocoa or containing less than 40% by weight of cocoa calculated on a totally defatted basis, not elsewhere specified or included; food preparations of goods of headings 04.01 to 04.04, not containing cocoa or containing less than 5% by weight of cocoa calculated on a totally defatted basis, not elsewhere specified or included.
19.02	Pasta, whether or not cooked or stuffed (with meat or other substances) or otherwise prepared, such as spaghetti, macaroni, noodles, lasagna, gnocchi, ravioli, cannelloni; couscous, whether or not prepared.
19.03	Tapioca and substitutes therefor prepared from starch, in the form of flakes, grains, pearls, siftings, or in similar forms.
19.04	Prepared foods obtained by the swelling or roasting of cereals or cereal products (for example, corn flakes); cereals (other than maize (corn)) in grain form or in the form of flakes or other worked grains (except flour, groats and meal), pre-cooked, or otherwise prepared, not elsewhere specified or included.
19.05	Bread, pastry, cakes, biscuits and other bakers' wares, whether or not containing cocoa; communion wafers, empty cachets of a kind suitable for pharmaceutical use, sealing wafers, rice paper and similar products.
22.01	Waters, including natural or artificial mineral waters and aerated waters, not containing added sugar or other sweetening matter nor flavored; ice and snow.
22.02	Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavored, and other non-alcoholic beverages, not including fruit or vegetable juices of heading 20.09.
22.03	Beer made from malt.
22.04	Wine of fresh grapes, including fortified wines; grape must other than that of heading 20.09.
22.05	Vermouth and other wine of fresh grapes flavored with plants or aromatic substances.
22.06	Other fermented beverages (for example, cider, perry, mead, sake); mixtures of fermented

	beverages and mixtures of fermented beverages and nonalcoholic beverages, not elsewhere specified or included.
22.08	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80% vol; spirits, liqueurs and other spirituous beverages.
22.09	Vinegar and substitutes for vinegar obtained from acetic acid.
33.01	Essential oils (terpeneless or not), including concretes and absolutes; resinoids; extracted oleoresins; concentrates of essential oils in fats, in fixed oils, in waxes or the like, obtained by enfleurage or maceration; terpenic by-products of the deterpenation of essential oils; aqueous distillates and aqueous solutions of essential oils (+).
33.02	Mixtures of odoriferous substances and mixtures (including alcoholic solutions) with a basis of one or more of these substances, of a kind used as raw material in industry; other preparations based on odoriferous substances, of a kind used for the manufacture of beverages.
38.23	Industrial monocarboxylic fatty acids; acid oils from refining; industrial fatty alcohols.

Source: Excerpt from GOSL notification

Note: All suspended HS Codes under each HS heading are given in the GOSL published notification.

April 16 – Credit payment deferred for 3 months

The [same regulations](#) released on April 16 included a second schedule directing commercial banks to facilitate imports of items stipulated in Schedule II, albeit with credit facility which defers payment for three months, from April 16 to July 15, 2020. The Schedule II includes commodities under 111 HS headings; some of the food and agricultural items in Schedule II are listed in Table 2.

Table 2: Some HS headings of food and agriculture commodities in Schedule II

(HS codes under each HS heading are given in the GOSL published notification)

HS Heading	Description
04.02	Milk and cream, concentrated or containing added sugar or other sweetening matter
04.03	Buttermilk, curdled milk and cream, yogurt, kephir and other fermented or acidified milk and cream, whether or not concentrated or containing added sugar or other sweetening matter or flavored or containing added fruit, nuts or cocoa
07.13	Dried leguminous vegetables, shelled, whether or not skinned or split
10.01	Wheat and meslin
15.11	Palm oil and its fractions, whether or not refined, but not chemically modified
15.12	Sunflower seed, safflower or cotton-seed oil and fractions thereof, whether or not refined, but not chemically modified
17.01	Cane or beet sugar and chemically pure sucrose, in solid form

Source: Excerpt from GOSL notification

Note: HS Codes under each HS heading is given in the GOSL published notification

April 17 – Increased Import Levy on Fruits

[GOSL](#) notified an increase of Special Commodity Levy on imported fruits under 4 HS headings. The new levy is effective for 2 months beginning April 17, 2020.

