

PJ-ACC-103

AgEnt 134 - 96

# Seminar on Hatchery Management and Practices/Economic Factors of Livestock Production

An assessment of the Poultry Industry  
In Sri Lanka

Sponsored by

AgEnt Project  
and  
Chickmaster



**The Agro-Enterprise  
Development Project**  
Colombo, Sri Lanka

June 1996

A



**An Assessment Of The Poultry Industry  
In Sri Lanka**



***ECONSULT***

---

***May 1996***

B

## CONTENTS

	Page
I. INTRODUCTION	1
II. POULTRY INDUSTRY IN THE CONTEXT OF THE NATIONAL ECONOMY	1
III. THE RECENT STATUS OF THE INDUSTRY	2
1. <i>Poultry Breeding</i>	2
2. <i>Poultry Farming</i>	2
3. <i>Poultry Meat Processing</i>	3
IV. CONSUMPTION	3
V. PROSPECTS FOR GROWTH IN DEMAND FOR POULTRY	5
VI. A COMPARATIVE ANALYSIS OF THE COST OF PRODUCTION	6
VII. FACTORS AFFECTING COMPETITIVE ADVANTAGE	8
1. <i>Cost Of Day Old Chicks</i>	8
2. <i>Cost Of Feed</i>	9
3. <i>Economies Of Scale</i>	10
VIII. THE MACRO-ECONOMIC ENVIRONMENT	11
1. <i>The Exchange Rate</i>	11
2. <i>Tariff Policy</i>	12
IX. STRATEGIES FOR DEVELOPMENT	12
1. <i>Poultry Feed</i>	13
2. <i>Economies Of Scale</i>	13
3. <i>Partnership Between The Government And The Private Sector</i>	13
REFERENCES	14

# AN ECONOMIC ASSESSMENT OF THE POULTRY INDUSTRY IN SRI LANKA

## I. INTRODUCTION

Poultry meat and eggs form a valuable food supplement in the diet of Sri Lankans. Its relatively low price makes it an economical source of food. Taken gram for gram, poultry meat contains more protein than other meat products and even some varieties of fish. The other advantage with poultry is the relatively short time it takes to rear and slaughter a chicken for consumption. The cycle lasts only 6 -7 weeks for poultry meat production. It takes only about 20 weeks for a layer to start producing eggs. In comparison it takes over six months for the production of pork and over two to three years for the production of beef.

The poultry meat and egg industries have been growing rapidly in the recent past. There is much potential for the continued growth of these industries if one compares the per capita consumption of poultry meat and eggs with the consumption levels of these items in other developing countries such as Thailand, the Philippines and Indonesia.

From the very outset the poultry industry has been identified with the creation of self-employment opportunities. In Sri Lanka, it is estimated that as much as 35% of the poultry meat production comes from 85% of the farmers with flock sizes less than a 1000 birds. The small farmers are also responsible for the production of 60% of the egg supply.

Studies carried out in the recent past indicate that a number of problems threaten the future potential for growth of the poultry sector. Some of these are attributed to micro issues pertaining to the spread of disease, the need for effective food processing technologies, environmental aspects etc. However, there is a growing consensus which supports the hypothesis that the main problem which threatens the future of the poultry industry is more fundamental than these micro issues and stems from the economic and market environment within which the industry has to operate.

The following paper addresses the present status of the poultry industry in Sri Lanka and its competitiveness, vis-à-vis the major poultry exporting countries such as the USA, Thailand and China. The paper also evaluates the changes in Sri Lanka's economy and its likely impact on the development of the poultry sector.

## II. THE POULTRY INDUSTRY IN THE CONTEXT OF THE NATIONAL ECONOMY

The Sri Lankan economy is not influenced significantly by the ups and downs of the local poultry industry. The contribution of the Sri Lankan livestock sector to the national economy is relatively small at around 0.8% of GDP in 1994. The contribution towards value-added in livestock works out to only 4.0% of the total produce of the agricultural sector. In fact, the contribution to GDP by the livestock sector has fallen to 0.8% of GDP in 1994 from an estimated 1.0% in 1990.

The poultry sub-sector's contribution to the national economy is even smaller and is a fraction of the contribution of the livestock sector to GDP. At present, Sri Lanka produces the poultry required for her domestic consumption, locally. Imports of poultry

meat to Sri Lanka are very small and exports from Sri Lanka are restricted to the Maldives and is not significant from an overall perspective. Given Sri Lanka's high cost of production and the scale of operations, it is unlikely that Sri Lanka will increase its exports substantially in the near future. The poultry industry in Sri Lanka necessarily would be a domestic industry which would be influenced by factors affecting other import substituting industries.

