

Present Situation and Prospects of Cinnamon Industry in Sri Lanka

**Rasika Wijesinghe
Subashini Perera
Prasanna Wijesinghe**

Research Report No: 203

January 2017

**Hector Kobbekaduwa Agrarian Research and Training Institute
114, Wijerama Mawatha
Colombo 7
Sri Lanka**

EXECUTIVE SUMMARY

Although Sri Lanka's cinnamon industry has shown a steady growth in terms of value of exports during the recent years, the annual export volumes of cinnamon remained almost constant indicating a trend of increasing unit price. On the other hand, there has been hardly any improvement in value added sector and the share of the value added products to the total cinnamon exports is very low when compared to the strongly established bulk market. Therefore, this study attempted to examine the long term trend and estimate the growth rate and instability of cinnamon exports with a view to identify the international markets for Ceylon cinnamon and market diversification and identify key issues of the cinnamon production and export sectors. The study was carried out in two selected districts, Galle and Matara to collect primary information on production through a structured questionnaire. In addition, twenty main exporters identified by the Export Development Board (EDB) were also interviewed.

The study findings show that major export items of cinnamon are quills, quillings, retail packs, crushed or ground cinnamon, chips and cinnamon oils. Though cinnamon tablets, cinnamon tea, energy drinks, tooth picks have been introduced in Sri Lanka, these industries are still in its infancy due to competition in world branded cinnamon by-products produced in developed countries. Among these major exporting items more than half export value comes from exports of quills, retail packs and cinnamon oil export respectively. As per the results the share of the cinnamon exports from the export turnover was 60 percent in 2007 marginally reducing in 2012 due to increase in pepper export earnings. Meanwhile cinnamon export volume is increasing by four percent annually with low instability. According to the estimated results of the growth rate analysis the highest growth rate was recorded in exporting cinnamon retail packs.

Although there are about fifty export destinations for Ceylon cinnamon, top three countries are Mexico, USA and Peru where the demand is more than half of the total cinnamon exported. Unnecessary competition with cassia, inadequate supply, awareness of the importance of acquiring the Ceylon cinnamon logo, constraints of enhancing value added industry, lack of skilled peelers, poor quality products, unnecessary competition of local cinnamon exporters were identified as key issues in the cinnamon export sector. When the country's cinnamon production sector is taken into consideration low productivity of cinnamon resulted mainly due to poor maintenance of plantations and not harvesting the crop on time due to shortage of peelers and this situation badly affected the cinnamon export

sector as the country may not be able to cater to the export demand throughout the year. On the other hand, absence of proper processing facilities and unawareness of the quality parameters has caused quality degradation of cinnamon products.

To ensure quality export products market awareness for identifying true value of cinnamon and differentiation of pure cinnamon from cassia is required. At the same time government should facilitate in providing international exposure to exporters in order to identify the buyers' behavior and priority markets and new markets to promote and diversify cinnamon export destinations as well as existing value added products. In addition, it is important to initiate market promotional programmes for these products. Also a mechanism should be introduced by the government to stabilize the cinnamon export prices. Recommendations are increasing the cinnamon production to cater to export demand throughout the year, initiating awareness programmes for producers and collectors regarding maintaining quality, investing more on mechanization and modernization of cinnamon industry and conducting training programmes for cinnamon peelers to motivate younger generation for these activities.