



# PROBLEMS AND CHALLENGES ENCOUNTERED BY RICE PRODUCERS

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**T**he staple food of our country is rice. Over 4,000 rice producers (mill owners) are engaged in the production of rice and in addition it has generated self employment to more than 4,500. While the rice production industry has generated direct and indirect employment to more than 5,000,000 labourers, with the collapse of the public sector the main force that buys paddy from the farmer now is the rice producing industry (body of Mill owners). Accordingly, the rice production industry performs a massive role in the production, distribution and storage of rice.

However, today a number of rice mills are on the verge of being closed down as they are unable to face the emerging crises. If this situation is allowed to continue, many investors in the rice production industry will be forced to move out of it. That would in turn aggravate the marketing problems of the farmer and as a result, labourers in the industry will be forced to join the ranks of the unemployed. It is therefore the responsibility of the government and the people to preserve the rice production industry.

The problems of the rice producers should necessarily be discussed together with those encountered by the farmers and the consumers. Further, as rice is the staple food of the ordinary consumer, his interest should be safeguarded by making rice available at reasonable prices.

The aims of the farmer and the consumer are divergent. Hence the rice producer faces a dilemma when it comes to the issue of how to reconcile the divergent aims.

When the prices of paddy plummet, the farmer accuses the rice producer for deliberately doing it; and when the prices of rice soar the consumer accuses the rice producer of wilfully doing it. The main reason for the plummeting of price of paddy and the increase of price of rice is the inconsistent and weak agriculture policy of the State. In addition there are other issues which need attention in our efforts to solve this problem.

## **Lack of a stabilized pricing system for paddy and rice:**

Lack of a strong and rational pricing system for paddy and rice is the main problem faced by the rice producer. Producers of goods, in fixing prices for

their products, reckon the costs of production and related taxes. But rice producers are generally not free to fix their prices.

In our country, the price of rice, is today determined by the demand and supply in the rice market, especially the Colombo market. During harvest time, the flow of rice into the market usually swells and prices fall. As the number of lorries transporting rice to Colombo increase the rice commission agents bring down prices. Since the market price of rice determines the price at which the producer buys it from the farmer. The price invariably falls during the harvesting season. The farmer is therefore, forced to sell his rice at a price lower than the production cost. Some farmers who cannot sell their paddy and settle their debt even commit suicide. This situation prevails even among mill owners and lakhs of labourers also lose their jobs.

## **The import policy of the government**

At a time of domestic shortage of rice, the import of rice to control escalating rice-prices does not create problems. But this should not be

*The writer himself a Rice Mill owner operating in the Polonnaruwa District draws from his own experience and points out a few shortcomings that prevail in paddy marketing/procuring activities in the dry zone Sri Lanka and the resultant dilemmas faced by both farmers and the mill owners and suggests remedial measures to improve their lot.*

done so as to pose threats to internal production and marketing. State import policy of rice should ensure the protection of the local rice-producer. The period of rice-import, the particular quantity imported and percentage concessionary taxes are significant in this context.

If severe drought leads to harvest failure in Yala season or if heavy rains in November and December disturb drying of boiled rice, shortages generally occur. In order to avoid shortage in November, rice should be stored before this and issued later. Import of rice in January should be monitored to ensure that it does not throttle the farmer and the quantity to be imported should be determined with due consideration of the stocks already available with the farmer.

As regard to import of rice, taxes should not be abolished totally, in order to stabilise the prices of rice and paddy. If the taxes are removed completely and a large volume of rice is allowed to be imported, the farmer will face problems in selling his harvest and may not get a fair price. This would cause the rice producer a host of problems and he would no longer be able to compete with the rice producer abroad.

One can even argue that the arbitrary extension of the period of rice import from December 31, 1997 to January 31, 1998 was deliberately planned to destroy the local rice industry. But thanks to the generous rainfall received recently and the State subsidy of agriculture implements, the farmer cultivated every inch of land available. Hence the harvest this time has exceeded the expected target. The imported rice will however inundate the market till April to May. Hence the farmer will be forced to sell his produce at a lower price and will be unable to redeem his debts.

### **Banks rates of interest**

Rates of bank interest also have an impact on the prices of paddy and rice. The bank interest rate in Sri Lanka is very high when compared to other countries. Our banks charge interest at 20% to 25%, on loans borrowed by the farmers for cultivation purposes and by mill owners to maintain their rice mills and for storing rice at harvest time for use in the future.

Due to the high rates of interest on bank loans, the arbitrary on rice import policy of the State and also the fact that sometimes the farmers and rice mill owners do not get incomes sufficient to pay back the loans borrowed by them, these two categories get into very difficult situations. In Polonnaruwa district alone, 50 rice mill owners have closed down their mills due to their inability to pay back bank loans. The banks have auctioned these mills to recover their loans and the proceeds of auction sales too have not been enough to satisfy the loans. This has discouraged rice producers from getting loans for storage of rice. Because there is less competition in the rice buying market during harvest seasons the farmers cannot sell their rice. This trend is much apparent during this season. On the other hand the high bank rates entail payment of high interest and during non-harvest seasons since rice prices escalate due to the added payments of interest, the consumers also are forced to pay higher prices for rice.

Hence, while farmers are paid a reasonable price for their rice and are assured fair competition, and consumers are required to pay a reasonable price, the bank loans to the farmers and the mill owners should be available to them at much lower interest rates. This will ensure protection of both the farmer and consumer and guarantee the progress of our agriculture and rice industry.

