

MARKETING AND PRICING POLICY

L.P. RUPASENA

Marketing and Food Policy Division
Agrarian Research and Training Institute, Colombo

Abstract: This paper examines the marketing system for rice and the pricing policies implemented since independence. The rice marketing system in Sri Lanka comprises two groups, the private sector and the state sector. Today, the private sector handles more than 95% of rice trade in the country. The marketing channel in the private system is made up of the collector, miller, wholesaler, retailer and consumer. The producer receives only 66% of the consumer price. The Paddy Marketing Board (PMB) is the sole government agency involved in purchasing and processing paddy. The quantity purchased by the PMB goes to the consumers mainly through the Food Department. The main rice pricing policies adopted by successive governments since independence comprise the Guaranteed Price Scheme (GPS), rice distribution programme, buffer stocks and import restriction, the overall objective of which is the stabilization of prices. The price variation in a year is around 10% of the average which is not so large compared with most other agricultural commodities. This paper concludes that attention needs to be given to implementing marketing policies during this decade. The paper also highlights that minimizing postharvest losses, improving the quality of rice and enhancing the market competition are the priority areas.

INTRODUCTION

Rice is the staple food of Sri Lankans. The annual per capita consumption of rice is about 100 kg, which represents 75% of the total grain consumption. As much as 45% of the total calorie requirement is derived from rice. It is the most significant item of expenditure for food in the household budget. Of the total expenditure of an average person 28% is for rice, which is approximately one-fifth of the total income. About 75% of the food stamp income is also used to purchase rice. These indicators show the importance of the rice market in Sri Lanka's economy. There is room to expand the rice market

further, as a large proportion of low income households have a level of consumption far below the national average.

Rice prices have a dual impact on the society. Firstly, rice prices influence the cost of living of the consumers. Expenditure on rice together with wheat makes up 15% of the total expenditure of the Consumer Price Index (Somaratne, 1987). Although rice farming is the main occupation of the rural population, comprising nearly 80% of the total population of Sri Lanka, the average consumer depends mainly on the open market rice. Nearly 75% of the total expenditure on rice is incurred on the open market purchases (Central Bank of

Ceylon, 1985). This is the result of the farmers selling their paddy without retaining an adequate stock for their own consumption. They are compelled to do so because of financial difficulties. Secondly, rice prices affect the income of producers. Paddy farmers derive about 56% of their total income from paddy cultivation.

This paper attempts to examine the marketing system for rice and the rice pricing policies implemented since independence. Literature on this subject is limited because most studies have focused on the production aspects. Furthermore, even government agricultural policies applicable to rice have been production biased. Production has increased substantially during the last few decades. The time is now opportune not only for the government but also for the researchers to pay attention to the area of marketing.

MARKETING

Nearly 50% of the paddy produced in the country comes to the market and constitutes the surplus. Although paddy is grown throughout the country, Kurunegala, Anuradhapura, Polonnaruwa, Hambantota and Ampara are the major producing districts, accounting for more than 60% of the national production. Rice marketing involves all activities in the flow of the product moving from the producer to the consumer. In this process, a number of persons and institutions are involved and perform different functions like buying, selling, transporting, milling, packing etc.

Marketing channels

Marketing channels are alternative mechanisms that ensure the flow of the produce to the consumer. In a subsistence economy where the physical distance between the producer and the consumer is short, the producer directly sells his surplus to the nearby consumers. In this system only one channel exists and there is no middleman. As a result, the producer receives 100% of the consumer price. However, the physical distance from the producer to the consumer becomes wide with economic development and urbanization. When this happens, direct selling of produce to the consumer is no longer possible or important and middlemen enter the system.

The marketing system for rice in Sri Lanka comprises two groups namely the private and the state sectors. Since independence, both groups have operated at three levels in the marketing chain, primary, wholesale and retail. However, the proportion of paddy/rice traded by both parties has varied from time to time. In general, with the liberalized economic policy introduced in 1977, quantities of rice sold by the producers and those purchased by the consumers in the open market have increased over the years. Today, the private sector handles more than 95% of rice traded at all levels.

