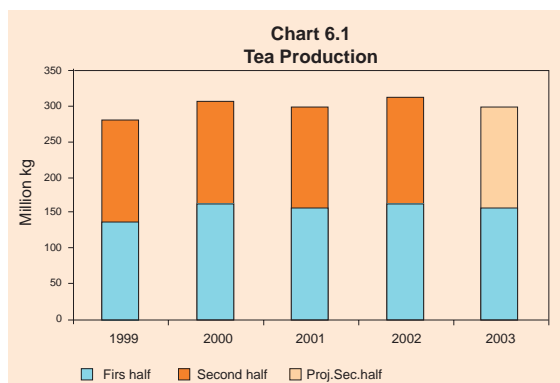


## 6. AGRICULTURE

The agriculture sector recorded a positive growth during the first half of 2003 despite the adverse temporary impact of mid-year floods on some crops. Paddy output in the 2002/03 Maha season reached an all time high level. Rubber production also improved during the first half. The floods and earth-slips affected tea in the low grown areas. Fisheries sector recorded a decline during this period. The agriculture sector during the second half of the year is expected to grow positively with improved output projected for rubber, coconut, paddy and most other field crops.

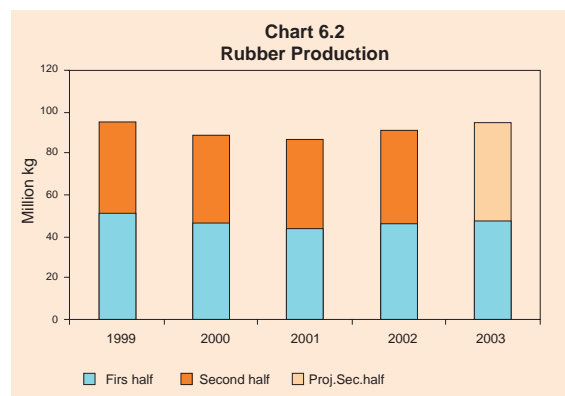
### Tea

- Tea production during the first half of 2003 declined by 4 per cent to 152.9 million kg. Rains and subsequent floods and earthslips in May in the low grown areas were the main causes. Production and prices were also adversely affected by the Iraq war during March.
- Output in the low grown areas declined by 5.8 per cent. Output at the other two elevations too declined compared to the first half of 2002.
- The average price of tea during the first half of the year declined by 4.6 per cent in rupee terms to Rs.143.85 per kg (US dollars 1.48 per kg) mainly because of reduced demand during the Iraq war period.
- With those developments, tea production in 2003 is projected to decline by about 3 per cent to 300 million kg.



### Rubber

- Output of rubber, which increased during the previous year, rose further during the first half of 2003 in response to improvements in prices.
- The improvement in prices commenced in April 2002 and continued steadily during the first half of 2003.



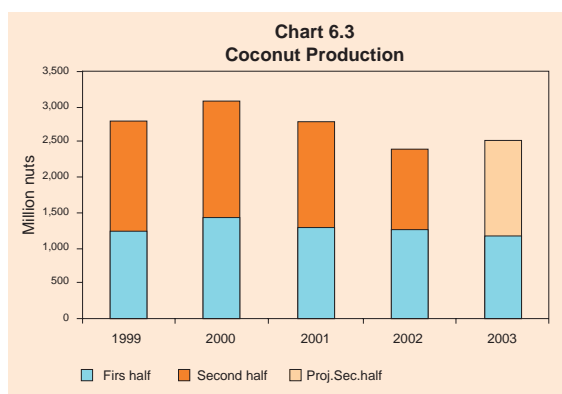
- The average price of RSS 1 at the Colombo Auctions increased by 64 per cent compared to prices in the first half of the previous year, fetching Rs.94.97 per kg.
- There has been a shift to the production of sheet rubber from crepe rubber in view of the increase in the cost of production of crepe rubber arising mainly from the increase in electricity prices since April 2002.



