Impacts of the 2011 Budget Proposals on the Plantation Crop Sector

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Abstract

The budget proposals for the year 2011 are development-oriented and targeted at addressing the medium- to long-term development needs of the country. There are specific proposals targeted at the development of the plantation crop sector. Increasing production and productivity by new planting or replanting of the crops, improving land use efficiency, enhancing value-added products and increasing adoption of technologies are the targets of sector-specific budget proposals. There are several other proposals that will support the achievement of development targets of the plantation sector as identified by the Government policy.

Some other specific proposals in the year 2011 budget target for the agriculture and dairy sectors are also identified as beneficial proposals for the development of the plantation sector as well, if the coverage of these proposals could be extended to the plantation crop sector.

Introduction

Budget proposals for the year 2011 have been appreciated by many professionals, individuals and organisations in the public and private sector, describing as development-oriented proposals targeted at achieving medium- to long-term development needs of the country as the first Budget Proposal to cover complete financial year in the post-war Sri Lanka.

Plantation sector plays a significant role in the Sri Lankan economy, having a contribution of about 3% to the national Gross Domestic Product (GDP) in the year 2009 (Central Bank of Sri Lanka, 2009). Tea, Rubber and Coconuts have been the "traditional triples" of the plantation crop sector of the country. Sugarcane, Cashew and Palmyrah, are the other three crops that could be considered as plantation crops in Sri Lanka even though these crop sectors are under the purview of different ministries from time to time.

Development requirements of individual crop sectors vary due to the variations of the economic importance of each crop sector in the national economy and the potential of each crop sector to contribute to the following aspects:

i. Agricultural land use pattern

ii. Foreign exchange earning /saving capacity

iii. Ability to meet domestic consumption requirements

iv. Creating employment opportunities

v. Poverty reduction

vi. Adaptation to / mitigation of climate change impact

Government Policy and Strategies on Plantation Sector Development

Development of the plantation sector has been identified as one of the high priorities in the government policy framework. The Government policy document "*Mahinda Chintana*: Vision for New Sri Lanka" (2006) has recognised the importance and requirements of the plantation crop sectors, and development strategies have been identified for the period of 2006 - 2016. The emphasis is on improving the competitiveness in the international market and the productivity of the plantation sector through research, reducing cost of production and replacing the existing old plantations with new plant stocks of each sector at a rate of 2 - 3% annually. The key elements in the proposed strategy are:

i. Greater participation of the private sector in research and development

ii. Promoting value-added tea export to maintain its leadership in global tea export.

iii. Continuing promotional assistance to develop Sri Lanka-owned tea brands and reposition Sri Lanka teas as the "best in class" source for the export market.

iv. Encouraging Regional Plantation Companies to undertake high-value agriculture and other agribusiness ventures in under utilised estate lands.

v. Adding 40,000ha of new lands for rubber cultivation and encouraging more natural rubber and value-added products

vi. Increasing national coconut production and productivity at a rate of 5 per cent per year.

vii. Encouraging coconut planting in non-traditional areas, such as Mahaweli region and major irrigation areas and intensifying the incentive structure for replanting and new planting.

viii. Promoting small/medium industries for the production of value-added products for export and import substitution, such as, edible oil and animal feed.

ix. Setting up a Plantation Development Fund to provide better opportunities for long-term investment in the sector.

x. Human resource development to train all categories of staff in the estates.

xi. Integrating health and education services provided to the estate sector into the national system.

In line with the "*Mahinda Chintana*" program, the National Plantation Industry Policy (NPIP) Framework was developed by the Ministry of Plantation Industries in the year 2007, which has identified a policy mix for the development of the plantation sector with specific policies and strategies for each crop sector, for the 10-year period of 2007 – 2016.