Private sector marketing channels

Fig. 1 shows the rice/paddy marketing channels functioning in the private sector. Collectors, brokers and millers are the major buyers at the farm

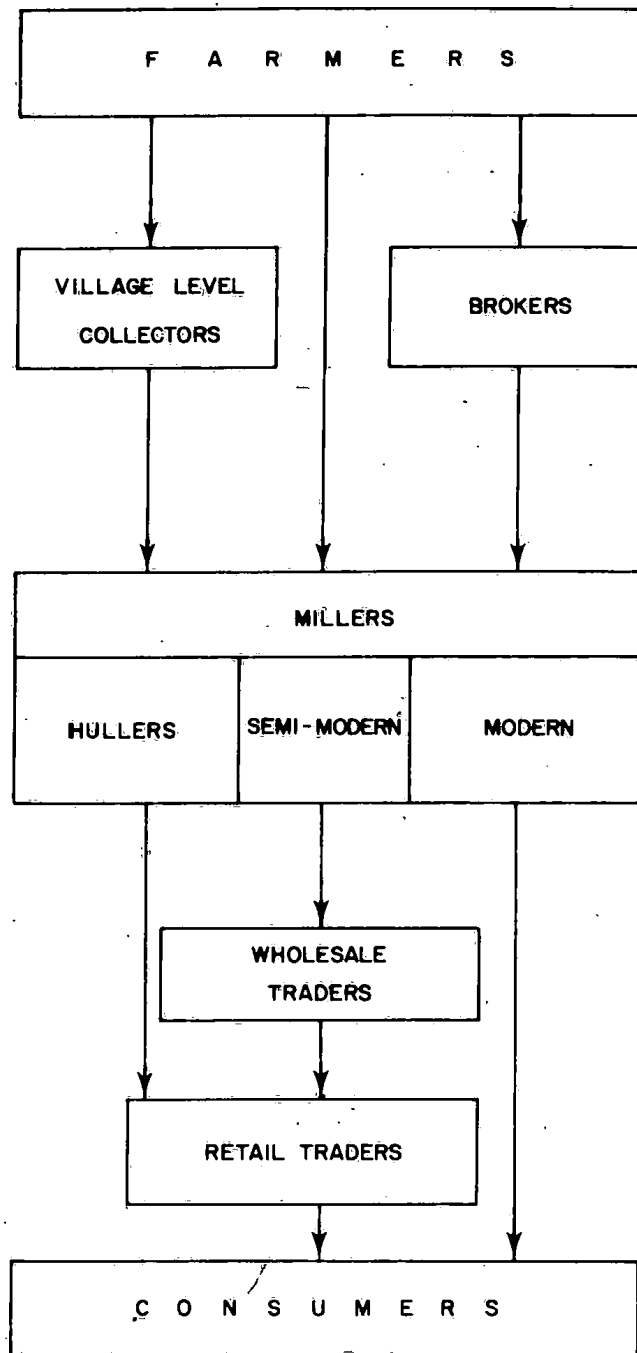


Fig. 1. Private sector marketing channels of paddy/rice in Sri Lanka

level, in the private trading system. Collectors are prominent among them as they purchase paddy throughout the year. Millers mainly purchase paddy at the harvest time by visiting producing areas. Brokers are active in areas where wholesalers or millers from faraway places congregate to collect paddy. They help the buyers by contacting farmers. There is not much of a difference in the prices paid by primary traders to the farmers. Traders compete with each other using techniques like provision of loans to the farmers, following a flexible grading system and purchasing at the farmgate. Paddy purchased by collectors is sold to the millers either at the collecting centres or at the mill after transporting the stocks. The millers sell the milled rice to the wholesalers, who in turn sell it to the retailers. Rice prices are mainly determined at the wholesale level. Wholesalers provide information to the millers regularly on price and supply and demand prevailing in the market. Based on this information the millers, who hold paddy stocks, supply rice to the wholesale market. Farmers are not in a position to control the market by adjusting the supply as most farmers sell their paddy soon after the harvest, due to financial difficulties.

Public sector marketing channels

Successive governments in Sri Lanka since the Second World War, have been directly involved in the marketing of rice. As mentioned earlier, the government is active in rice marketing at all three levels. The government commenced purchasing of rice from farmers during the war in order to meet

the requirement of rice ration which was introduced in 1942, due to the cessation of imports from Burma. In 1948, the government implemented the Guaranteed Price Scheme (GPS) for paddy in order to give an incentive to the farmers to cultivate more paddy. Under the GPS, the government gave an assurance to the farmers which meant that the market price would not drop below the guaranteed price level. When this happens the government intervenes by purchasing paddy. The Department of Agrarian Services was responsible for paddy purchasing under the GPS until 1971. In 1971, a separate institution, the Paddy Marketing Board (PMB) was established to undertake purchasing and processing of paddy. The PMB purchased paddy from farmers through cooperatives, private agents and the Agrarian Service Centres and sometimes direct (Fig. 2). In 1988, the PMB was able to purchase directly 65% of the total procurement. The corresponding figure for 1980 was only 6%. Nearly 70% of the procurement in that year came from co-operatives. However, the quantity purchased by the PMB now is less than 5% of the total production (Table 1).