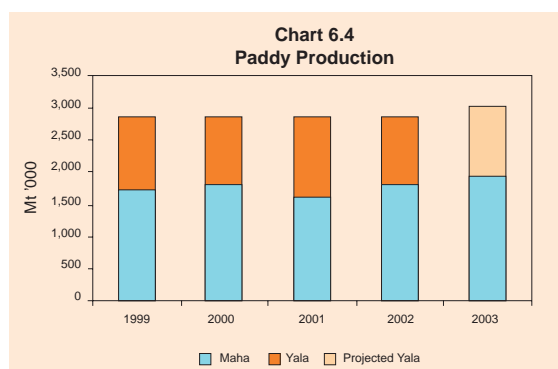
- Domestic consumption of rubber in the industrial sector, which increased over the last few years, continued to maintain its status accounting for over 58 per cent of the total rubber output.
- Output of rubber during 2003 is projected to increase by about 5 per cent to 95 million kg.

## Coconut

- Coconut production at 1,159 million nuts during the first half of the year dropped by 7 per cent compared to the first half of 2002. The production has been gradually improving since January and the output in the second half is expected to improve further.
- Desiccated coconut output during the first half of 2003 increased by 30 per cent compared to that in the first half of 2002.
- Coconut oil could not compete with imports of large volumes of edible oil after the removal of the surcharge and the reduction of duty on edible oils. As a result coconut oil output during the first half of the year declined by 39 per cent.
- Coconut output for 2003 is projected to increase by about 4.5 per cent to 2,500 million nuts.



- Extents of land cultivated with paddy under all three regimes (major irrigated, minor irrigated and rainfed) increased during the Maha season due to favourable climatic conditions that prevailed during the North- East monsoon.
- Extents cultivated in the Northern and Eastern provinces increased owing to the cessation of hostilities between the government security forces and LTTE.
- Increase in the availability of water enabled the cultivation of even marginal lands, which has led to a decrease in the average yield by 4 per cent to 74 bushels per acre.
- Paddy prices declined by 7 per cent, during the peak harvesting period, due to increased production.
- Paddy output in the 2003 Yala season is projected to increase by about 4 per cent to an all time high level of 1,125 thousand metric tons which is 4 per cent higher than the output in the previous Yala season. Paddy production during the 2002/03 cultivation year is projected to increase by about 6 per cent to an all time high level of 3,030 thousand metric tons.



## Paddy

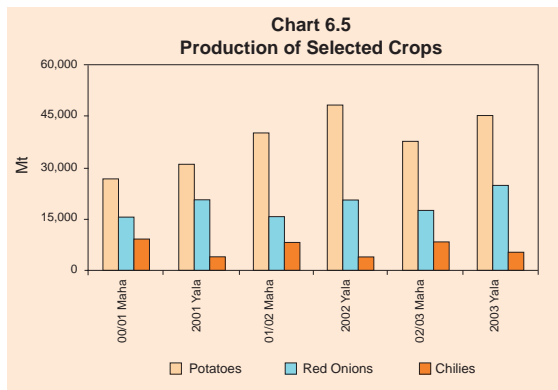
- Paddy output in the 2002/03 Maha season increased by 7.4 per cent over the previous Maha season. This is the highest output ever recorded exceeding the previous peak output in 1999/2000 Maha season by 7 per cent.

- In view of the bumper harvest expected in 2003, the specific duty on rice imports has been increased from Rs. 7.00 per kg to Rs. 9.00 per kg.



## Other Field Crops

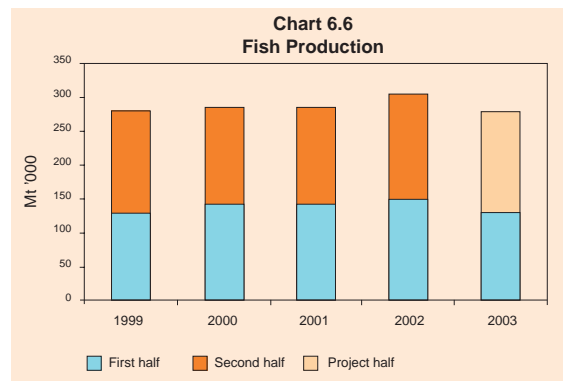
- Production of most of the important other field crops such as chillies, red onion, maize and green gram increased during the 2002/03 Maha season compared to the previous Maha season.
- Increase in the production of chillies and red onions could be attributed to an increase in the cultivation of these crops in Northern Province with the cessation of hostilities in the area.
- Potato production, which reported a sharp increase during the previous year after the introduction of specific duties on imported potato, reported a drop in output during the 2002/03 Maha season. This is attributed to a reduction in yields.
- With improvements in output during the 2003 Yala season, output of other field crops is projected to record a positive growth rate during the 2003 cultivation year.