The government's policies pertaining to domestic industries has been spelt out clearly in the many policy statements presented by government spokespersons. If the government pursues its present economic policy of an "even playing field", it is unlikely that it will step in to boost competitiveness in any Sri Lankan industry, let alone the poultry industry. The longer term survival of the poultry industry lies in understanding the macro-economic environment within which it has to operate and in adopting feasible strategies to increase its competitiveness and productivity: This entails a radical rethinking of strategies and practices followed up to now and calls for a new vision for the poultry industry. With the adoption of policies which encourage free trade, it is likely that the Sri Lankan producer will have external factors to cope with which hitherto have not proved to be a threat to the industry.

### **III. THE RECENT STATUS OF THE INDUSTRY**

The last 15 years have seen major structural changes taking place in Sri Lanka's poultry industry. From being a 100% backyard industry it has grown to be one in which 15% of the farmers account for 65% of the market share for poultry meat and 40% of the market share for eggs. The advantage of the structural shift has been the economies of scale that have been realised, leading to higher productivity and enhanced competitiveness. This, perhaps, is one of the reasons as to why poultry meat prices have remained relatively cheap in comparison to the prices of other meat products and fish.

The poultry industry consists of the production of eggs and meat, using broiler and layer chicks. The production of poultry meat and eggs can be broken down to three stages :

- poultry breeding
- poultry farming
- poultry meat processing/egg production

#### **1. Poultry Breeding**

There were 46 hatcheries producing day old chick (DOC) broilers and layers in 1995 in comparison with 39 in 1994. The four largest breeder farms, Three Acre Farms Ltd, Bairaha Farms Ltd, Christombu and the National Livestock Development Board account for about 80% of the DOC production. In the recent past, there has been an over-supply of DOC which, in turn, has led to a sharp drop in their prices. As a result, some of the small hatcheries were forced to close down this year.

#### **2. Poultry Farming**

There are a large number of poultry farms engaged in rearing layer and broiler chicks for the egg and meat industries. Around 80% of these are small-scale farms with less than 1000 birds and most are engaged in rearing layer chicks for the production of eggs. The broiler production, on the other hand, comes mainly from the farms having more than

1000 birds. The large farms producing poultry meat also rely heavily on outgrowers to supplement production.

### 3. Poultry Meat Processing

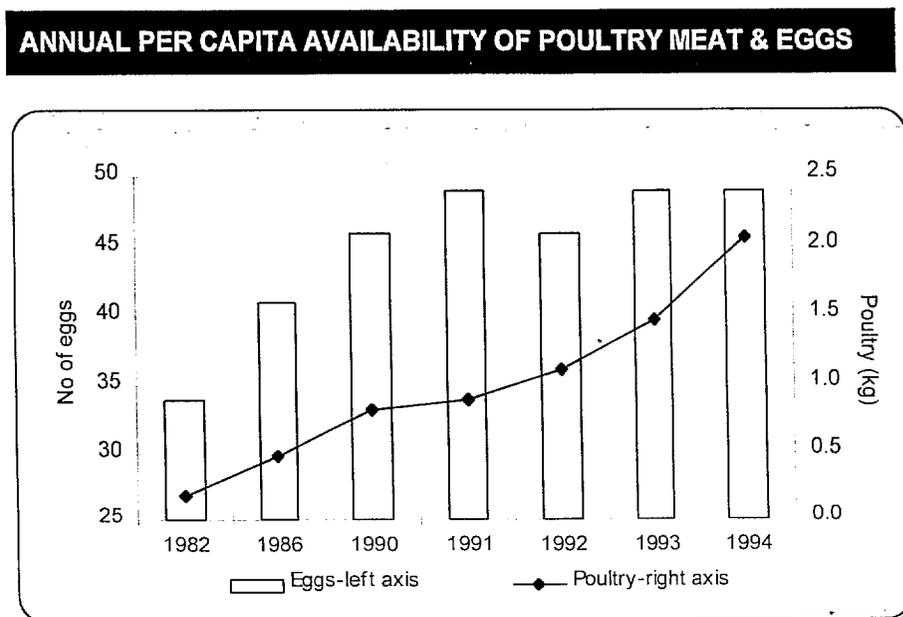
Poultry meat processing in Sri Lanka is still very much a labour-intensive backyard industry. Only about 50% of the poultry production is processed, using modern technology. Bairaha Farms have been the market leader with about 15% of the total market and Ceylon Agro Industries, a subsidiary of Ceylon Grain Elevators which commenced operations in mid 1995, has also about a 10%-15% share. Christombu, Maxie House and Ceylon Cold Stores are the other important players in this field.