The paddy purchased by the PMB is milled at their own rice mills, co-operative mills and registered private mills. The millers hand over the milled rice mainly to the stores or to the Food Commissioner's stores. The Food Department distributes the rice to consumers through the Multi-Purpose Co-operative Societies located all over the country. The PMB sells its stocks mainly to the hospitals and the prisons.

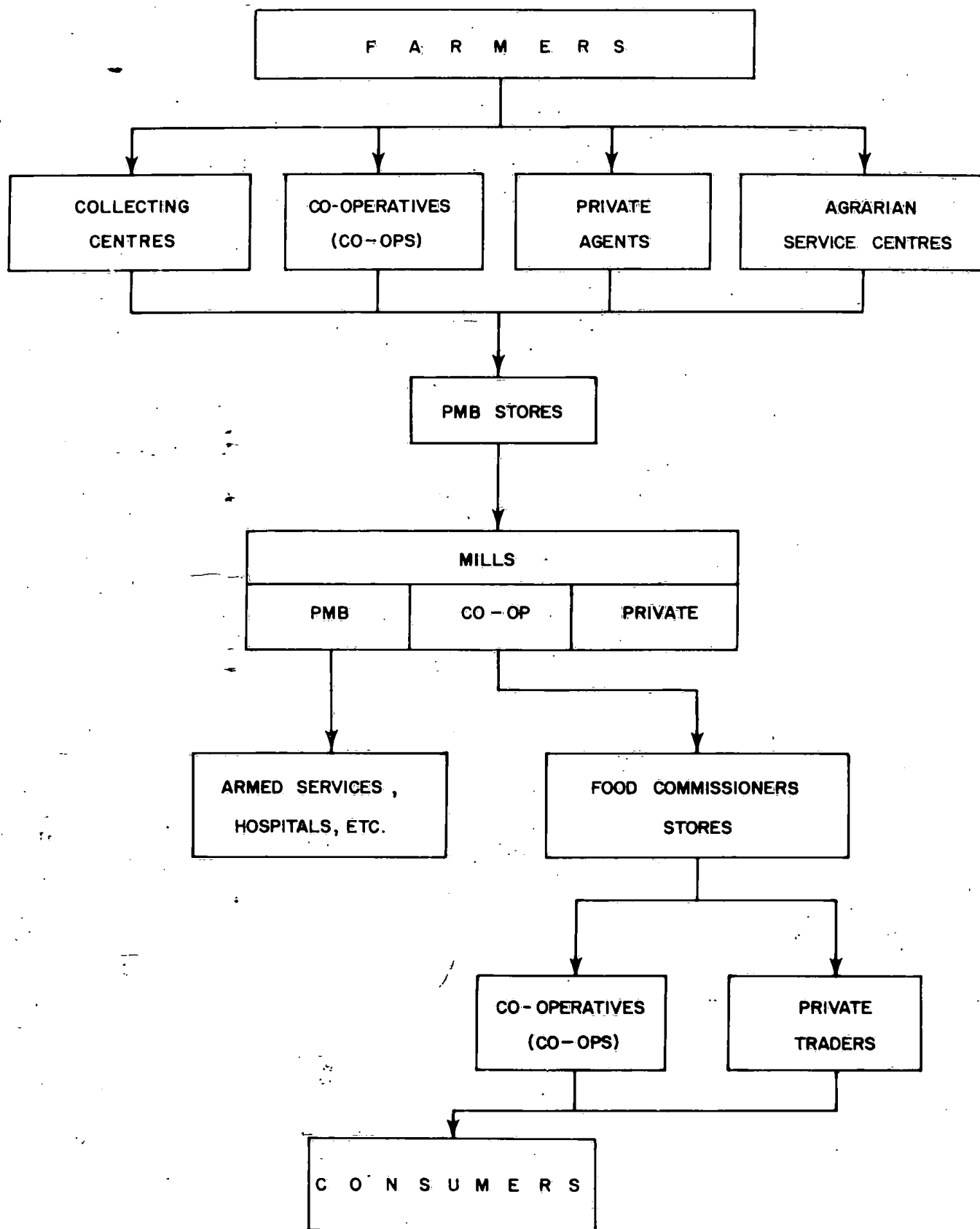


Fig. 2. Public sector marketing channels of paddy/rice in Sri Lanka

Table 1. Paddy purchases by the Paddy Marketing Board (PMB) from 1972 to 1988

Year	Paddy purchases (t)			Purchases as a % of production		
	Maha	Yala	Total	Maha	Yala	Annual
1972	401237	148642	549879	45.5	35.4	42.2
1973	394818	83291	478109	49.1	19.1	36.4
1974	317694	117825	435519	28.9	23.4	26.3
1975	180305	662290	241595	25.0	14.1	20.9
1976	222788	45861	268649	25.2	12.3	21.4
1977	354478	157872	512350	34.9	21.2	30.5
1978	498230	176702	674932	37.6	29.2	35.7
1979	464323	76905	541228	33.3	14.7	28.2
1980	210547	834	211381	14.5	0.1	9.9
1981	126574	1145	127719	8.3	0.1	5.7
1982	70489	13347	83836	5.2	1.6	3.9
1983	313065	10792	323857	17.5	1.5	13.0
1984	115422	53242	168664	8.5	5.0	7.0
1985	93758	7415	101174	5.3	0.8	3.8
1986	138145	15387	153532	8.2	1.7	5.9
1987	57079	7125	64204	4.1	1.0	3.0
1988	101706	3373	105079	6.7	0.3	4.3

Source: Paddy Marketing Board, 1988

Although paddy production in the country increased remarkably, local production has not been able to meet the total requirement as yet. Around 10% of the requirement is covered from imports. Private traders purchase imported rice from the Food Department. However, imported rice is mainly channelled through the public sector. Therefore, the size of imports depends on the requirements of the public distributions systems, i.e. the Food Stamp Scheme and the Janasaviya Programme.

Marketing functions

As described earlier, a number of middlemen are involved in the marketing of rice. In this section, marketing functions undertaken by the middlemen are described in detail. These activities are in fact performed by the middlemen in favour of producers and therefore the costs involved are added to the value of the primary product and passed onto the consumers. Improvement of the activities depends on the ability of the consumer to bear the additional cost.

Cleaning

Cleaning of paddy helps to improve the quality of rice. Millers usually blame the farmers for selling bad paddy with a high moisture content and foreign matter like dust, sand, stones, debris etc. This situation arises due to problems in traditional threshing methods (Somaratne, 1987). Having purchased paddy, millers clean the stock either manually or mechanically in order to produce quality rice. However, certain small scale millers do not clean paddy due to technical or operational cost problems. Consequently, the quality of rice suffers. There are various grades of rice at the markets in Colombo, at prices ranging from Rs. 12.50 to Rs. 21.00 per kg mainly due to differences in processing techniques adopted by the millers.

