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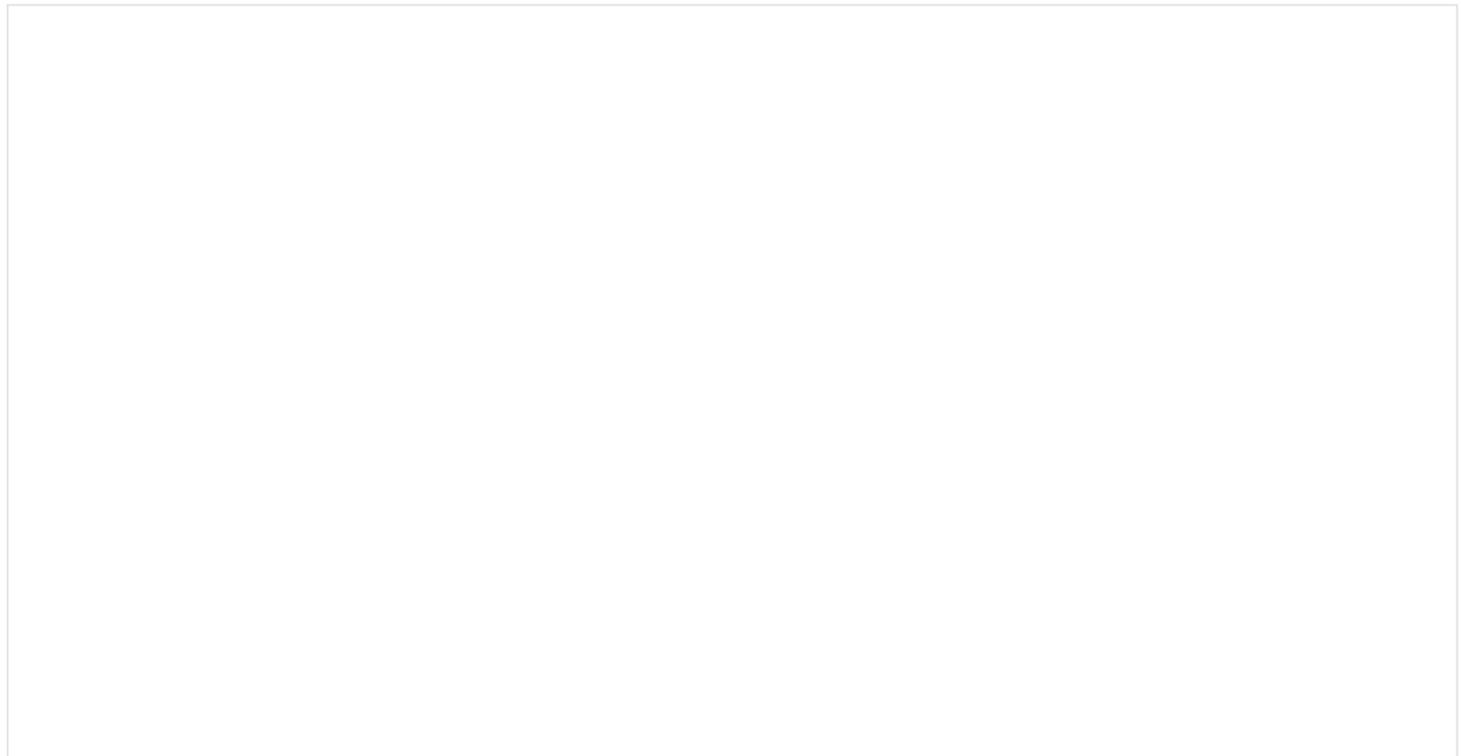
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Price impact on our organic rice farming

2015-07-23 08:02:18

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By Chatura Rodrigo

Developing the organic rice farming sector and ensuring that it makes a significant contribution towards the rice consumption in Sri Lanka is a necessity today.

However, for the past decade, the spread of organic rice production in the country was limited to marginalized lands. Many farmers cultivate for their own consumption; while only a portion of rice is sent to urban markets. This too targets a selected segment of consumers, mostly the upper middle income and high income groups. While many argue that the slow growth in the sector is due to the difficulties in production, one cannot ignore that the high price of organic rice has a possible impact on the reduction in the demand for consumption.

Why organic rice?

Organic rice is healthy, toxic-free and produces valuable Ecosystem Goods and Services (EGSs) such as improved soil productivity, reduced water pollution and increased bio-diversity. While consumers prefer organic food due to health concerns, not all of them are conscious about the environmental benefits and may not be aware of the concept of EGSs. Therefore, it is safe to argue that the driving force for organic rice demand is its health benefits.

Traditional rice varieties that are known for many positive health impacts are mostly used in organic

farming. Some such varieties contain a low glycemic index, suitable for diabetic patients; some for people with cholesterol, while some help ease off the effects of chemotherapy for cancer patients.

The farmers who have been cultivating and consuming traditional rice for years, have always been aware of these health benefits, and the researchers of Industrial Training Institute (ITI) of Sri Lankanow has scientific evidence of these benefits. In addition, the application of organic manure prevents toxic material from being absorbed by the rice plant.

Chemical fertilizer, especially Triple Super Phosphate (TSP) has the probability of releasing heavy metal to the soil, which can be absorbed by the plant or being washed into the water streams polluting the surface as well as ground water. Therefore, the rice varieties as well as the way it's cultivated defines the good quality of organic rice.