The following 5 broad policy alternatives have been identified for the development of the plantation sector to achieve economic, social and environmental viability of the sector:

i. Transforming the plantations into an engine of pro-poor growth and regional development.

ii. Private sector-led growth through establishing and promoting Public-Private Partnership (PPP), to ensure economic viability.

iii. Promoting downstream activities and diversification to improve profitability in the sector.

iv. Promoting the well-being of the plantation communities, to achieve social viability

v. Encouraging the production of "Green Products" to achieve environmental sustainability or the environmental viability

"*Mahinda Chintana* - Vision for the Future" 2010 has further strengthned the above policy directives by re-emphasising priorities on value-added products, improving production and productivity through Research and Development, creating employment opportunities and better remuneration for workers and directing the plantation companies to conserve the environment, water and bio diversity through environment-friendly investment.

Importance and development needs of each crop sector are briefly discussed below:

Economic Importance and Development Needs of the Plantation Crop Sectors

Tea

Total area under tea cultivation is now recorded as 222,000 ha, the majority in the wet zone of Sri Lanka. Total made tea production in the year 2010 has reached a new record of 329 Mn kg after the highest ever recorded production of 318 Mn kg in the 2008, with the drop of production by 9.1 % in the year 2009 to 291 Mn kg (MPI,2011).

Export volume was recorded as 289.7 Mn kg with a value of Rs 136.2 Bn in the year 2009. Average FOB (Free On Board) price of made tea was Rs. 470.11 per kg. Contribution of tea to the GDP is about 1.03%. and the contribution of tea export earning was 16% of the total export earnings in the year 2009 (Export Development Board, 2009).

Tea mainly focuses on the export market as more than 90% of the annual production has been exported over many years. As a result, global and regional market dynamics have a direct impact on the changes in domestic production and marketing process while opening up opportunities as well as challenges of integration in line with the global trends of production (from conventional tea products to consumer-friendly natural or health products), consumption (from black tea to instant/health/natural/ green tea) and product integration (i.e., packeted tea, tea drink, and decaffeinated tea).

Tea sector is at a stage where it faces the challenges of finding financial, human, and social capital to be invested in the modernisation of the production and marketing process.

The following issues need attention of the relevant authorities for the development of the sector in line with the government policy:

i. Arresting the declining productivity of tea lands in the Up and Mid country regions, adoption of proper land use practices and intensifying appropriate crop diversification drives.

ii. Accelerating the factory modernisation process and quality certification of the manufacturing process and the final product.

iii. Product diversification, integration,value addition and production of Sri Lankan brands.

iv. Aggressive promotion and marketing strategies to capture new markets as well as the lost markets.

Rubber

Contribution of the rubber sector to GDP was 0.25% in the year 2009 (Central Bank, 2009). Total area under rubber cultivation is 124,000 ha and the total rubber production in the year 2009 was 137 Mn kg which was increased up to152.9 mn kg in the year 2010. Export volume of raw rubber was 55.99 Mn kg valuing Rs.11, 326 mn in the year 2009. In the year 2010 export volume was recorded as 51.5 mn kg with the value of Rs 19,255 mn. Average FOB price received was Rs202.23 per kg in the year 2009and in the year 2010 it was recorded as Rs.402.71per kg a 100% increased. Contribution of rubber export earnings was about 1.39 % of the total export earnings (EDB, 2009). Focus of the Rubber sector is also to earn more foreign exchange, by increasing the export volume, either in commodity form or in value-added forms. About 70% of the Natural Rubber (NR) production of the country is used by the local industries for value-added production and the balance is exported in the commodity form.

Now the NR prices have become attractive for the investors and the International Rubber Organisation has projected even by the year 2020, world natural rubber demand will exceed the supply, thus leading to an increasing trend in the future rubber prices.

The natural rubber industry needs to be supported by a national policy to ensure long-term sustainability and the following aspects of the local industry:

i. Increase the production to meet the international and domestic demand for NR,

ii. Achieve competitiveness through improving productivity and quality,

iii. Reduce cost of production, obtaining high Net Sales Average (NSA) and increase the profitability,

iv. Minimise adverse effects on the environment to ensure environment sustainability.

Coconut

Total area under coconut cultivation is 394,836 ha and the total nut production in the year 2009 is 2,762 Mn nuts and the annual average production is in the range of 2,500 - 2,750 Mn nuts. A 75% of the national production is used for the domestic consumption (1,816 mn nuts) and the balance is inadequate to meet the demand of the value-added industries. Therefore, the production target has now set as 3,000 Mn nuts per year by increasing the total extent up to one million acres (about additional 7,000 ha) (CDA, 2009 and CCB, 2011).

