

THE AGENCY HOUSES

their past, present and possible future

In April this year, the six hundred and forty-one page report of the Commission of Inquiry on the Agency Houses was finally released to the public. The event was significant in many ways. It was a long awaited report. The Commission was appointed in June 1971 and their report completed 3 years later, in August 1974; and released in May 1975 — one of the longest gaps, between the date of appointment and final release of a report, in the history of Inquiry Commissions in this country. With the scope of the Inquiry so far reaching, so sensitive a subject being dealt with and so unresponsive a stand by those from whom information was sought the delay was not surprising. Speculation was mounting as to why the report was not being released. The cynics felt the delay was because the report was favourable to the Agency Houses; others thought it was too radical. Within days of its being put out for sale all copies were sold at the Government Publications Bureau, even though it was priced at Rs. 25/25. This was possibly an indication of the public demand for the report, unless a few bought up many copies of it.

The report documents in detail, the working of the plantation sector of Sri Lanka's economy, specially the manner in which it is controlled by the Agency Houses in Colombo. This entire issue has now come up stronger than ever before and the debate in the minds of various sections seem to grow. Speculation is ripe on the future of the Agency Houses — will they continue as they are or come to be closely controlled or be done away with altogether? So much for the thoughts of the future. It is necessary, however, to view their past and present functioning in order to assess how the Agency House services could best be performed in the future.

Black Man's Burden

The Europeans first came to Sri Lanka for commercial and business purposes, the Portuguese and Dutch being more interested in commerce rather than in agricultural production. Thus the spices such as cinnamon were gathered and transported to Europe in order to make their food tasty specially in the long winter months. It was the British who first conquered the entire country including the Kandyan area and the situation in which Sri Lanka finds itself today with reference to the plantation economy was determined by British rule during the 19th century. Britain replaced much of the traditional agriculture with more profitable plantation crops. Vast areas of land in the hill country were taken over by British planters at very cheap prices with the support of the British Government. Hundreds of thousands of acres thus passed from the explicit or virtual ownership of the people of the country, specially the Kandyan peasantry, to the British Plantation

companies. In the Low Country a few families had become rich either in the service of the British Government, the plantations or through trade they bought up many acres for the cultivation of coconut and rubber. Thus in the second half of the 19th century a large scale land alienation took place, a sort of enclosure movement. The present land reforms are an effort to deal with some of the problems resulting from this earlier land takeover and the marginalization of the poorer indigenous population.

Coffee was the first crop that was introduced in this manner, but by the 1870s this had given way to the even more profitable and successful tea crop. The British acquired a taste for tea, particularly good quality black tea that Ceylon can produce so well. Even though large areas of rubber and coconut were planted tea was a favourite and even today nothing can oust its importance for the Ceylon economy for the British-Sri Lanka relationship. In order that the British housewife

could regularly serve and enjoy her four o'clock cuppa, this country had to produce the tea leaves while sugar would come from the colonies in the Caribbeans. The imperial power was also used for bringing about half a million labourers to the plantations from South India. In 1827 there were 10,000 Indian Tamil estate population in this country. By 1946 the figure stood at 666,000. We nearly had a large influx of Chinese populations as in Malaya because it was cheaper to get down Indians from South India. The plantation industry also built new roads and railways, a modern harbour, a colonial administration and health services in the estate regions. Thus even today the system of roads and hospitals is far better in the Central Province than North Central Province or Lower Uva.

While the plantations gave Sri Lanka a regular source of foreign exchange and developed certain skills of cultivation and management it also distorted the economy by making us dependent on foreign countries for the import of essentials such as food, textiles and even light industrial consumer goods. An economy that was earlier fairly self-sufficient, though at a rather low subsistence level, was rapidly opened up to the world market economy.

Need for Agency Houses

The form in which British enterprise was established in the plantations was that of private companies, joint stock companies and individual holdings. The management on the estate was entrusted to the superintendent and officials subordinate to him. Between the owners who were often absentee land lords residing in Britain or in Colombo and the Superintendents on the estates, it was necessary to have some authority co-ordinating the running of the estates and disposing off their produce. This was the reason for the Agency Houses to develop.

"The first agencies of the plantation industry in Sri Lanka were the coastal agents residing and operating in Colombo, who performed various services required for the developing plantations, which the pioneer planter in the hill country could not attend to on his own. The processing of coffee, sales, the arranging of shipping facilities, procurement of supplies and the provision of credit were the early functions. With the accretion of larger functions around these coastal agents in Sri Lanka, as in Malaya, and with the development of a closer identification of agents with the planting interest, there came into being the first and the corporate bodies, the Agency Houses".