Processing

The processing of paddy is handled by both private and government sectors. The PMB has 26 large scale sophisticated rice mills with a processing capacity of 117,228 t of paddy per year. In 1988, the capacity utilized was only 16%. Nevertheless, the PMB issued 47,018 t of paddy to private mills.

The processing of rice in the country is done in two ways, parboiled and raw. Parboiled rice processing involves soaking, boiling, drying and dehusking (milling) while raw rice processing involves only drying and dehusking. Therefore, processing costs are higher in the case of parboiled rice.

Transporting

Transporting is important at all levels, be it at the farm or at wholesale and retail outlets. In general, as transport facilities (roads and vehicles) are not developed at the farm level, the transport cost per km is higher than that at the other two levels. Due to the high cost of transporting and the lack of vehicles in rural areas, most farmers sell their paddy at the farmgate. One of the main reasons for not selling their paddy to the PMB is the difficulty of transporting paddy to the PMB collecting centres or authorised agents.

Two - or four-wheel tractors are commonly used for transporting paddy from the farmgate to the collecting point, while lorries are used to transport from the collection points to the mills and from there to the wholesale markets and then to the retail markets. Transport charges are calculated on the basis of lorry load or piece system (Rs/bag).

Storage

Both the private and government sectors purchase paddy at harvest time and hold stocks for selling during lean periods. In general, paddy is stocked because it can be kept for a longer period than rice. According to the wholesalers in the Pettah (Colombo), rice can be stored only for a period of one month due to its perishable nature. Stores owned and operated by the PMB are located in the high potential paddy growing districts in Sri Lanka and have a capacity of 431,005 t. However, their utilization is minimal due to the declining purchases under the GPS.

Grading and standardization

The promotion of grading and standardization, and the exercising of quality control on agricultural commodities have been some of the major functions of Sri Lanka Standards Institute (SLSI). The SLSI has already stipulated standards for paddy and rice to protect both consumers and farmers (Table 2). The PMB follows these standards when purchasing paddy but the private traders do not.

In the case of rice, a voluntary grading system still prevails. For example, the following voluntary grades exist in the Colombo wholesale market:

Parboiled varieties : Samba - Grades I, II and III; Korā - Grades I and II; Nadu-Grades I and II

Raw varieties : Raw (white) - Grades I and II; Raw (red) - Grades I and II

This categorization is based on grain size, grain colour, polish and brightness, processing state, moisture content, chalkiness, degree of broken rice and foreign matter content.