The above paragraphs show a degree of concentration of the poultry industry in Sri Lanka. The concentration of the poultry meat industry among a few large-scale operators has precipitated many problems to the small-scale producer who has found it increasingly difficult to compete in an industry dominated by a few large-scale producers. This problem has sparked off much controversy as to the role that should be played by the large firms and the government. On many occasions the government has reiterated that the consumer should not be held to ransom by the inefficient producer. However, the problems besetting the small producers is a politically sensitive issue which may differ from economic logic.

## IV. CONSUMPTION

The growth of the local poultry industry is evident from the growth in the per capita availability of poultry and eggs as detailed in Figure 1. The total production of poultry meat increased from 3mn kg in 1982 to 37mn kg in 1994 while the corresponding figures for egg production was 517mn and 877mn. This has facilitated the per capita availability of poultry meat to rise from 0.19 kg to 2.07 kg over this period, i.e. an over a tenfold increase.

Figure 1

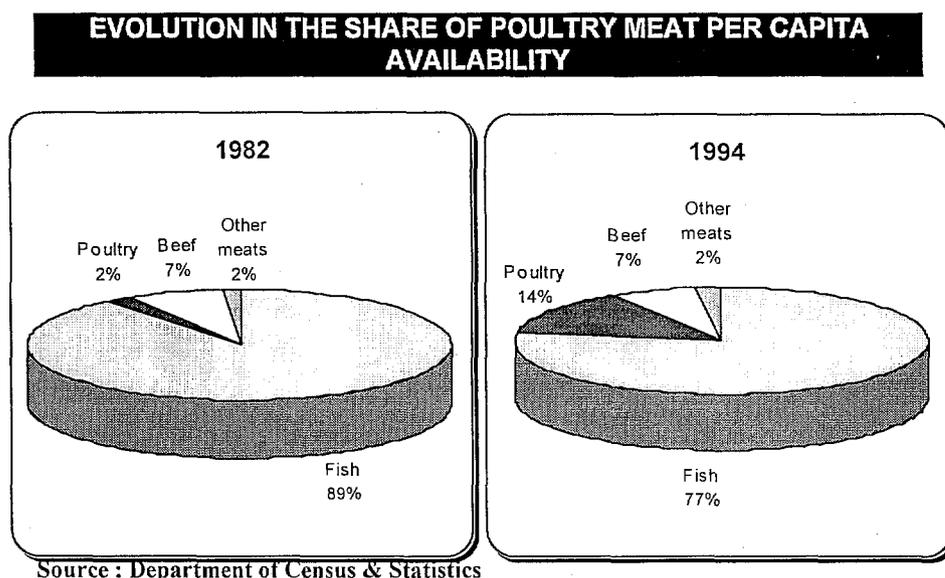


There has been a steady growth in the production of poultry meat whereas the production of eggs has grown rapidly up to 1991 and has remained at that level for the past few years.

This phenomenal growth in the poultry meat production is not reflected in the growth of the consumption of other meat products. A comparison of the per capita availability of poultry meat with that of beef & other meats reveals that there is hardly any change in the consumption of meat products other than poultry. In fact, the consumption of fish has given way to poultry, indicating that poultry is a closer substitute to fish than to other meat products.

This is hardly surprising. Except for fish, poultry is the single meat item which is most accepted by the multi-ethnic, multi-religious Sri Lankan population. 85% of the population in Sri Lanka consisting of Buddhists and Hindus, refrain from consuming meat products, especially beef. In the recent past, Sri Lanka's middle class has also become increasingly conscious of their health and opted to avoid red meats. With other meat products such as pork and mutton being less popular owing to the fat content, the obvious choice has been a switch to consuming poultry meat.

Figure 2



It should also be noted that the average increase in the price of poultry meat over the last ten years has been approximately 9% on average per year as shown in Table 1. In comparison, other meat and fish prices have increased by an average of over 12% per year.

The main reason for the steep increase in fish prices has been the decline in the per capita availability of fish owing to the outbreak of the war in the North and the East of the Island. This restricted supply together with the increase in demand for fish from the tourist industry led to a considerable escalation in the price of fish. This in turn has forced the lower and middle income groups to reduce their consumption of fish and look for cheaper substitutes. The cultural aversion to the consumption of beef, health factors and the relatively lower price factor helped make poultry the closest substitute for the larger varieties of fish.