Table 3: SCL changes for several fruit types

H.S Heading	H.S. Code	Description	Previous SCL	New SCL
08.05	0805.10.10	Oranges- fresh	Rs.80 per Kg	Rs.120 per Kg
08.06	0806.10	Grapes - Fresh	Rs.130 per Kg	Rs.165 per Kg
08.08	0808.10	Apples	Rs.60 per Kg	Rs.90 per Kg
08.08	0808.30	Pears	Rs.175 per Kg	Rs.220 per Kg

Note: Excerpts of GOSL notices – more details are available in the notice

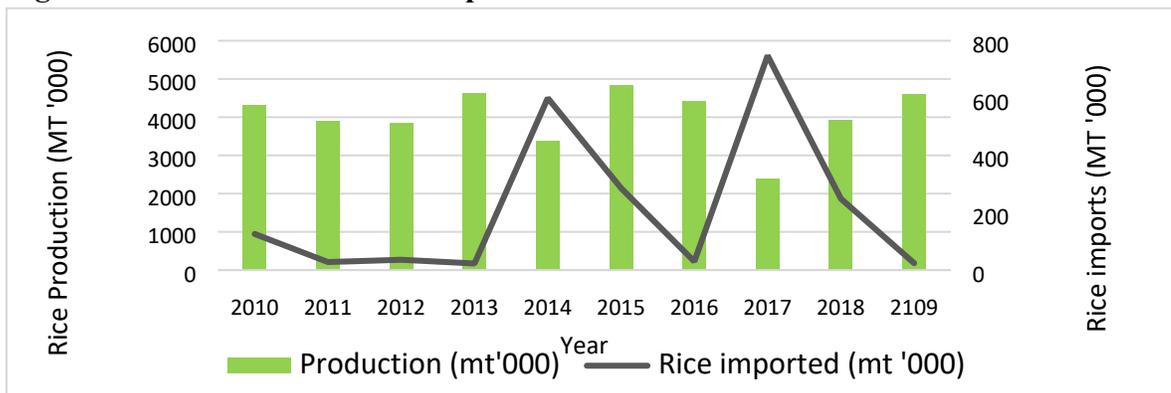
Impact of temporary restrictions on trade

The live animal and meat products import suspensions have ramifications mainly for the poultry industry and hotel and restaurant industry (HRI). Sri Lanka’s total annual meat and meat by-product imports from all sources have averaged just under USD 5 million for the past two years, and the Sri Lanka poultry industry imports a significant quantity of live birds (day-old chicks) for breeding purposes, averaging about USD 4 million per year, for the past 2 years. Of those day-old chicks, over 70 percent are supplied by the United States. In addition to the loss to U.S. producers and exporters, the Sri Lankan poultry industry likely will suffer productivity losses without regular imports of breeding stock.

Over the past two years Sri Lankan imports of both beef and poultry products have each averaged under USD 1 million from all sources, while lamb import has averaged around USD 3 million. Most of this imported meat is used by Sri Lanka’s HRI, which already registered a steep drop in imports following the terrorist attacks in April 2019, which severely depressed travel and tourism in Sri Lanka.

According to the Sri Lanka Customs data, the restricted food and agricultural commodities listed in both Schedule I and II are only about 5 percent of the value of total 2019 imports to Sri Lanka. However, the value of commodities subject to the three months deferred payment is much higher. Together the regulations restrict approximately 16 percent by value of food and agricultural commodities exported from the United States to Sri Lanka (US Census Bureau trade data).