Marketing services

Marketing services facilitate the smooth performance of exchange and physical distribution of rice marketing. Marketing information and research are two important facilities. The private sector does not get involved in these activities because it cannot make any profit by investing money into these activities. Therefore, the government sector is expected to invest in the development of these aspects.

The Agrarian Research and Training Institute (ARTI), the Central Bank of Sri Lanka and the Department of Census and Statistics are the three major organizations engaged in collecting market information. Nevertheless, none of these organizations has comprehensive market information and dissemination systems. The Central Bank and the Department of Census and Statistics collect farmgate prices on bi-weekly and monthly basis, respectively, while retail and wholesale prices are gathered on a weekly basis, but they are not published weekly. The ARTI collects and publishes wholesale and retail prices on a weekly basis. The collection of farmgate prices was started recently.

Since independence paddy has received the highest priority in research. Some 60% of the total investment in agricultural research has been spent on paddy during the past 34 decades (B.S.L.Munasinghe, 1990, Unpubl.). The aim of such research was to increase paddy production. However, very little research has been undertaken to improve the marketing efficiency as well as production efficiency of rice.

Price spread

As mentioned earlier, if there is no middleman, the producer receives 100% of the consumer price. The situation is different when middlemen enter the marketing chain. Then differences appear among the producer, wholesale and the retail prices. The magnitude of these gaps depend on the number of marketing

Table 2. Standardization of paddy and rice in Sri Lanka

Elements of quality control	Paddy				Raw rice				Parboiled rice			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Moisture	14.0	14.0	14.5	15.0	14.0	14.0	14.0	14.0	14.0	14.0	15.0	15.0
Foreign matter	0.5	1.0	1.0	2.0	0.2	0.5	1.0	1.5	0.2	0.5	1.0	1.5
Type admixture	1.0	3.0	7.0	10.0	Nil	2.0	6.0	10.0	0.2	2.0	6.0	10.0
Damaged grain	0.5	2.0	5.0	7.0	Nil	1.0	2.0	4.0	0.5	2.0	4.0	5.0
Immature grain	0.5	2.0	3.0	4.5	-	-	-	-	-	-	-	-
Broken grain	-	-	-	-	10.0	20.0	35.0	45.0	1.0	5.0	15.0	20.0
Paddy seeds/kg	-	-	-	-	Nil	10.0	30.0	50.0	Nil	10.0	25.0	50.0

Source: Sri Lanka Standards Institute, Colombo

¹ All elements except paddy seeds are expressed as maximum allowable percent by weight
I, II, III and IV refer to grades

activities performed and the efficiency of these activities. Table 3 shows the price spread for rice in 1989. The producer's share of the consumer price varies between 55 to 75 % for the different months. On the average, the producer received 66% of the consumer price which is equivalent to the share in 1987 (Somaratne, 1987).

PRICE POLICY

Government intervention in the agricultural sector can be made through price, marketing and structural policies. This section discusses price policies applicable to rice.

Price for a commodity at a particular market is determined by the quantity supplied and the quantity demanded in respect of that commodity. The quantity supplied and quantity demanded are influenced by the decisions of the suppliers and the consumers, respectively. The government cannot directly make any influence on either the supplier's or the consumer's decision. However, the government can do so indirectly through intervention in price.

Seasonality is a salient feature of production of agricultural commodities. Consequently, prices drop during the harvesting season reducing the producers' income. This in turn badly affects the production. On the other hand, prices rise during the off-season, causing the consumers' real income to go down and this affects the nutritional intake of the population. Therefore, policies are required to trade-off between these two ends. Such policies are called price policies

because their aim is price stabilization.

The main types of pricing policy adopted by Sri Lankan governments since independence in the rice economy can be identified follows:

- Guaranteed Price Scheme (GPS) for paddy.
- Rice distribution programme.
- Buffer stocks.
- Import restriction.

Guaranteed price scheme (GPS)

The GPS introduced in 1948, aimed at increasing the domestic paddy production in order to reduce imports. Under GPS, the government offers a minimum price to farmers. Since paddy is a seasonal crop, prices fall at the harvest time. Farmers are not in a position to influence the determination of the price because their individual share in the market is minimal. This is because a large number of small farmers are involved in the paddy sector.

