

6. AGRICULTURE

The agriculture sector performed better in the first half of 2004 compared to the first half of 2003. Although the output of paddy declined significantly the improvement in tea, rubber, coconut and fisheries contributed positively towards the improved output. Agriculture production index increased by 1.4 per cent over the index recorded for the first half of 2003.

Overall Developments

- The agriculture production index shows that the plantation sector reported a 7 per cent growth during the first half of 2004 compared to the first half of 2003. Major contribution to the plantation sector performance came from the coconut industry, which reported a 14 per cent growth. Tea and rubber sectors grew by approximately 2 per cent and 13 per cent during this period. Fish production reported a 12 per cent growth compared with the depressed output reported during the first half of 2003. Paddy production during the 2003/04 maha season dropped by 12 per cent compared to the peak output recorded during the previous maha season.

Table 6.1

Agriculture, Livestock and Fishery Sector

Production Indices (1997-2000 as base period)

Item	2002	2003	2004	% change
	1st half	1st half	1st half (a)	
Agriculture and Fishery (Overall)	116.1	115.4	117.0	1.4
1. Agriculture	117.5	119.3	119.2	-0.1
Tea	111.0	107.0	109.0	1.9
Rubber	92.7	97.8	110.9	13.4
Coconut	85.6	84.0	95.9	14.2
Paddy	133.1	142.2	125.6	-11.7
Other Crops	105.0	109.0	107.0	-1.8
Livestock	117.1	117.9	121.6	3.1
2. Fishery	108.0	92.8	103.6	11.6

(a) Provisional

Source : Central Bank of Sri Lanka
Relevant Authorities

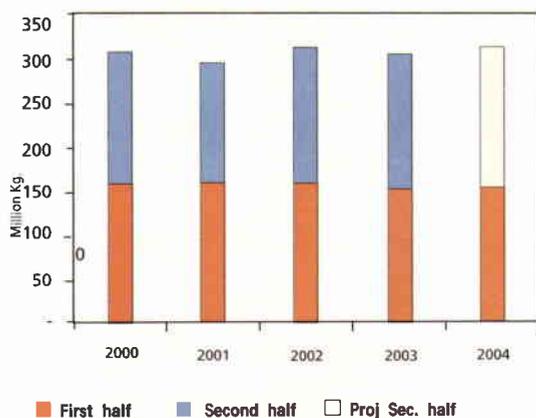
- International prices of tea, rubber and coconut kernel products were higher in the first half of 2004 compared to the prices that prevailed for those commodities in 2003. Prices of natural rubber and the three coconut kernel products viz. coconut oil, copra and desiccated coconut showed a favorable increase. Consequently, the domestic prices of those products also increased during the first half of 2004.
- Productivity of agricultural crops shows a mixed performance. Yield level of paddy in Sri Lanka is much higher than the rice exporting countries in the region such as Myanmar, Thailand, India and Pakistan. However, the yield of most of the other field crops such as chillies, onion, maize, etc. is less than the levels in the comparable countries.
- Productivity of labour in the agriculture sector in Sri Lanka is much below the levels compared to the developed countries. Main reasons are the fragmented nature of lands that discourages mechanization due to low economies of scale, and lower yields.

Tea

- Tea production during the first half of 2004 increased by 1.9 per cent to 155.5 million kg. Output in the low grown areas increased by 12.3 per cent while output in high and mid elevations declined by 12 per cent and 5 per cent, respectively, compared to the first half of 2003.

Tea Production

Chart 6.1



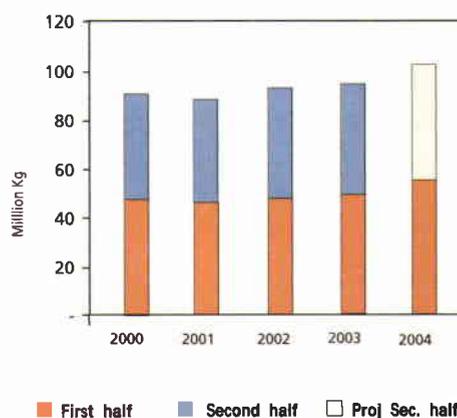
- Due to the current drought conditions, the output during the third quarter is estimated to decline marginally compared to the previous year. Assuming that the North East monsoon rains will be normal, the annual tea production in 2004 is projected to increase by about 2 per cent to 310 million kg.
- The average price of tea during the first half of the year increased by 14 per cent in rupee terms to Rs. 164.48 per kg (US dollars 1.68 per kg). Prices are expected to remain around these levels in the second half of 2004.

Rubber

- The output of rubber, which grew during the previous year rose further during the first half of 2004 by 13.4 per cent in response to the improvement in international prices. Based on current production levels the output of rubber is projected to increase by about 9 per cent to 100 million kg in 2004.

