

EFFECT OF WORLD TRADE POLICIES ON SRI LANKAN SUGAR PRODUCTION SECTOR

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This study investigates the impact of world market sugar price fluctuation to the local sugar industry under a highly distorted world sugar market. The study highlights the factors affecting on world market sugar price, instability of world market sugar price and competitiveness of the local price. Food and Agriculture Organization (FAO) and United States Department of Agriculture (UNDA) data bases were used as the source of secondary data. Cross sectional survey was carried out in calculating local cost of production of two major local sugar producers. Descriptive method along with cost of cultivation and Cuddy-Della Valle Instability Index (C.D.V.I.I.) were used in analyzing data.

It was found that trade restrictions, domestic support policies, collateral trade agreements and increasing trend of using sugar as a source of energy largely influence on world sugar price. According to the C.D.V.I.I, eleven present instability of world market sugar price was found around its trend price. The cost of production under local conditions was found as Rs.33.65 per kg. The world market price before tax was reported as Rs. 38.88 per kg. Even though it can be concluded that Sri Lankan sugar market is competitive; it is vulnerable to the world trade policy structure. However considering the inelastic nature of demand for sugar and increasing trend of world market price, it is worthwhile to expand the sugar production in Sri Lanka. This has to be correctly tested with other studies before following the investment decision.

Key words: Sugar production, World market sugar price, Cost of production, Trade policies