The impact of GPS on the open market producer price for paddy is highly significant as the open market paddy prices are mainly determined by it. Some 98% of the variation in the producer price during the period 1971-1989 was due to the variations in the guaranteed price (GP). The correlation coefficient between the two prices is 0.96 (Rupasena, 1990). Under these circumstances, the GP needs to be determined very objectively. In fixing producer prices, the cost of production is a widely accepted criterion in both

Table 3. Price spread for paddy/rice (Nadu) - 1989

Month	Producer price (Rs/100 kg paddy) (Sri Lanka)	Wholesale price (Rs/68 kg rice) (Pettah)	Retail price (Rs/68 kg rice) (Colombo)	Producer's share (% of retail price)
January	497.37	705	880	57
February	435.31	652	789	55
March	474.74	588	736	64
April	468.18	632	759	62
May	483.49	633	741	65
June	524.83	732	800	66
July	551.53	766	857	72
August	579.67	789	873	73
September	613.59	791	885	69
October	648.90	863	928	75
November	703.92	952	1092	70
December	750.14	1013	1092	69

Source: Department of Census and Statistics-Producer Price
Agrarian Research and Training Institute, 1987

Note: Conversion rate of paddy into rice is 68%

developed and developing countries. In principle, Sri Lanka follows the cost of production as a pricing criterion for fixing producer prices, but this does not happen in practice. For example, the cost of production of paddy in Anuradhapura and Polonnaruwa districts increased from Rs. 4188 to Rs.8871 per ha (111%) and from Rs.4183 to Rs.11367 per ha (172%), respectively during the period 1980-1987, but the GP was increased only by 75% (from Rs.2.00 to 3.50 per kg) during the same period.

Rice distribution programme

The aim of the public rice distribution programme is to enhance the nutritional intake of the population. As mentioned at the outset, 45% of the

total calorie requirement is derived from rice. Therefore, the government supplied rice to the consumers at subsidised prices under the rationing scheme, which was introduced in February 1942 and continued until the advent of the Food Stamp Scheme, implemented in February 1979.

Rice rationing scheme

At the initial stage, a weekly ration of two pounds (0.91 kg) per person over three years of age was fixed at a price of Rs.0.25. In 1953, the age requirement for receiving rationed rice was reduced to one year. Besides, some changes either in the quantity issued or in the price have occurred from time to time. However, fundamental changes in

the scheme have taken place since 1966. The government reduced the ration by half and distributed it free of charge in December 1966, and the free ration was provided only to non-income tax payers in 1973. The distribution of free rationed rice in February 1978 was restricted to families whose monthly income was less than Rs. 300.

The required volume of rice for distribution under the ration scheme was met with local purchases as well as from imports. The Food Commissioner's Department was in charge of administering the rice rationing scheme. The weekly ration issues to the consumer were made through authorized dealers appointed by the Food Commissioner. The Multi-Purpose Co-operative Societies formed the vast majority of the authorized dealers.

The share of rationed rice in the total rice consumption was more than 75% until 1966 when the quota was reduced by half and then the percentage contribution declined. However, the rationed rice accounted for more than 40% of the per capita consumption throughout the period it was implemented, except for the last two years.

Food stamp scheme

The rice ration programme was transformed into the food stamp scheme in February 1979. This was done with a view to directing income transfers to the poor. Food stamp income transfers are made on a per capita basis. Eligibility is based on the level of household income, size and composition. All members of

a household receiving a monthly income of less than Rs.300 became eligible for food stamps in 1979. Under this scheme about 50% of the population received food stamps.

In an eligible household, each adult over 12 years receives stamps worth Rs.15 per month, children under 8 years receive stamps worth Rs.25 and children between 8 and 12 years receive stamps worth Rs.20. Special stamps worth Rs.9.50 per month are issued to purchase kerosene. If necessary, these stamps could be used to purchase food. The bundle of commodities comprises rice, wheat flour, bread, sugar, milk powder and certain locally produced grains. As mentioned at the outset, about 75% of the food stamp income is used to purchase rice.

The value of the stamps remains unchanged although the cost of living gradually increases. As a means of overcoming this problem the income limit per household was increased to Rs. 700 per month in 1987. The distribution system of items under the food stamps scheme is similar to the rice rationing scheme.

The conversion of the rice rationing scheme into the food stamp scheme badly affected the low income consumers. The subsidy of the new scheme was much lower than that of the rationing scheme. The subsidy under the ration scheme in 1978 was Rs. 2162.7 million or 20.6% of government's budgetary expenditure whereas the subsidy of the new scheme in 1980 amounted to only

Rs. 304.6 million or 2.2 % of the budgetary expenses. As a result, rice consumption of the low income people, who received more than 60% of their rice requirements through the ration scheme, declined (Table 4). The low level of rice consumption was associated with a low level of calorie intake (Table 4).

Buffer stocks

The principal objective of holding buffer stocks of rice is to stabilize the market price. For this purpose, the government purchases paddy at harvest time and issues stocks during lean periods. Generally, the Food Commissioner's Department which is the agency responsible for holding buffer stocks maintains three month's requirement for the country. At present the PMB is unable to purchase sufficient paddy at the GP in order to maintain a buffer stock. Therefore, rice is imported to maintain the buffer stock.