Export volume was recorded as 493 Mn nuts with a value of Rs29,081mn and the Average FOB price was Rs. 18.23 per nut in the year 2009. Contribution to export earnings 3.57%, Contribution to GDP was 1.37 % (CDA. 2009 and Central Bank of Sri Lanka, 2009)

The Coconut industry aims at a high annual production, with the objective of enhancing the foreign exchange earning capacity of the industry while satisfying the domestic coconut requirements.

Sugar

Local sugar industry primarily targets at increasing production for the domestic market as the country imports about 95% of the annual domestic sugar requirement. In the year 2009, total import bill of sugar was recorded as Rs. 25 bn.

In the year 2009, total land area under sugar cultivation was recorded as 7,320 ha and the local sugar production was 316,080 metric tones which is less than 5% of the consumption requirements of the country and 20% decline in the production compared to the year 2008. Decline of the production was due to drought condition prevailed in the Pelawatte area and reduction of the land under cultivation due to shifting of farmers to other short term cash crops such as banana, soya bean, maize and paddy (Central Bank of Sri Lanka, 2009).

Ensuring a reasonable price for locally-produced sugar, the demand for higher prices for sugarcane from farmers, relatively low yields of the available cane varieties, low sugar recovery rates, and an absence of factory expansion have resulted in a higher cost of production eroding the financial viability of the industry are the major issues in the sugar sector need government intervention.

Now the government has identified the need of expanding sugar cane cultivation up to 40,000 ha out of which 20,000 ha will be in the Kantale area (www.development.lk). Sugarcane Research Institute is the only government organisation that support the sugar industry. At present private sugar companies have more control over the cultivation of the crop and the processing of the product. The Ministry of Small Export Crops Promotion has planned to set up a new State institution to regulate and uplift the country's sugar industry with a target of bringing up local production up to 40 % of the national demand by the year 2020.

Cashew

Cashew cultivation is mainly spread in the districts of Puttalam, Mannar, Vavuniya, Jaffna, Trincomalee, Batticaloa, Polonnaruwa, Moneragala and Hambantota. According to the Cashew Corporation of Sri Lanka, the extent of the cultivation in these districts is about 40,528, ha and in the rest of the districts, there are about 4,913 ha. Nearly 80% of the cultivation is found in home gardens. Annual average cashew production is in the range of 10,000 tonnes.

Under the present management system of the cultivation, yield per tree is 4-5 kg whereas the potential is about 10 -14 kg/ tree.

Cashew sector has to target for a production and productivity improvement to satisfy the domestic demand and also to capture a sizable share in the export market, as there is a growing demand. Spring Tree Corporation of the USA has declared that the tastiest cashew in the world is the product from Sri Lanka. At present 40% of the production is used for the domestic consumption (Ministry of State Resources and Enterprise Development, 2010).

Propagation of cashew is done through the seeds and vegetative method of soft wood grafting. Developing high-quality planting material for the expansion of cultivation is a prime need of the sector. Lack of credit facilities, high cost of input mainly fertiliser and in adequate extension service are the other constraints of the sector. Cashew Corporation, which falls under the Ministry, provides necessary support for cashew production, processing and marketing.

Palmyrah

Palmyrah is known as "*Thal*" or '*Panei*' among Sinhala and Tamil communities of Sri Lanka. The crop is confined to the dry and semi arid zones of the island, mainly in the Northern and Eastern regions and in Puttalam and Hambantota districts. The cultivation has spread in about 24,260 ha equivalent with 11 million palms, out of which 3.5 million palms in Jaffna district, 3.5million in Killinochchi district and another 3 million in Mannar district and the balance scattered over the other regions of the country. Government policy, Mahinda Chintana 10 year plan aims to increase the palmyrah tree population up to 16 million by the year 2016, with the development and promotion of Palmyrah based products namely fruits, fiber, leaf and timber (Ministry of Traditional Industries and Small Enterprise Development, 2010).