Table 1

ALL-ISLAND PRICES OF SELECTED MEAT & FISH PRODUCTS

	1985 Rs	1988 Rs	1990 Rs	1993 Rs	1995 Rs	1996 March Rs	Average rise/year %
Beef	24.52	29.94	50.85	74.56	82.70	85.24	12.9
Mutton	43.43	66.05	85.42	117.71	135.46	148.81	12.0
Pork	39.24	41.61	62.84	71.40	75.55	78.89	6.8
Chicken-broiler	40.22	53.26	72.09	84.98	93.72	95.24	8.8
Paraw	43.23	64.83	77.77	120.12	150.49	146.73	13.3
Galmalu (Mullet)	32.64	43.49	52.71	75.66	92.87	91.48	10.9
Halmessa (Sprats)	29.02	40.63	51.06	76.02	92.65	91.18	12.1
Salaya	18.42	28.99	29.94	48.55	53.59	54.55	11.5
Eggs	1.55	1.72	2.45	2.74	3.28	2.91	6.5

Source : Department of Census & Statistics

V. PROSPECTS FOR GROWTH IN DEMAND FOR POULTRY

Global consumption patterns indicate that there is vast potential for the local poultry industry to grow. From 1988 to 1993 world poultry consumption increased by approximately 5% per year and this trend is expected to continue for the foreseeable future. However, for this same period, the growth in consumption in the Asian region has been much higher with an average annual growth of 8.4%.

A recent study on the world poultry industry notes that the major determinants of poultry consumption in the world market will remain price & income parameters and population growth. The rate of increase in the consumption of poultry is calculated to be higher for low-income and lower-middle income countries and it is expected to reduce as a country's per capita income increases. As Sri Lanka, unarguably, is in the low-income group category, faster rates of consumption growth can be expected with an increase in the per capita disposable incomes and population growth.

Table 2

COMPARATIVE POULTRY CONSUMPTION FOR  
SELECTED COUNTRIES : 1988-1993

	Poultry Consumption		Per capita GNP for 1993 (US \$)
	Average Annual growth 1988-93	Annual per capita consumption (kg)	
World	5.0	8.6	
Asia	8.4	4.0	
China	13.4	4.3	490
Thailand	5.3	9.2	2110
Indonesia	4.6	3.0	740
India	12.9	0.5	300
Sri Lanka	12.1	1.5	588

Source : Far Eastern Agriculture Nov./Dec. 1995

With the current rate of consumption growth, some sources forecast that Sri Lanka's per capita consumption of poultry meat can be expected to reach 5kg per year by the year 2000. A more conservative projection done by the Department of Animal Production & Health in its livestock development programme for the period 1995-2000, forecasts the per capita consumption of poultry meat to reach 3.0kg by year 2000.

The forecasts made by the Department of Animal Production & Health have been based on an annual average growth of 10% whereas if consumption is to reach 5kg the rate of growth required from 1995-2000 is about 16% per year. Based on the rate of growth in consumption for the period 1988 to 1993 at 12.1%, a more realistic expectation could be 3-4 kg per capita consumption by the year 2000.

On the downside, the present slow-down in the local economy and the rate of increase in the prices of essential food items during the past few months is expected to affect the consumption of poultry, as poultry is considered a luxury item in the food budget by many households in the low and middle income groups. The other factor that could affect demand for poultry is the ending of the war in the North and the East. If such an eventuality occurs, fish prices can be expected to decrease, thereby resulting in a shift from poultry to fish consumption. Here again, price will be the main determinant.

From a demand point of view, it is inevitable that poultry consumption will continue to increase. The question, however, is whether the local supply can keep pace with the demand and whether they can do so at cost-effective prices.

Even though poultry imports into the country are negligible, given the government's free trade policy and a relatively over-valued exchange rate, it is likely that local producers will face competition from imported products in the event that they are not able to improve on productivity and maintain a competitive price structure.

## **VI. A COMPARATIVE ANALYSIS OF THE COST OF PRODUCTION**

The results of a survey on broiler production costs covering nine countries, published in the January 1996 issue of "Poultry International", reveals that production costs the world over (as measured by wholesale prices) can be grouped into three main bands. (*These cost of production figures are broadly similar to those published in the "World Poultry Industry" an IFC publication reproduced in Table 3.*)

- *Lowest cost band*

The major exporters in the world market, i.e. USA, Brazil, China and Thailand record the lowest costs in producing broilers with costs ranging from US¢95 to US¢140 per kg.