Rubber Production

Chart 6.2



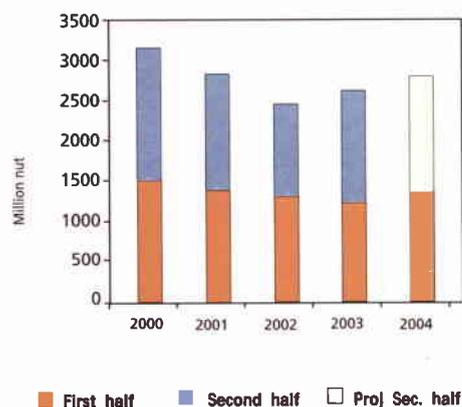
- The improvement in prices commenced in April 2002 continued steadily during the first half of 2004. The average price of RSS 1 at the Colombo Auctions, which increased by 64 per cent in the first half of 2003, improved further by 30 per cent in the first half of 2004 and averaged to Rs.123.90 per kg. Rubber prices in the international market are expected to be buoyant during the balance part of the year in response to the increasing prices of synthetic rubber due to increasing oil prices.

Coconut

- Coconut production at 1,314 million nuts during the first half of the year, increased by 14 per cent compared to the first half of 2003. Production gradually improved from January to May, 2004. However, the impact of the drought is beginning to be felt and the output in June declined by 4 per cent compared to the previous year. Coconut output for 2004 as a whole is projected to increase by about 7 per cent over 2003 to 2,750 million nuts.

Coconut Production

Chart 6.3



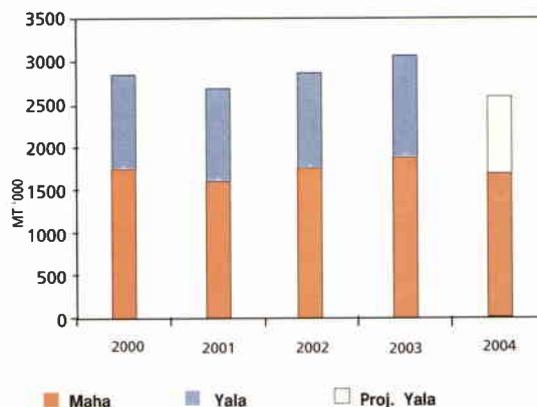
- Desiccated coconut output, which increased by 30 per cent during the first half of 2003, reported over a twofold increase during the first six months of 2004. The steady international demand, decline in nut prices and improved output were the major factors of the increase in production.

Paddy

- The drought has had a serious impact on paddy production causing a decline in the 2003/04 Maha season by 11.7 per cent over the previous Maha season. Extents of land cultivated under all three regimes (major irrigated, minor irrigated and rainfed) decreased during the Maha season due to a failure of the North-East monsoon. Effects of the drought are expected to continue and paddy output in the 2004 Yala season is projected to decrease significantly by about 24 per cent to 900 thousand metric tons. Hence, paddy production during the 2003/04 cultivation year is projected to decrease by about 16 per cent to 2,573 thousand metric tons from the peak output recorded in the previous year.

Paddy Production

Chart 6.4



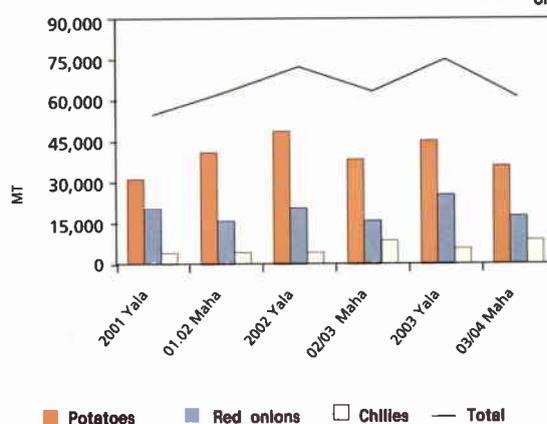
- In the wake of the shortfall in production, both rice and paddy prices have risen to a high level.

Other Field Crops

- Production of important 'other field crops', such as chillies, red onions, potatoes, cowpea and green gram, decreased during the 2003/04 Maha season compared to the previous Maha season due to the failure of the Northeast monsoon rains.

Production of Selected Crops

Chart 6.5



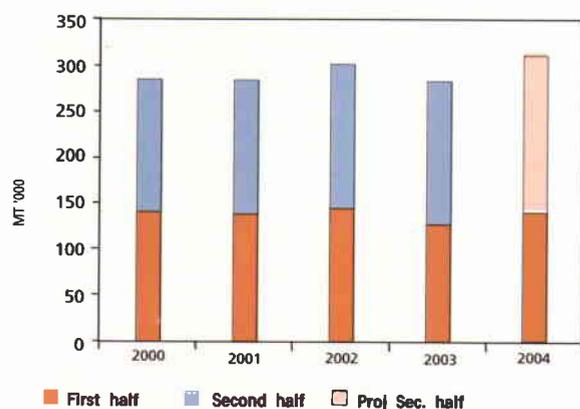
- However, despite the decline in the extents cultivated, the output of maize and black gram increased due to an improvement in the yield levels. The failure of the South-West monsoon rains is expected to affect Yala production, resulting in a negative growth during the 2004 cultivation year.