In the Northern and Eastern regions of the country, a considerable percentage of population depends on this crop, but the cultivation was badly affected by the civil war, which engulfed Sri Lanka in the last three decades. Trincomalee, Batticaloa, and Kalmunai areas are considered as the prime area for lucrative growth of the crop and need palm seeds for the expansion of the cultivation. As Palmyrah is a hardy crop that does not require much applied inputs other than the palm seeds. Palmyrah Development Board is the organisation entrusted with the responsibilities for the development of the crop.

Plantation Sector and the Budget Proposals

The plantation crop sector comprises of the stakeholders of the private and public sectors and the smallholders. Smallholder involvement is mainly in the cultivation of the crops whereas the private sector organisations involved in the cultivation and more on the industrial part, namely, primary processing, value-added production and marketing/export of the products of each crop sector. Public sector organisations mainly involve in the research and development, administration and the regulatory functions of each crop sector.

Corporate business management is organised around three factors, namely, corporate goals, information and corporate management decisions. Corporate management decisions are made based on the information available, to achieve the corporate goals set by the corporate management (Nanayakkara, 2004). Budget proposals are a kind of information on government regulations that affect the business environment and the corporate decision making.

Budget proposals that directly target the plantation sector and the influence of some other proposals towards the development of the plantation sector are discussed in the following section. However, it is important to make a note that, these proposals would take legal effect only when the legislation is passed to amend the provisions of the relevant Acts:

Development Target	**Budget Proposal**
Tea Sector	
1. To maintain the annual tea production at 300 Mn kg, replanting 1500 ha annually in the smallholder sector.	Increase tea-replanting subsidy for the tea smallholder sector by Rs 50,000 per hectare. Increase revolving fund facility to provide necessary credit facilities to the small holders
2. Encourage replanting in the corporate sector.	Plantation companies are to be supported by the "Proposed Investment Fund" in the banking sector.
Coconut Sector	
1. To increase the national coconut production up to 3,500 Mn nuts from the current level of 2,800 Mn nuts per year, in the medium term.	New cultivation is encouraged in the Northern and Eastern provinces. Rs. 500 Mn has been provided to give subsidies for replanting, new planting, intercropping and productivity improvement
Rubber Sector	
As world demand is shifting towards natural rubber, local rubber production is to be increased by 50% within the next 10 years.	It is proposed to enhance replanting and new planting subsidy to undertake new planting in Moneragala, Vavuniya and Mulaitivu districts and replanting in other suitable locations.

Specific Proposals for Plantation Sector Development

Considering the strategic role that plays by the plantation sector in the Sri Lankan economy, there are specific proposals in the 2011 budget to double the export earning capacity from the plantation sector by improving the cultivation of crops, primary processing, promoting value-added production and effective marketing or export.

i. *Increase national production by replanting /new planting*

The following proposals have been made to improve the cultivation under three major plantation crops by strengthening the new planting or replanting of old cultivations.

These proposals will encourage replanting and new planting of tea, rubber, and coconut to achieve the national objective of increasing total production of these crop sectors.

ii. *Proposals to encourage proper land use*

a. It is proposed to give 6-month notice period to the Plantation Companies to put unused lands into productive use. Otherwise such lands are to be distributed among smallholders for replanting purpose.

b. It is also proposed to terminate lease agreements of the lands given by the Land Reform Commission and the Mahaweli Development Authority, unless the leaseholders put such lands into productive use before end June 2011.

These proposals will direct the government land leaseholders to use such lands effectively on more economical purposes. However, the Plantation Companies that manage tea plantations with more poor lands as 6 months is given for them to use these lands effectively but the financial assistance for long term development will be available through the "investment fund" which is yet to be generated by the banks and the financial institutions over the three-year period starting from April 2011. Therefore, it appears that some other form of incentive is warranted to encourage Plantation Companies to undertake effective land use in tea plantations.

iii. *Increase value-added production*

(a) Only 40% of the tea export from Sri Lanka is in value-added form. Export Cess on bulk tea is increased up to Rs10 per kg to promote export of the value-added tea with Sri Lankan Brand names.