The US industry is mature and highly developed technologically. The concentration in the industry is such that large companies capture efficiencies of large-scale production. The USA also grows all its requirements of raw material for feed production. Hence, it has the cheapest costs, in terms of chicks and feed, of the countries compared in Table 3.

Brazil, China and Thailand remain competitive on the other hand, gaining cost advantages by utilising lower labour costs, lower feed costs and lower chick costs.

- *Middle cost band*

France and the Netherlands, which are the two main exporters in the European Union, fall into the second band at around US\$200 per kg.

Their competitiveness stems mainly from the use of high technology. However, the high cost of production in these countries is mainly due to the comparatively high feed and labour costs.

- *High cost band*

The major importing countries, i.e. Japan, Russia and Saudi Arabia, record the highest cost of production with figures averaging around US\$300 per kg. A major contributory cause for this development is the high cost of feed.

The table below gives the cost of producing one kg of poultry meat for Sri Lanka and five selected countries, i.e. the USA, China, Thailand, France and the Netherlands.

**Table 3**  
**COMPARATIVE COSTS IN PRODUCING POULTRY**  
**FOR SRI LANKA AND SELECTED COUNTRIES**

Cost (in US\$/kg RTC)	Sri Lanka		USA	China	Thailand	France	Netherlands
	1996	1994	1994	1994	1994	1993	1993
Chicks	30	38	10.9	13.2	12.9	18.8	21.1
Feed	95	76	48.4	56.6	68.0	75.4	72.9
Other costs	36	36	49.9	23.4	25.6	64.3	69.4
<b>Total cost of production</b>	<b>161</b>	<b>150</b>	<b>109.2</b>	<b>93.20</b>	<b>106.5</b>	<b>158.6</b>	<b>163.4</b>
Feed costs/tonne (US\$)	340	266	176	289	280	291	298
Total production of poultry ('000 tonnes)	37	26	13076	6654	828	1851	529
<b>Other selected industry indicators</b>							
Feed conversion ratio	1.9 - 2.1		2.0	2.3	2.0	2.0	1.9
Mortality rate	5.0% - 6.0%		5.0%	5.0%	5.7%	3.0 - 7.5	4.9
Average slaughter age	42-45		42	56	45	43	42
Average weight at slaughter (kg)	1.6		1.9	2.6	1.9	1.9	1.8

Source :The World Poultry Industry, Econsult estimates for Sri Lanka.

The other costs include labour, medication and vitamins, grower payments and plant operating costs.

The cost of production for Sri Lanka was based on the following estimates :

	1996 May	1994
	Rs.	Rs.
Cost per chick	20	22
Cost of feed	18.70/kg	13.00/ kg
Dressed : live weight ratio	0.75	0.75
Feed Conversion Ratio	2.1	2.1
US\$ rate	55	48
Other costs given for 1996 were assumed to be the same for 1994, allowing any escalation in costs to be compensated by the depreciation of the rupee.		

The information in Table 3 reveals that Sri Lanka's broiler production cost falls into the middle cost band, similar to the cost of production in France and the Netherlands. A comparison between these countries reveals the following with regard to Sri Lanka's cost of production :

- Sri Lanka's chick prices are high mainly owing to the small-scale of operations and an oligopoly market structure.
- Sri Lanka's feed costs are high because of its dependence on imported raw materials for the production of feed.
- Even though Sri Lanka's other costs compare favourably with the developed countries, it is quite high in comparison to developing countries. The reason attributed to this is the non-economical scale of production resulting in lower productivity.

## VII. FACTORS AFFECTING COMPETITIVE ADVANTAGE

### 1. *Cost Of Day Old Chicks*

The number of poultry breeder farms has more than doubled from 21 in 1990 to 46 in 1995. Even though one would have expected the price of chicks to have reduced significantly owing to enhanced competition, this has not taken place, as the bulk of the production of chicks (80% of the market share) has continued to remain in the hands of the four largest producers. The reason for this can be partially attributed to the oligopolistic market structure in which the market leaders determine price. The other reason for high prices could be due to small-scale production and the inherent inefficiencies of day old chick production emanating from the small size of the overall market.

The average cost of production of a day old chick remains around Rs.15 per chick. The selling price of a day old chick is presently around Rs.20. DOC prices in Sri Lanka have been very volatile. In 1995 prices moved up to over Rs.25 and then dropped to about Rs.16 in early 1996. The uncertainty in the price movement, coupled with the relatively high cost of DOC, has caused severe hardships to the small farmers.