## Fish

- According to provisional estimates, fish production during the first six months of the year declined by 13 per cent to 126,700 metric tons. Depressed output in both inland and marine sectors contributed to the overall decline.
- Marine fish production declined by 12 per cent during the first half of the year while the inland sector reported a 32 per cent drop compared to the same period in the previous year.

- Drop in marine fish production is attributed to the depletion in the fleet of multi-day boats as well as the loss of fishing days due to bad weather experienced in the Southern and Northwestern coastal areas during the months of May and June 2003. This indicates the necessity for urgent capital investments in the marine fishing sector.
- Foreign fishing crafts poaching in the Northern territorial waters affected the catch in those areas.
- Exports of crustaceans and mollusks during the period increased significantly due to both an improvement in the aquaculture sector as well as an increase in the wild catch.
- According to provisional estimates, fish production in 2003 will decline by 6 per cent.



## Agriculture Marketing

- The seasonal and perishable nature of many agricultural produce cause severe fluctuations in farm gate prices hurting the producer income and impacting the investment in the sector. To face this, the Central Bank of Sri Lanka introduced a Forward Sales Contract System in 1999 covering several major products such as paddy, maize and onions in several districts.
- As the second stage in developing the Forward Sales Contract System a commodity exchange to deal in futures trading is being planned covering several major products.



## Agriculture Policy Issues

- The 'Regaining Sri Lanka' policy document has outlined the government's long-run policy in developing the agriculture sector. Emphasis has been given for productivity improvement and crop diversification measures.
- The Ministry of Agriculture and Livestock has prepared a National Policy on Agriculture and Livestock (NPAL) for 2003- 2010 with the objective of mobilising state and private sector involvement and human resources to transform domestic agriculture and the livestock industry into a sustainable and strong economic force for the development of the country.
- The Council for Agriculture Research and Policy (CARP) has formulated the National Agriculture Research Policy (NARP), which covers development and management of technology by improving its effectiveness through several innovative approaches. It emphasises developing partnerships with universities to strengthen the National Agriculture Research System (NARS) and the need for partnership building with the private sector to increase demand driven research and development activities.
- The policy also attempts to streamline extension services, increase the process of dissemination of information and new innovations, and to attract investment.
- The Seed Bill was approved by Parliament in May 2003 and a regulatory framework is being prepared.
- Sri Lanka's rice production has reached near self-sufficiency. Farmers have faced serious difficulties as a result of substantial decreases in farm gate prices at the time of harvest due to insufficient development of the marketing infrastructure. Ad - hoc government policies in the past, on tariffs have had adverse repercussions on the development of markets due to uncertainties. In a situation of excess production and supply, development of storage facilities and

hedging mechanisms such as forward sales contracts should be developed and expanded further rather than changing tariff levels to stabilise prices in the domestic market.

- Reaching self-sufficiency in rice indicates that excess production will have to be either stored or exported. To be competitive in the export markets, processing will have to be improved with investment in modern milling equipment to upgrade the quality of rice.
- The Agriculture and Livestock Ministry, together with the National Livestock Development Board (NLDB) and MILCO, has initiated a programme at the divisional and municipal level to popularise fresh milk consumption among people and to increase the demand for fresh milk.
- The Ministry of Plantation Industries is planning to introduce micro-irrigation systems on a large scale in coconut plantations as a part of its five-year development plan to bring stability and economic viability to the industry.

## Outlook for 2004

- The agriculture sector is expected to grow further in 2004 . This growth is mainly expected from the improvement in plantation agriculture. Domestic agriculture is estimated to grow moderately.
- Tea production, which suffered a temporary setback in 2003, is projected to increase by about 3 per cent and reach 310 million kg in 2004.
- Assuming favourable prices, rubber production is projected to reach 100 million kg in 2004.
- Coconut production is estimated to increase by about 6 per cent to 2,650 million nuts in 2004. Improvement in output is expected from the lagged effects of favorable weather conditions during 2003.
- With favourable weather, paddy production in 2004 will improve further.