Fish

- According to provisional estimates, fish production during the first six months of the year increased by about 10.4 per cent to 140 thousand metric tons. Increases in output in both inland and marine sectors contributed to the overall improvement. While the inland sector improved significantly by 70 per cent compared to the same period in the previous year, marine fish production increased by 5.9 per cent during the first half of the year. Inland sector production improved mainly because of an increase in the catch, facilitated by the depleted water levels in the reservoirs due to the drought. Exports of crustaceans and molluscs during the period increased significantly due

Fish Production

Chart 6.6



to both an improvement in the aquaculture sector and an increase in the wild catch. According to provisional estimates, fish production in 2004 will increase by about 10 per cent.

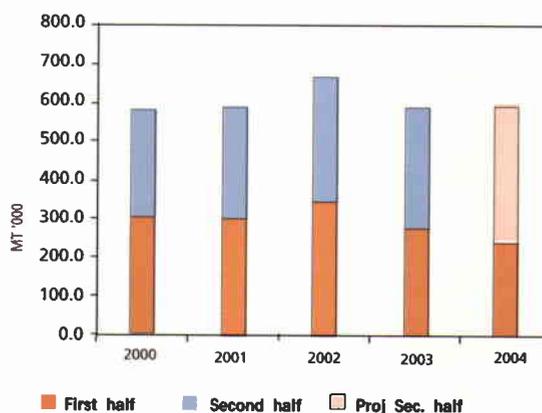
Inputs

Fertiliser

- Fertiliser usage during the first half of the year declined by 13 per cent compared to the corresponding period in the previous year. Drop in the fertiliser usage is attributed to the reduction in the extents cultivated especially under paddy due to the failure of the monsoon rains.

Fertiliser Issues

Chart 6.7



- International prices of fertiliser increased during the year compared to the previous year mainly due to the upsurge in demand from China and the price increase in petroleum products.
- In view of higher international prices, the government increased the subsidy on urea by Rs. 3,000 to Rs.

15,000 per metric ton with effect from May 1, 2004. With the increase in the subsidy, the selling price of Urea was fixed at Rs. 600 per 50kg bag. The VAT on fertiliser was removed with effect from 01 July 2004 to reduce the price of fertiliser further.

Credit

- ❑ Credit granted under the New Comprehensive Rural Credit Scheme during the 2003/04 Maha season for paddy and other field crops amounted to Rs 742 million. Amount disbursed during the current season declined due to the reduction in the extent cultivated owing to the drought.
- ❑ General amnesties and writing off of agricultural loans indiscriminately especially prior to elections has led to a high degree of loan defaults.
- ❑ Majority of the farming population still depends heavily on the informal sector for their credit needs at very high interest rates.

Agriculture Policy

- ❑ The current government's policy is to improve productivity and revitalize the agricultural sector and attain self-sufficiency in food production and enhance food security.

- ❑ The goal of increased food production is to be achieved through development assistance by way of new technology, increasing input subsidies, modernising agricultural research and training institutes and the rehabilitation of village tanks.

- ❑ The fisheries sector is to be developed by modernising the existing harbour facilities, developing coastal aquaculture and the stocking of fingerlings in inland water bodies.

- ❑ Research and development requires infusion of more investment. Funding for agricultural research is currently minimal. Recurrent expenditure on agricultural research as a percentage of the value added in the Agriculture sector in GDP has been less than 1 per cent in Sri Lanka while the similar figure for developing countries has been around 5 per cent. However, it is important to note that research has to be demand driven.

- ❑ Sri Lanka's rice production has reached near self-sufficiency and farmers undergo serious farm gate price fluctuations at the time of harvest due to insufficient development of the marketing infrastructure. Ad hoc government policies, such as unplanned changes in tariffs, have had adverse repercussions on the development of the markets due to the uncertainties in the past. Hence, a transparent, predictable and consistent

government policy on agriculture would encourage the private sector to invest in developing the marketing infrastructure.

- ❑ As paddy production reaches self-sufficiency, any excess production will have to be either stored as buffer stocks or exported. To be competitive in the export market, the processing will have to be improved with investments in modern milling equipment, which will improve the quality to internationally accepted levels.

Outlook for 2005.

- ❑ The agriculture sector is expected to perform better in 2005 as weather conditions improve, and the output of tea, rubber and paddy is projected to exceed out-

put in 2004. Tea production, which improved in 2004 is projected to improve by about 1 per cent and reach an all time high of 313 million kg in 2005.

- ❑ The international price of rubber is expected to continue to prevail at high levels during 2005 as well. The output of rubber is projected to improve further and reach to about 103 million kg in 2005.
- ❑ Adverse weather conditions that prevailed this year will affect the coconut output in 2005. Coconut production is projected to decline by about 9 per cent to around 2,500 million nuts in 2005.
- ❑ Assuming normal weather conditions to prevail during the Northeast and the Southwest monsoons, the output of paddy and other crop sectors too are expected to do well during 2005.