Among the EGSs produced through the organic rice farming systems the major ones are soil quality improvements, reduction of water pollution and improving the biodiversity. On average, an organic farming system can change all these factors to the positive side by 5-10%. Therefore, contribution of organic rice farming to the environment is significant and important.

Price issues

Organic rice does not have a controlled price. There are several major organic rice varieties in the market. Some popular ones are "pachchaperumal, KaluHeenati, WedaHeenati, SuduHeenati, KuruluThuda, MadaThawalu, Pokkali, Masuran and Rath Kanda".

On average, the price of a 1Kg packet will be between Rs.150 and Rs.200. However, the prices differ, based on the variety, area of cultivation and other factors. The price difference based on rice varieties is on average Rs.20 to Rs.30. The price difference based on area of cultivation is on average Rs.30 to Rs.50. For example, a kilo of organic rice of a specific variety in the Matale district is higher than the same variety in the Galle district. The prices are cheaper in Colombo and Gampaha districts compared to Matale, Galle, Anuradhapura, and Kurunegala districts. Organic farming practices also vary according to the areas.

Farmers in some areas use imported organic fertilizer, which costs around Rs. 3000 for a 50Kg bag, while some only uses livestock manure and green matter as organic manure. The price of organic rice is high in areas where the input cost is high in terms of organic manure. In some areas the farmers practice organic farming in close association with the religion. Therefore, their cultivation practices are based on auspicious times, or chanting and offerings to gods. In such situations, there's a high probability of increased rice prices as farmers try to compensate such good practices through pricing.

There are farmer organizations and networks who closely work across Sri Lanka who makes efforts to implement a uniform price for a given variety. However, this attempt has shown only a little success since farmers do not always sell their produce through farmer organizations, as they have directly established links with consumers, retail shops, and supermarkets.

The need for organic certification body

Organic certifications for the sector are not provided through a certified body; instead they are based on reputation and word-of-mouth recommendations. Some farmer organizations have established a good reputation through media, and there's a higher chance of consumers regarding these products as organic. Some have established links with reputed people such as doctors, religious leaders and local politicians who recommend their products as "true organic".

Therefore, while such farmers have the opportunity to sell their produce at a higher price, others tend to sell at a lower price. Some small scale producers tend to supply their produce to farmer organizations that operate with reputation. That way they do not have to spend money on marketing their products by themselves, forgoing the opportunity cost.

As mentioned earlier, consumers purchase organic rice mainly because they want a healthy and safe product. Therefore, when standard certifications are not available, a consumer would look for reputation and recommendation. In such situations, small producers without any recommendation or reputation are driven off the market forcing them to abandon organic rice farming or only cultivate for self-consumption.

The high price of organic rice also prevents middle income and low income families from purchasing the products denying them the health benefits of the same. There are some families who purchase organic rice for the consumption of their children, as the entire family cannot afford the products. Whether it is from a reputed and recommended source or not, the price of organic rice is higher than inorganic rice, with sometimes a price difference of about Rs.100. Therefore, for a poor consumer, the opportunity cost of forgoing healthy and safe food is lower than his willingness to pay for organic rice. Hence, due to the high price, organic rice may not be a preferred option for lower middle income and poor consumers away, which in turn threatens the demand for organic rice.

What can be done?

It is important to control the price of organic rice and reduce it to a level that can be consumed by all consumers. If not, organic rice will be a luxury commodity produced by large-scale farmers at commercial level, and purchased by upper middle and higher income groups. Researches have shown that urban consumer are willing to pay between Rs. 80 and Rs. 125 for a kilo of organic rice. This is even low among rural consumers. Therefore, a significant price reduction is needed to increase the consumer base for organic rice.

There are many things reflected in the price of a commodity. Most importantly it reflects the cost of production. The price difference between organic and inorganic rice essentially represents the opportunity cost of producing organic rice without using agro-chemicals and fertilizers, compared to inorganic farming. Therefore, in order to reduce the rice price, it is necessary to reduce the opportunity cost of producing it.

While there are many government interventions, such as the fertilizer subsidy and seed paddy subsidy for

the inorganic rice production, there aren't any such interventions for organic rice farming. What is available is training programmes, awareness programmes and distribution of equipments to make organic fertilizer. While such interventions are necessary to boost the organic paddy farming sector, they do not necessarily reduce the opportunity cost.

Major policy interventions to reduce the opportunity cost of supply in organic rice include providing subsidies for seed paddy purchasing, and organic fertilizer and mechanization. A kilo of seed paddy used in organic farming is around Rs.100, which is nearly two times higher than the price of inorganic seed paddy. Manufacturing organic fertilizer require a lot of labour time. As mentioned earlier, a bag of organic fertilizer is 10 times higher than a subsidized bag of a chemical fertilizer. Since organic paddy fields are small, the possibility of achieving economics of scale is low; as a result the cost of machinery and labour use is high. Therefore, the introduction of financial assistance in terms of grants or loans to purchase machinery is also essential. Such policy interventions does not necessarily have to be implemented at framer level; implementing these at farmer organization level will also help address the price issues in the organic farming sector.

(Chatura Rodrigo is a Research Economist at the Institute of Policy Studies of Sri Lanka (IPS). Findings of this article are a part of a forth coming publication conducted in collaborated with the IPS and The South Asian Network for Development and Environmental Economics (SANDEE)).

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