A comparative study of the cost of production of other countries indicates that the cost of chicks as a percentage of total cost of production averages between 10% - 15%. An analysis of costs of production of broilers in Sri Lanka indicates that day old chick prices remain high at between 20% - 30% of cost of production.

## 2. Cost Of Feed

The feed cost is the major component in the cost of production of broiler meat. It ranges between 45% and 65% of overall cost of production. Countries which grow the main raw material requirements, such as maize and soya, manufacture feed at relatively lower costs in comparison to the importers of maize and soya meal. An example is the USA which is a net exporter of maize. Countries which are dependent on the import of raw material to manufacture feed, cannot hope to be low-cost producers of poultry owing to the relatively high cost of feed. France and the Netherlands are examples of such countries.

**Table 4**

**AVERAGE REQUIREMENT OF MAIN RAW MATERIALS  
NEEDED TO MANUFACTURE 1 KG OF FEED**

<b>Imported Raw Materials</b>	Maize	325 gm
	Soya Meal	180 gm
	Fish Meal	50 gm
<b>Local Raw Materials</b>	Rice Polishing	210 gm
	Broken Rice	150 gm

Source : Department of Animal Production & Health

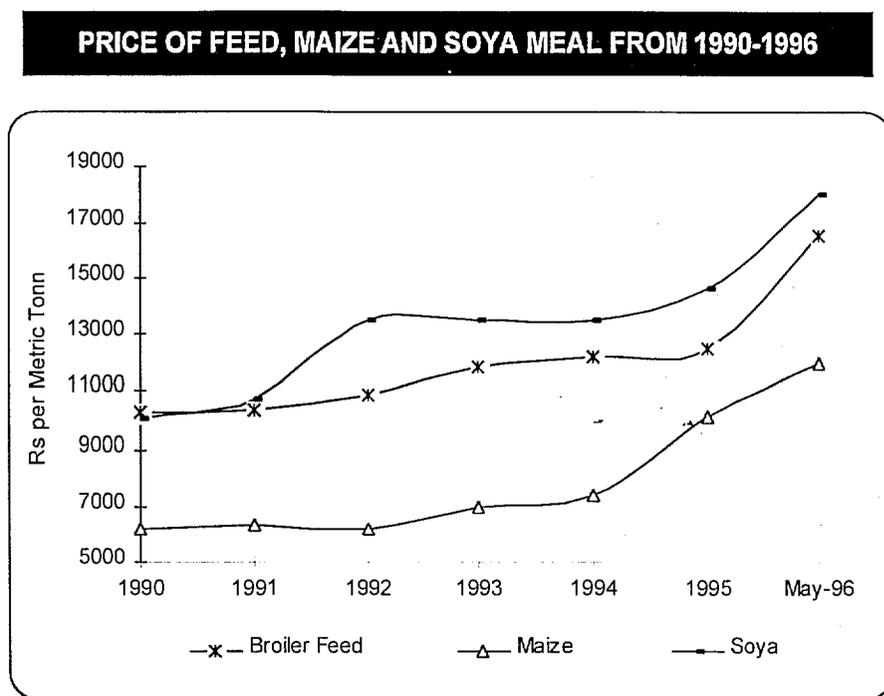
There are two types of feed required by the broiler industry: the broiler starter and the broiler finisher. There is a higher protein content in the starter in comparison to the finisher. The figures given in Table 4 above, have been calculated taking an average of the two mixes.

Of the raw materials used in the production of feed, Sri Lanka imports 100% of the soya meal and fish meal requirements and over 80% of the maize requirement for the production of poultry feed. Based on the above formula these items add up to about 50%-55% of the wholesale price of one kg of feed at present. It is estimated that these raw materials account for about 60% of the production cost of feed.

As seen in Figure 3, the price of poultry feed is strongly correlated to maize prices and soya meal prices. Therefore, feed prices will be strongly influenced by the world market prices of maize and soya meal which have been rising sharply in the recent past. In addition, local producers would also be affected by the movement of the Sri Lankan rupee as against the US dollar. A depreciation of the rupee will increase feed costs owing to its impact on the prices of imported raw materials.

Over the last year world maize prices have increased by over a 100%. Soya meal prices have also increased by nearly 40%. Many reasons such as the impending drought in maize exporting countries and insect-borne diseases have been attributed to the rise in maize prices. From a macro-economic point of view, the Uruguay round of General Agreement on Tariffs & Trade (GATT) negotiations and the establishment of the World Trade Organisation (WTO) has had a significant impact on grain prices. According to the GATT agreement, the budgetary expenditure on export subsidies on agricultural products of developed countries has to be reduced by 36% over six years and the volume of subsidised agri-exports has to be cut by 21% over six years. This has resulted in an increase in the prices of subsidised food items for developing countries who are net agricultural produce importers.

