

Article

Milling Economics & Concentration of Market Power in Major Rice Milling Zone Polonnaruwa, Sri Lanka

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Abstract

The processing segment plays and will play a vital role in expanding of the agribusiness sector in developing nations. However, this should strengthen agricultural markets without generating unnecessary pressure and distortions. Paddy processing is one such industry in Sri Lanka, which has enormous potentials for the development. However, inherent complexities and nature of the industry raise serious questions regarding its operational mechanism and the market power. The purpose of this study is to investigate the milling economics and the market power of the rice milling industry in Sri Lanka. Study adopted explorative research methods. Polonnaruwa district was selected as the study location and data was gathered purposively from paddy mills (n=12), paddy collectors/brokers (n=10) and rice wholesalers/retailers (n=10). Concentration Ratio (CR) together with the Porter's five forces were used for the assessment. Present capacity of four largest mills in Polonnaruwa ranged between 150 – 400 MT of paddy per day and utilized nearly 405,000 MT of paddy annually. Direct and indirect costs for milling rice was Rs.5.26/kg and Rs.5.62/kg respectively. Additionally Rs.2.50/kg and Rs.2.00/kg were incurred for packaging and transportation to Colombo. The CR of four largest mills in Polonnaruwa was 50 percent with a concentrated market power. Five forces in the industry were also favoring the millers providing more market power. This strongly implied the oligopolistic/oligopsonic nature of the paddy millers in Polonnaruwa. Medium scale millers should be encouraged to establish modern automatic mills in high surplus producing rural areas with timely updated databases covering all island.

Keywords:

agribusiness, concentration ratio, five forces, market power, paddy milling