The government buffer stock programme has facilitated price stabilization. The quantity purchased by the PMB is substantially high during the harvesting period. Most of the paddy purchases are done in the months of March - April (maha crop) and September-October (yala crop). Stocks held by the Food are released during the off-season (November to February) in large quantities.

Import restriction

Although Sri Lanka's economy was liberalized after 1977, government

still holds a monopoly on the rice imports. The Food Commissioner's Department was responsible for rice imports until August 1989, after which the Co-operative Wholesale Establishment (CWE) took over the function. Now the CWE imports rice and hands it over to the Food Commissioner's Department. The rationale behind holding monopoly on rice imports is to protect the producers because world market prices are below the local prices most of the time. If the government allows the private sector to import rice, then the consumer can get the benefits, but the producers will lose due to falling market prices.

The overall objective of the pricing policy on rice is to stabilize the market price. In other words, it aims at minimizing seasonal price variations. Table 5 shows the monthly variations in retail prices for nadu, samba and other rice varieties. The prices remain above the average level from November to February and below the average level in the other months. This situation reflects the seasonality of the production of paddy. The bulk of the maha harvest comes to the market from March and lasts for several months. Maha production constitutes about 60% of the total annual paddy production. The yala production arrives at the market during the short period, September to October, because of the comparatively lower production.

The retail price index for rice (all varieties) reaches its peak in December (112.4) and is slack in March (93.9). It implies that prices vary by about 10%

Table 4. Monthly average per capita rice consumption and daily calorie intake from rice by income groups

<i>Income group (Rs/month)</i>	<i>Rice (g)</i>		<i>Calorie</i>	
	<i>1978/79</i>	<i>1981/82</i>	<i>1978/79</i>	<i>1981/82</i>
0 - 100	6858	5196	791	599
101 - 200	6660	6691	768	772
201 - 400	6885	6830	794	788
401 - 600	6993	6772	849	839
601 - 800	7362	7272	806	773
801 - 1000	7839	7792	904	899
1001 - 1500	8118	8562	936	987
1501 - 2000	8298	9211	957	1062
2001 - 2500	8136	9622	938	1110
2501 - 3000	8874	9622	1023	1110
3001 - 5000	-	9576	-	1104
5001 - 10000	7713	9633	889	1111
Over 10000	8960	-	1033	-

Source: Sirisena, 1986

Table 5. Seasonal retail price indices for rice grades in Colombo

<i>Month</i>	<i>Parboiled</i>	<i>Samba rice</i>	<i>All varieties</i>
January	108.6	111.6	111.2
February	104.7	107.3	104.3
March	95.6	93.9	94.9
April	92.9	96.6	94.7
May	95.8	95.5	96.0
June	95.9	96.6	96.3
July	102.7	95.7	98.9
August	101.2	97.3	99.1
September	94.3	94.6	92.7
October	96.4	99.7	96.8
November	105.5	110.0	109.0
December	108.2	112.4	110.6

Source: Agrarian Research and Training Institute, 1987

from the average price within the year. This level of price fluctuation is not so large compared to that of many agricultural commodities such as vegetable, onion and chilli. The situation is further illustrated in Fig 3. When compared with the monthly average prices from 1986 to 1989, the price of each rice variety indicates that a significant change has not occurred during the period 1986-88. A considerable jump in the prices could be observed in 1989. In fact, the price hike took place from November 1988 onwards. Political disturbances may have hampered production and distribution of rice, thereby causing these unusual price increases.

CONCLUSIONS

It is said that the agricultural policies adopted by the government are biased towards paddy. Nevertheless, much work still remains to be done by the government because most of the policies implemented, focused on increasing production or increasing nutritional intake of the people. Very little effort has been made to increase the efficiency in marketing. Therefore, attention needs to be given to implement appropriate marketing policies during the coming decade. In this regard priority should be given to minimize postharvest losses which have been estimated at 15% of the production.

Measures should be taken to improve the quality of rice. Sri Lankan rice is considered to be of the lowest quality in Asia. Also, it is worthwhile to take measures to improve the competition or control monopoly not only at the retail or wholesale levels, but also at the farmer level. In this regard, facilities must be given to new competitors to enter the market and market information should be disseminated to both producers and consumers to make them knowledgeable and thereby facilitate competition.

Under conditions of an improved marketing system, the price spread between the producer price and the consumer price could be reduced to a reasonable level. The end result of it would be lower consumer prices.