Figure 3



Unlike the impact of the drought and insect-borne diseases which are temporary, the impact of GATT and WTO policies will have a long-term impact on world prices of agricultural products. A significant part of the current increase in wheat, maize and soya meal prices can be linked to the removal of subsidies and non-tariff barriers to trade by exporting countries.

The past few months also witnessed a substantial rise in the price of fish meal to one of the highest levels in history. The current price amounts to Rs.40,000 per MT. Fish meal is one of the key ingredients from which the protein requirement is obtained in the manufacture of feed. In the light of rising fish meal prices, feed producers have, of late, tended to shift to other less expensive sources of protein in place of fish meal.

### 3. Economies Of Scale

Table 5

DISTRIBUTION OF POULTRY FLOCKS IN SRI LANKA

Farming System	Flock Size	% of Farmers	% Market Share	
			Meat	Eggs
Intensive	>10,000	5	65	40
Intensive	1,000 - 10,000	10	30	60
Intensive	100 - 1,000	35		
Semi-Intensive	50 - 100	35		
Backyard	<50	15	5	

Sources : Present Extension Approaches for Entrepreneurship Development in the Livestock Sector in Sri Lanka, 1993.

A study done by the Sri Lanka Agricultural Extension Association has documented the distribution of poultry flocks in Sri Lanka. According to this study, 85% of our farmers producing a 35% market share of poultry meat and a 60% market share of eggs, have flock sizes of less than a 1000 birds. The poultry industry in Sri Lanka has been organised as a home industry generating self-employment opportunities.

As indicated in Table 3 above, Sri Lanka's overhead costs in producing poultry meat are high in comparison to the other developing countries such as China and Thailand. The main reason for this has been attributed to the smaller flock sizes of Sri Lankan producers which discourages economies of scale being realised. If Sri Lanka wishes to be competitive in producing poultry, a continuation of such a strategy has to be critically looked at.

Even though poultry farming does create self-employment opportunities, it does so at a cost to the consumer. The profit margins on poultry are small. It is not a high value-added product. Given this background, the small farmers lack the resilience to survive volatile prices and other external shocks that may affect the business from time to time. An ideal product from a small farmer's perspective would be one that has high profit margins which would shield him from fluctuating prices.

## **VIII. THE MACRO-ECONOMIC ENVIRONMENT**

From the poultry farmer's perspective, two factors that would influence the future of the industry are the movement of the exchange rate and the governments policy on free trade and tariff reductions.

### **1. The Exchange Rate**

The parity of the Sri Lankan rupee is a much spoken about subject. The government maintains that the rupee is market-determined and hence, not overvalued. However, some private sector economists have expressed the opinion that the rupee is, in fact, overvalued and therefore, is harmful to exports.

Since gaining independence from the British, in 1948, the Sri Lankan economy has undergone a marked shift away from agriculture towards industry and services. Agriculture which in 1950 accounted for 50% of GDP, now accounts for only 20% of GDP. Sri Lanka's future growth path like that of our South Asian neighbours and the newly developed East Asian countries, lies firmly entrenched in exports, mainly industrial exports. High growth rates necessary to solve the country's pressing unemployment problem, can only be achieved through an export-oriented economic strategy in which manufactured exports play the dominant role.

Even though the economic policy signals, of late, point out that an export-oriented growth strategy has been abandoned, the pragmatism of this change is questionable. It is likely that the government will have to take serious note of the export sector if the economy is to achieve the 8% growth rate that is required to solve the unemployment problem.

It is significant to note that after nearly six years the balance of payments went into a deficit of 1.5% of GDP in 1995. External assets in months of imports declined from 6.5 in 1994 to 6.1 in 1995. Correspondingly, the rupee depreciated by some 8% against the

US dollar during the course of last year. The depreciation of the rupee has not been sufficient to ebb the slide in exports. It is reported that most export companies have performed badly during the past few months signalling that the government will have no option other than to further depreciate the rupee in the coming months. In the event the government resists depreciating the rupee, Sri Lanka's export performance will be further undermined, resulting in low economic growth and further unemployment.