Figure 1: Rice Production and Imports



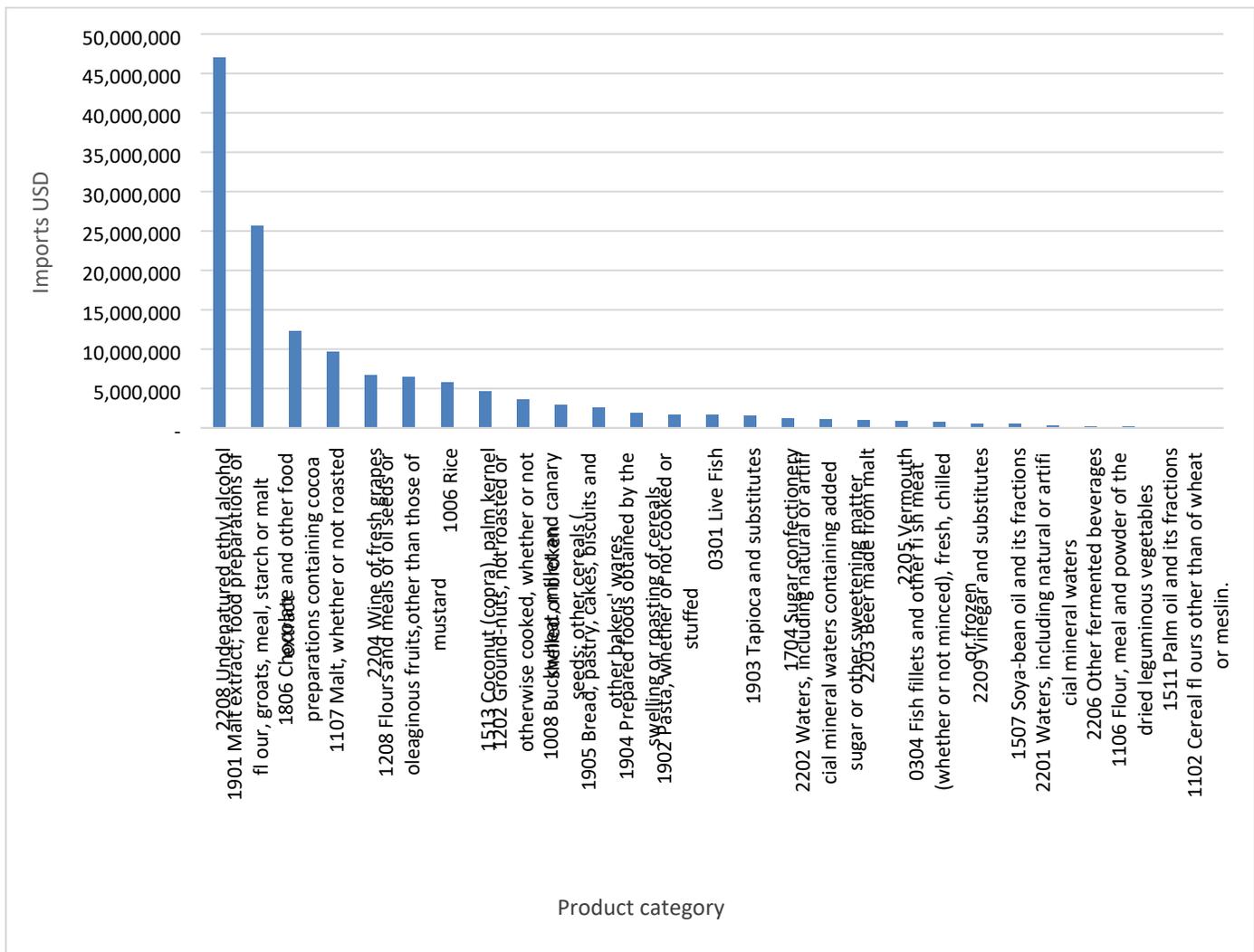
Source: Based on Central Bank of Sri Lanka Annual Report data, 2019

While any trade restriction reduces economic efficiency, it is noteworthy to mention that the restrictions do not apply on food and agricultural commodities which, if restricted, could lead to a shortage of access to daily essentials for the public. Rice, which is the daily staple of Sri Lanka also comes under temporary suspension,

but it is a normal practice to restrict rice imports at times of expected bumper harvests or when stocks are ample (Figure 1). Sri Lanka just completed rice paddy harvesting of the major season, which the Department of Agriculture of Sri Lanka forecasts to be close to 3 million metric tons. The production is sufficient for more than 9 months consumption, hence, temporary restriction of rice will have only a minimal impact. About half of the rice imports of 2019 fall under the temporary suspension.

The trade restrictions do have implications for some industry categories of Sri Lanka such as retail, liquor and confectionary. In value terms, palm oil imports are greatly affected: on average in the past 5 years the Sri Lanka confectionary industry imported close to USD 93 million per year worth of palm oil under categories which are now restricted under both Schedule I and II. Other affected food and agricultural commodity categories with significant trade volumes are: ethyl alcohol, spirits, and liqueurs; food preparations of flour; groats meal, starch, or malt extract; and chocolate or other food preparations containing cocoa.