The major problem in the domestic rice market at present is that consumers are not able to purchase their requirement. The income elasticity of demand for rice is 0.63, indicating that the consumers are willing to buy more rice as their income rises. This implies that if the per capita income is increased by 10%, the rice consumption per capita would be increased by 6%. This rate would be much higher for low income consumers because their consumption level is far below the national average (Table 6).

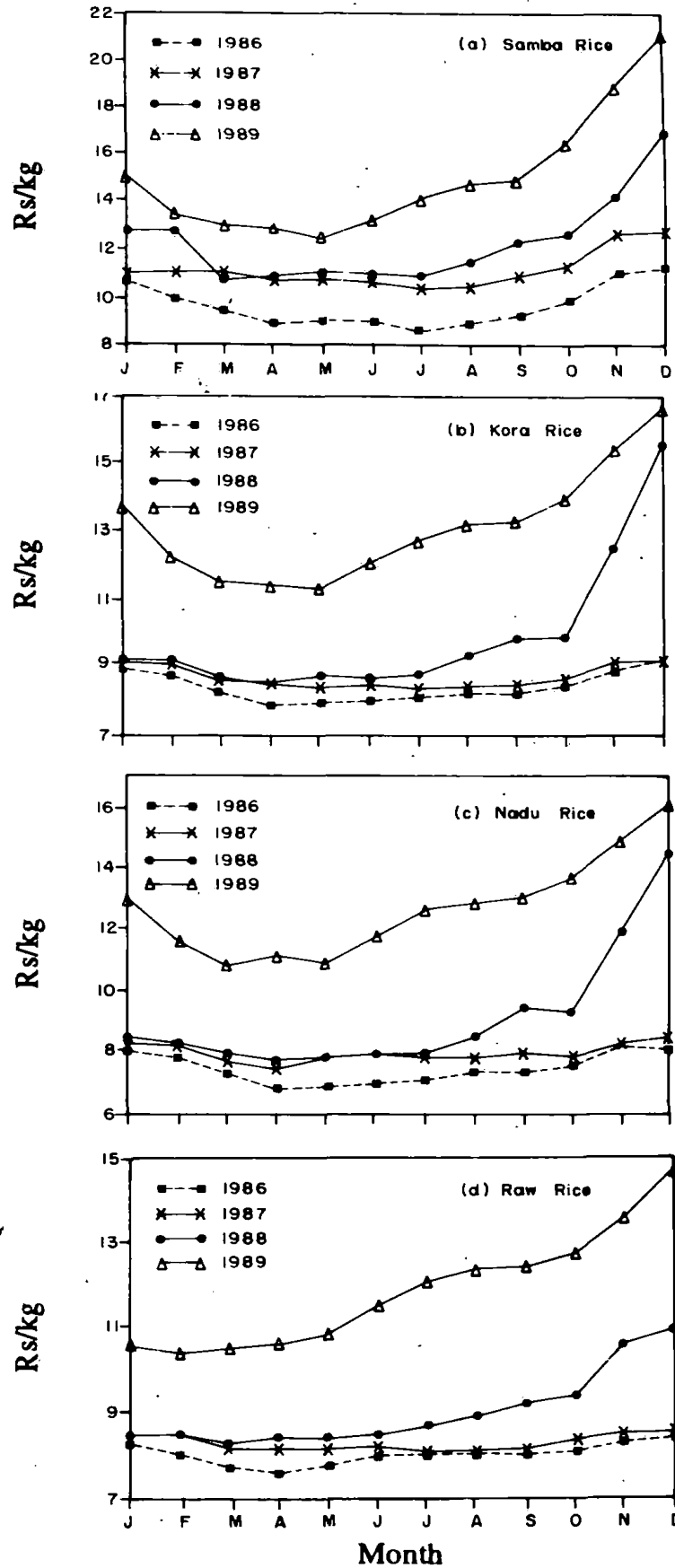


Fig. 3. Monthly retail prices of some rices (1986-1989)

Table 6. Per capita rice consumption by income level

<i>Income level (Rs/month)</i>	<i>Per capita consumption (kg/year)</i>
0 - 100	62.35
101 - 200	80.29
201 - 400	81.95
401 - 600	80.41
601 - 800	87.26
801 - 1000	93.50
1001 - 1500	102.73
1501 - 2000	110.52
2001 - 3000	115.45
3001 - 5000	114.91
5001 - 10000	115.82
Over 10000	107.52
Overall average	100.03

Source: Central Bank of Ceylon, 1985

The future policies applicable to rice need to be focused on the improvement of rice marketing. This type of policy instruments would help to expand the rice market too. Therefore, the disposal of surplus rice will not be a serious problem when the country achieves so called 'self-sufficiency' in rice. In fact, self-sufficiency in rice has little meaning if a large proportion of the population cannot afford to buy an adequate quantity.

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