The system set up was one in which the whole network of relationships from production to consumption was owned and controlled by the British, the brokering, accounting, insurance, banking, wholesaling and retailing in Britain, and from there to the rest of the world. The British were superintendents of the estates, their Agency Houses in Colombo and London made the major decisions regarding management, buying and selling of tea. The economic system was one in which labour was very poorly paid and the management was top heavy and highly rewarded. The owners obtained high dividends. The consumers themselves in Britain got tea at a relatively cheap price: whereas goods imported from Britain were relatively high priced as British labour was paid much better wages.

Colonial System Continues

After Independence in 1948, apart from the ownership of some estates, the whole chain of control over tea continued as before. The Government has been able only to break into sections of it as in insurance, banking, shipping or packeting.

Since World War II and particularly after Independence and the socio-political changes that followed, the position of the Agency Houses have undergone considerable change —

- (a) There has been a withdrawal of capital from Sri Lanka over a period of time.

- (b) A Ceylonization of capital of some of the principal Agency Houses has taken place.
- (c) The foreign interests based in Britain began to operate in Sri Lanka through the Agency of Sri Lanka's own nationals, sometimes operating as corporate bodies.
- (d) Development in the 1950s of the new global phenomenon called "new mercantilism", "market imperialism" and "neo-colonialism". Through a wide nexus of controls and the intermediary of a well rewarded local elite the foreign capitalists were able to obtain the same returns or more than even earlier.

Significance of the Agency Houses in the National Economy

In assessing the role of the Agency Houses in the plantation economy it is also necessary to remember that Sri Lanka, despite several important strides in the direction of diversification of crops and the encouragement of 'non-traditional' exports, is still dependent for a large part of her national wealth and much of her foreign exchange earnings, on the

The large Agency Houses have imposed a uniformity in practice on most of the smaller agencies. Most significantly on account of the levers created throughout the entire estate sector by inter-corporate share purchases made through captive investment companies, the Agency Houses together with the Brokering Firms have reached a position of well-nigh total control.

Over the years a concentration of economic power has grown among a few Agency Houses which control over 60% of the tea plantations. George Steuarts control 17.6% of tea acreage managed by Agency Houses; Whittalls 14.7%; Carson Cumberbatch and Leechman 14.9%; Consolidated Commercial Agencies 8.5%; Harrisons and Crosfield 6.1% and James Finlays 5.0%. These six control over 2/3 of the estates under Agency.

The table below from the Agency Houses Commission report shows the position of the Agency Houses in relation to the total acreage managed by them and the quantities of tea and rubber produced under their management in 1970 and also shows the significance of the Agency Houses in the National Economy.

Significance of the Agency Houses in the National Economy

	Tea	Rubber	Coconuts
Total produced	468 mil. lbs.	350.9 mil lbs.	2,447 mil. nuts
Produced by estates managed by Agency Houses	291 mil. lbs.	96 mil. lbs.	86 mil. nuts
2 as a percentage of 1	62.1	27.3	3.9
Gross National Product contribution by estates under Agency Houses	6.21	1.09	—
Total Acreage	597,499	568,960	—
Acreage under Agency Houses	279,845	119,207	—
2 as a percentage of 1	46.8	20.9	—

three traditional crops, tea, rubber and coconut. The Agency Houses can be said, in consideration of all their activities taken together, to exercise a great influence over this most important sector of the country's economy. "Monopoly has developed in the Agency Houses themselves through mergers, the creation of affiliates and subsidiaries and the formation of inter-locking directorates," according to the Commission on Agency Houses and Brokering Firms.

The figures given in relation to the Gross National Product although sufficiently high for the purpose of this argument, are nevertheless relatively less important. It is in regard to foreign exchange earnings that the position is one that has a large significance. In 1972, out of a total of Rs. 1,942 million earned by Sri Lanka's exports the earnings from tea amounted to Rs. 1,154 million and from rubber Rs. 265 million. Although the days of the

"Planter Raj" are over, there is little doubt that the private sector Agency Houses operating in Sri Lanka today and exercising an influence over this large area of the country's economy represents a concentration of economic power in a few hands.

BRITISH AGENTS

The Agency Houses were established by the British in Ceylon during the heyday of their imperial rule, for the benefit of interests in Britain. The maximum profit was to be obtained by transforming the economies of the colonized countries for the advantage of the "Mother country"—Great Britain. The natives in effect were to be given a minimum in return for their labour and resources whilst the British were to benefit from the control of production and distribution.