Figure 2: Value of imports in 2019 by restricted food and agricultural commodity categories under Schedule 1

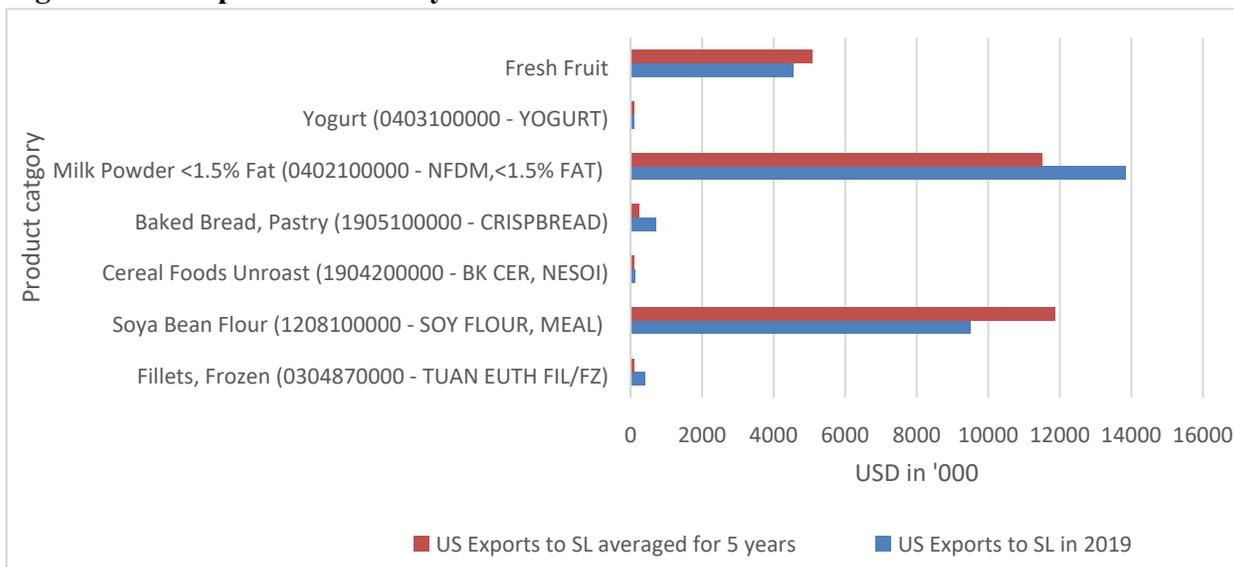


Source: Trade Data Monitor, based on Sri Lanka Customs data

The categories listed under Schedule II under milk and cream; wheat and meslin; and cane and beet sugar are largely affected by the three months deferred credit payment. This represents about USD 900 million worth of trade in 2019 and, if exporters are unable to reach agreement on deferred payment terms, it will have significant ramifications for Sri Lankan industries.

The top two US agricultural exports to Sri Lanka (soybean meal used for animal feed industry and wheat) are not restricted by the temporary suspension or deferred payment terms (under both Schedule I and II). Based on the US Census Bureau trade statistics, the temporary suspension will affect USD 10 million worth of trade of soybean flour supplies to Sri Lanka’s confectionary industry in 2019, as well as frozen fish fillet, cereal food, and baked bread; but the trade values of each remain below USD 1 million in 2019. However, a category of nonfat dried milk powder (NFDM) exported by US to Sri Lanka is largely affected by deferred payment terms, along with a category of yogurt which shows relatively low trade values with Sri Lanka (Figure 3). American enterprises exported USD13.8 million worth of NFDM to Sri Lanka in 2019.

Figure 3: US exports affected by trade restrictions related to COVID-19



Source: extracted from FAS/ USDA/ GATS based on US Census Bureau trade statistics

The increased import levy on fruits cover 4 HS code headings. The total fruit imports of Sri Lanka are just 0.3 percent of the total imports of Sri Lanka in terms of value (about USD 71 million per year). About a quarter of the fruit imports are from China and 8 percent from the United States. Apples constitute about 33 percent of all fruits imported, with just under half sourced from China and just under 20 percent from the United States. Of total US fruit shipments to Sri Lanka, about 75 percent are fresh apples, followed by grapes and oranges. The import tariff of this Special Commodity Levy on apples was revised twice within a year, from an initial Rs.45 per kilogram, to Rs.60 per kilogram in July 2019, and again to Rs.90 per kilogram with the recent change.

Attachments:

No Attachments.