(b) Thirty five percent of rubber production is still exported in raw form. Export Cess on raw rubber also increased from Rs 4 to Rs 8 per kg with the objective of making the rubber industry a one billion dollar export-earning industry in the near future.

These proposals will discourage export of tea and rubber on commodity form and also generate necessary funding for development of value-added production related activities.

iv. *Other development proposals*

a. Rs 200 Mn has been provided to control the Coconut Wilt Disease spreading in the Weligama area.

b. Drip irrigation technology and alternative crops will be introduced to this area.

c. A 50% subsidy is proposed to popularise the use of rain guards to increase the productivity of existing rubber plantations.

d. Budgetary allocation for the rubber development department will be increased from Rs. 500 to 750 Mn to finance all subsidy programs.

These proposals will encourage the adoption of recommended technologies to minimise crop losses in coconut and rubber and also provide necessary funding for such activities.

v. *Reduction of Economic Service Charge*

Economic Service Charge rate form the turnover of the enterprises, namely, primary conversion of any tea, rubber, coconut plantation including desiccated coconut, coconut oil or fiber, copra, and sheet rubber but excluding any conversions, which produces any alcoholic beverages, will be reduced from the present 0.5% to 0.25%.

The threshold of the turnover also increased up to Rs. 25 Mn from the present level of Rs 7.5 Mn per quarter.

This proposal will give cash flow benefits to the business entities.

General Proposals Effective on Plantation Sector

The following budget proposals on Government's revenue administration will have direct impact on private sector organisations and individuals engaged in the plantation agriculture, primary processing or value-added production, and marketing or export of the final products and any other related industries.

i. *Proposals on income tax*

(a) Revision of corporate income tax rates: To simplify the tax system, revisions of tax rates have been proposed to all sectors of the economy. Key proposals that have likely impact on the plantation sector are discussed below:

- The present rates of 30%, 33 1/3%, or 35% applicable to companies other than any person engaged in a business which deals in liquor or tobacco-based products will be reduced to 28%.
- The present concessionary rate of 15% will be reduced to 12%. This is applicable to income tax of all export companies to encourage foreign exchange earnings and to encourage tourism related business for income earning.

• The maximum tax rate applicable to any person engaged in an undertaking for the manufacture of any product, having domestic value addition in excess of 65% and Sri Lankan Brand name with patent rights reserved in Sri Lanka, on such part of taxable income consists of profits or income from the export of or by supply to an exporters for the export of such product, will be not exceeding 10%

• The profits and income of any agricultural undertaking referred to in Section 16 of the Act will be taxed at the rate not exceeding 10%

• Propose to offer a concessionary tax rate of 10% for small and medium enterprises (SMEs).

(b) Determination of Business Profits: Proposals provide for the following costs to be claimed when determining the taxable profit from business. Changes are to come into force from 1st April 2011:

Depreciation Allowance: Depreciation allowance on plant and machinery will be increased from 12 1/2% to 33 1/3%. Depreciation allowance on new building constructed for commercial use will be increased from 6 2/3% to 10%. The accelerated depreciation rates would grant taxpayers cash flow benefits. These rates are applicable to assets acquired or buildings constructed after 1st April 2011.

Research Expenditure: Research expenditure is an allowable expense in determining the profit or the income. It is proposed to allow a double deduction for expenditure on research conducted within Sri Lanka through an institution established for research purpose.

Revision to Disallowable Expenses: The present restriction of 50% advertising expenses will be reduced to 25%. Accordingly 75% of advertisement expenses will be allowed to be claimed.

Foreign Travels and Training: The deduction of expenses on foreign travel will be allowed if incurred in the production of income, subject to the restriction specified under the limitation of specific deductions.

The present restriction on foreign training will be removed and the deduction will be allowed subject to the restriction specified below:

• *Limitation of Specific Deductions:* The aggregate of allowable expenditure on foreign travel and foreign training will be subject to a maximum limit of 2% of the previous year's statutory income from the respective trade or business.

• *Management Fees:* The present limit of "Rs 1 Mn or 1% of the turnover whichever is less", will be increased to "Rs 2 Mn or 1% of the turnover whichever is less". The other conditions will remain unchanged.