How can the State recoup the loss incurred by the lowering of interest rates? This can be done by lowering the subsidy on wheat flour. The Paddy Marketing Board now faces problems by buying paddy from farmers and the Government spends millions and incurs losses. Hence isn't this alternate policy more sensible?



If the interest on bank loans paid to farmers and mill owners is lowered to about 5% following results will accrue.

1. More investors will enter the field
2. Mill owners who are unable to pay back their loans and interest can re-open their mills. (Due to this reason 150 mills in Polonnaruwa district alone had been closed and 50 of them have been put up for auction).
3. While there will be no barriers to market their product, the farmers' cultivation will not be a loss-making activity. Their living standards will improve and they will no longer commit suicide.
4. Consumers will be able to buy rice at reasonable prices, their COL will decrease and living standards will improve.
5. New jobs will be generated and the country's unemployment problem will be alleviated.
6. Agriculture and allied industries of the country will develop.
7. The loss incurred by Government on loans provided to organizations like the Paddy Marketing Board will disappear.
8. Local rice industry will catapult to international standards.



## Defence Levy - Goods and Services Tax

Another major cause for the escalating rice prices is the defence levy and imposition of the Goods and Services Tax (services Turnover Tax). The rice industry has been grouped with other industries and a 4.5 per cent defence tax is levied. This implies a defence levy of Rs 1 to Rs 1.50 per kg. of rice. To elaborate, on 10,000 kgs of rice (optimum that can be loaded into a lorry) a defence levy of Rs 10,000/- to 15,000/- is charged. As the defence levy increases in parallel with the rising of prices of rice, it is the general public who has to bear the burden.

Since in practical terms the rice price cannot be determined by adding such taxes and production costs, the rice producers find it impossible to bear the burden of such taxes in the open competitive market. In most instances the rice producers get only the rice crust and the minuscule rice (sunu saal). In such circumstances, it is unfair to subject the rice industry to the burden of additional high taxes. Internal audit officers make sudden raids into rice mills for levy of defence tax. That make the rice mill owners appear to be some sort of dishonest humans up to illegal acts. It also demeans the integrity of this vocation.

When assessing the defence tax, the quantity produced by a rice mill is calculated via the electricity consumption. Hence 5 or 6 units of electricity used is taken to imply a production of a sack of rice and a 4.5 per cent levy is fixed. Under this

system many rice millers have closed down their mills and are now knee deep in litigation.

In a seminar on this topic that was convened by the International Revenue Department in response to queries raised with regard to this type of issue, the officers replied that till the government takes a policy decision in the matter nothing could be done. Hence we request the Finance Minister to implement our proposal. In addition, under the Business Turnover Tax 7% grinding rent has been charged in this years I25 Electricity Bill:KV meter.

Today to assess the electricity consumed by rice mills while electricity consumption is charged by making use of the electricity meter, additional electricity consumed is also calculated by a K.V. meter and a unit is charged Rs 250/- again. This means that the total charges amounts to Rs 20,000/- to Rs 25,000/-. Since these charges are added to the expenses of the mill owners, there is an escalation in the price. Recently, rice mills in Polonnaruwa had been sent electricity bills amounting to Rs 2-3 lakhs and electricity supply has been cut off. Earlier a KV meter that was 110 has now been increased to Rs 250/-. By doing away with the KV meter, not only would price of rice go down but those mills closed down after electricity-disconnection can resume work.

## Activities of Colombo Rice Commission Agents

Due to the monopoly of Colombo rice commission agents in rice marketing, rice millers are confronted with many problems and are subjected to much losses. These very activities (of the commission agents) are also responsible for the wide fluctuations in rice prices.

While these commission agents charge

a commission of 3% for marketing of rice, they also charge a 5% brokerage fee and a 5% "nattami" fee on each sack from the mill owner. They also dishonestly insert a lesser rice price than what was actually paid and this earn an additional fee. For example if a sack of rice is actually sold for Rs 1,100/-, a sum of Rs 1050 only is inserted and a 3% commission charged accordingly. Further, since there is no alternative market for rice and since the price of rice is fixed by the demand, and since the commission agents sell rice at arbitrary prices, the rice mill owners are victimised. Hence the government should mediate and establish an alternative market. This would entail wholesale buyers purchasing from rice mills and a lowering of commission and transport fees with an inevitable drop in rice-price. It will also result in a decrease in the number of lorries plying to and from Colombo and much alleviate the problem of traffic congestion in Colombo.

## Production Costs

When converting paddy to rice, due to the presence of stones, sand and other refuse in the paddy, together with dampness and high labour costs, the production cost escalates. This in turn, raises rice prices. The transportation of the harvested paddy from the fields to the mills that involve "nattami" fees, lorry fees, brokerage fees, amount to an additional expense of Rs 45/- for each sack of rice. Further the presence of refuse results in a reduction of 5 kg and dampness results in another decrease of 3 kg. Thus the amount of rice produced from the equivalent

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amount of paddy really is much lower than what was initially expected. To remove refuse new machines are used and their "wear and tear" entails further expenses. Labourers in rice mills are given three meals daily by the mill owners and this further increase the cost of production. Lorry charges are equally exorbitant, as also the costs of wear-and-tear of sack bags, Bank interests, defence levy, electricity bills and production costs aggravate the dismal financial situation of the rice-mill owner.