Given the above scenario, we expect the rupee to depreciate to around Rs.60 by year end. It is also likely that the rupee would further depreciate to around Rs.70 by the end of 1997. The impact of this depreciation, from the poultry sector perspective, will result in an increase in feed costs and contribute towards further inflation.

## **2. Tariff Policy**

The many policy statements made by government spokespersons, illustrate the reliance placed by the policy-makers on low tariffs to motivate production. It has been argued that lower tariffs will compel domestic producers to be more competitive and will stimulate the introduction of new and advanced technology.

The tariff system that presently operates is based on three bands consisting of tariff rates of 35%, 20% and 10%. The government's longer-term objective is to move towards a single tariff system of around 15%.

This policy development has both a positive and a negative element from the perspective of the poultry farmer. Lower tariffs could mean lower cost of feed. However, this need not necessarily be realised since the large-feed manufacturers are already enjoying tax-free imports of raw material.

On the negative side, such a policy will also open Sri Lanka's poultry industry to competition from poultry producers the world over. The Sri Lankan producer will have to take into consideration external factors that have not hitherto been of much significance to him.

Given the above macro-economic policy framework, the only path open to local producers is to adopt strategies that would effectively improve their competitive position in the longer run, vis-à-vis, foreign competition.

## **IX. STRATEGIES FOR DEVELOPMENT**

If Sri Lanka's poultry industry is to face up to the expected demand, it is essential that the industry maps out a strategy for development taking into account the experiences of other poultry producing countries and the realities of the macro-economic environment.

It was noted above that low-cost poultry producers had access to improved technology, cheap feed and economies of scale. An appraisal of Sri Lanka's poultry industry reveals that it does not have any of these critical success factors that ultimately result in a competitive advantage.

With the government's policy of encouraging free trade, the competition to the poultry farmer can come, not only from domestic sources, but also through cheap imports. To remain competitive it is imperative that the Sri Lankan producer increases productivity.

### **1. Poultry Feed**

Poultry feed amounts to 60% of the total cost of production. As evident from Table 3 (page 7), Sri Lanka's poultry feed cost is comparatively high. The main reason attributed is the cost of imported raw material which has increased rapidly in recent months. Even though prices of maize, soya meal and fish meal display cyclical trends, the impact of GATT and WTO regulations has forced up the prices. Added to this, a depreciation of the Sri Lankan rupee will further aggravate the problem. If the Sri Lankan poultry industry is to be competitive, a strategy to reduce the cost of raw materials for feed production has to be explored. Can we grow our own maize and soya bean and produce fish meal at more competitive prices than what we can expect from imports? What is the opportunity cost of doing so? These are some of the questions that need to be addressed.

### **2. Economies Of Scale**

The issue of the poultry industry providing employment is as much a political issue as an economic one. The questions that need to be asked is whether encouraging the poultry industry as a backyard venture actually does more harm than good, ultimately leaving behind a trail of bankrupt businesses and unpaid loans. If we are to learn a lesson from the world outside, it does not seem feasible to encourage the small farmer with limited resources to engage in a highly competitive industry with small profit margins. The losers of a continued adherence to such a strategy are not only the consumers who have to pay high prices, but also the small farmer who lacks the resources to survive in the volatile environment.

### **3. Partnership Between The Government And The Private Sector**

Many government spokesmen have emphasised non-intervention in the market as the hallmark of its "Even Playing Field" strategy. However, real world experience shows that no country has ever developed with the government playing a neutral role. The east Asian example is proof of this. As with other sectors, what is required is a partnership between the players in the poultry sector and government agencies. As the Minister for Industrial Development eloquently said in his address at the CIMA National Conference on 24<sup>th</sup> May 1996, "if the private sector is the engine of growth, then the engine driver should be profit". A strategy needs to be developed as to how the government agencies such as the Department of Agriculture and the NLDB can co-ordinate with the private sector in improving productivity and the competitiveness of the poultry industry. In the event the strategy followed is one in which small scale production is encouraged, the partnership between the government and the producers becomes not only necessary, but imperative.

REFERENCES

Drew C. Sri Lanka Poultry Sector Assessment, Special Issue, AgEnt, October 1993.

Henry R. & Rothwell G., The World Poultry Industry, International Finance Corporation, 1995.

Broiler-meat Production Cost Comparison, Poultry International, January 1996.

Asia's growing role in production & trade, Poultry Market, Far Eastern Agriculture, November/December 1995.

The Poultry Industry in Sri Lanka, John Keells Stockbrokers (Pvt) Ltd, 30 June 1995.

Policy & Programme, Ministry of Livestock Development and Rural Industries, March 1995.