• *Nation Building Tax (NBT) Cost:* The present restriction in the deduction of 2/3 of the NBT payable will be removed. Accordingly, the full NBT payable will be deductible.

c. *Qualifying payment for Tax Relief:* The present structure will be revised and the deductions will be restricted to the followings:

• Donation to the Government in money or otherwise remained to be deductible in full,

• Investment in specific projects (if already considered under tax holiday schemes),

• Donations in money to an approved charity will be allowed for deductions only if the charity is established for the provision of institutional care sick and needy.

ii. *Value-Added Tax (VAT) Rate*

The present 20% luxury rate will be reduced to 12% making a single VAT rate of 12% applicable to all sectors other than the zero rate applicable for selected items.

All these proposals on tax administration will create cash flow benefits to the entrepreneurs.

iii. *Creation of an Investment Fund Account*

It is proposed to create an Investment Fund Account by the Banks and Financial services, established at the Central Bank of Sri Lanka, for three years commencing from 1st April 2011 or from the year of assessment in which business operation commenced, whichever is later to invest at the end of each year of assessment.

Investors, through long-term loans at lower interest rates, will only utilise the investment in the fund. The interest earned by the bank or financial institution will be exempted from income tax.

Local investors in the plantation sector who wish to undertake large-scale investments such as replacement of old plant stocks, factory modernisation, establishment of infrastructure for value-added production with Sri Lanka brand names would be benefited by this proposal be enabling them to get bank loans at lower interest rates.

iv. *Customs Duty*

To improve the agriculture through new technology and post-harvest storage and transportation systems, customs duties on relevant goods will be removed / reduced while protecting the local industries (Table 1).

This proposal will provide opportunities for local entrepreneurs to get some of the agriculture tools required for the plantation agriculture, for field activities as well as for handling of the product, at lower costs.

v. *Research and Development*

The following proposals are made to encourage enterprises to undertake research and development activities, registration of patents, trademarks and designs, automation of the production processes through technology and training of their workforce. Such enterprises are encouraged to get assistance from universities, research and technology institutions and skill development agencies.

(a) The expenditure, including capital expenditure incurred by any company or any person, on any scientific, industrial, agricultural or any other research for the upgrading of any trade or business will be allowable for double deduction in the calculation of taxable profit of such company or person, so for as such research is conducted within Sri Lanka through an institution established for research purpose.

(b)Proposed to encourage partnership between government and private sector research centres and universities to undertake joint R & D initiatives for high productive economic activities and to relax administrative procedures obstructing the two sectors to work together.

(c) Proposed to allocate Rs. 1,000 million to set up an Innovation and Technology Development Fund to finance high quality research and innovations.

(d) Proposed to remove customs duty on instruments and apparatus for health, education and scientific research (items covered under the Chapter 90 of the Harmonised System).

(e) Proposed a monthly research allowance equivalent to 25% of the basic salary to university academic staff and staff grade officers of research institutions, who undertake research and publish related findings in internationally accredited publications. This allowance will be availed for 2 years commencing January 2011, during which period such research has to be completed and the findings published.

Table 1: Selected Agricultural Tools for Duty Reduction

Item	*HS Code*	*Customs Duty*	
		Prevailing	*Proposed*
Silos	7309.00.01	15%	Free
Industrial Racking Systems	7308.90.10	30%	Free
Industrial Racking Systems equipped with relevant optional mechanical	8479.89.40	Free	Free
Plastic cages of a kind, used for the transport of fruits	3923.10.30	30%	15%
Spades and Shovels	8201.10	15%	5%
Fork	8201.20	15%	5%
Mammoties	8201.30.10	15%	5%
Other mattocks	8201.30.90	15%	5%
Axes, bill hooks and similar hewing tools	8201.40	15%	5%
Secateurs and similar one-handed pruners and shears (incl. poultry shears)	8201.50	15%	5%
Hedge shears, two handed pruning shears and similar two handed shears	8201.60	15%	5%
Scythes... Timber wedges and other hand tools used in Agriculture, Horticulture and Forestry	8201.90	15%	5%

These proposals would encourage researchers in the plantation crop sector research institutes and university academics to undertake research programs vital for the development of the plantation sector, in collaboration with the private sector organisations.

Conclusions and Suggestions

There are several proposals in the year 2011 budget that will have greater or minor impact on the development of the plantation sector in Sri Lanka.

The proposals targeted at increasing the production of major plantation crop sectors are *timely* important for development of the each crop sector.

The proposals on land use in the plantations will encourage the efficient land use in the sector and also to utilise lands for more productive purposes such as fruit crop cultivation, floriculture and other high-valued agriculture, dairy cattle management, energy cultivation and forestry.

Export cess on commodity export of tea and rubber will discourage commodity form exports and facilitate value-added exports.

Proposals on subsidies for adoption of new technologies in rubber and coconut sectors will be encouraged the adoption of relevant technologies.

Proposal on income tax revision will reduce the tax burden on the private companies and individuals in the sector, encourage the export companies and also promote the domestic value addition and development of Sir Lankan brands. This proposal encourages the value added producers in tea and coconut sectors to develop Sri Lankan brands.

Proposals on increasing depreciation allowance improve the financial ability of the stakeholders to invest on modernisation of factories, warehouses and related infrastructure, and the double deduction allowance for research expenditure will encourage private enterprises to undertake joint research programs with the universities or the government research institutions in the respective crop sectors.

Revision on disallowable expenses such as advertising expenses, foreign travel, foreign training will also give cash flow benefits to the taxpayers in deciding taxable profit of the business.

Proposals on five-year tax holidays will encourage the stakeholders to undertake large-scale investments in the respective sectors if the investment by the existing companies on replacing capital stocks in terms of the crop and the factory machineries are considered as the qualifying investments. That will pave the way to achieve the investment targets of the plantation sector.

Reduction of the import duty of selected agricultural tools will benefit the plantation sector by reducing the cost of essential agricultural tools used in crop management.

There are several budget proposals with beneficial influences for the development of the plantation sector.

However, proposals for the plantation sector aimed at only tea, rubber, and coconut sectors. It is proposed to consider extending relevant proposals to the other crops sectors such as cashew, sugarcane and palmyrah considering their economic importance.

Some other proposals that are in the budget could also be considered for extending to the plantation sector for their development. Selected few proposals are indicated here for the consideration of the relevant authorities.

• Tax exemption of 5-year period on investment in planting material production, cultivation and primary processing of agricultural seeds or planting material

It is worthwhile extending this benefit to the plantation sector also, as the entire plantation crop sector target at production expansions trough the expansion of cultivation, which need large volume of planting material of the improved varieties. Production of planting material is a long-term and costly operation in all plantation crop sectors.

• Fertiliser subsidy has been extended to all plantation crop sectors other than the sugarcane and cashew. Both these sectors are with high participation of smallholders with low-income levels. Extending the fertiliser subsidy scheme for these two crop sectors will improve the use of fertiliser and thereby improve the productivity of these crops.

• A credit facility has been proposed to the dairy sector with the objective of improving national milk production. It is worthwhile considering the extend of this facility as a special credit facilities to SLSPC (Sri Lanka State Plantation Corporation) and JEDB (Janatha Estates Development Board) plantations to establish diary production units by using unutilised lands under their management, as the potential for dairy development is high in the locations of these plantations.

• A five-year tax holiday is proposed to offer for any company, which carries on a new undertaking, with a minimum investment of not less than US$ 5000(but not more than US$ 10 Mn) or an amount equal to such amount in rupees in such activities as specified by the Minister from time to time by order published in the Gazette having regard to the development of the national economy.

New planting (and replanting) of plantation crops also need huge investments and the progress of these investments were behind the target for many years, mainly due to the high cost of the investments and the loss of income during the first 3-6 years, which is the most crucial period of the investment. However, with the promising results that the plantation crop sector has shown in the recent past, investments within the sector deserves high priority in the national economy, to achieve economic viability and long term sustainability of the plantation sector.

Therefore, it is worthwhile to consider granting similar type of tax concession (either tax holiday period or allowable deduction for such investment in the calculation of taxable profit of such company or individual) for the proposed investments on new planting and replanting of plantation crops, in order to achieve national development targets.

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