Functions

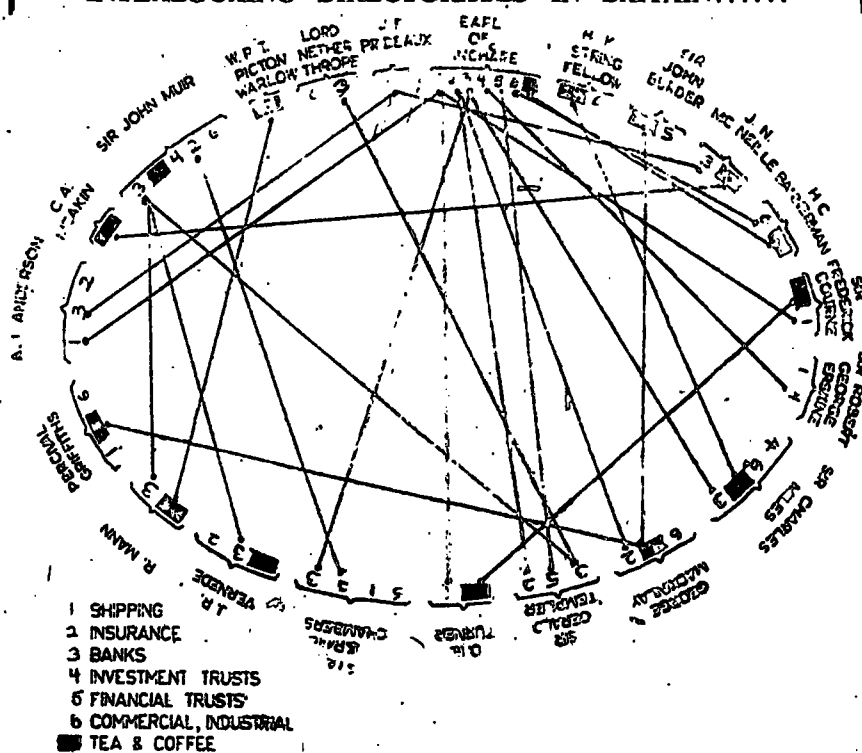
The Agency Houses were set up in London and Colombo and had responsibility for estate management including :

- (a) control over the budget, cultivation methods, manufacturing processes, the appointment and supervision of the higher grades of the plantation hierarchy.
- (b) secretarial and accounting services, credit and financial policy.
- (c) procurement of estate supplies.
- (d) advice on taxation, handling of exchange control matters, remittances of dividends and Head Office expenses to British interests.
- (e) as insurance agents for firms.
- (f) as shipping, transportation and storage agents.
- (g) management of Estates of rupee companies which asked for their services.
- (h) other services to estates: in engineering, legal and technical problems.

While each of these functions was a necessary service, and there was an advantage in grouping them together under one "House," the manner and purpose for which they were rendered was to benefit the

Continued on page 8

INTERLOCKING DIRECTORATES IN BRITAIN.....

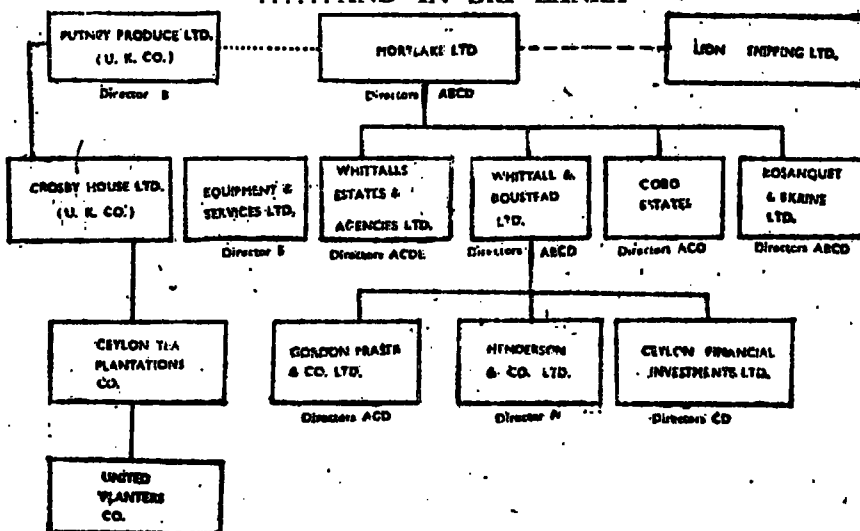


(Year: 1965)

One of the features of the tea trade has been a high degree of concentration of control through interlocking directorates in Britain and Sri Lanka. "Given this ramification in the ownership and control of the tea industry, there is a possibility of an alignment of interests of the financier, the producer, the broker, the transporter, the blender and the distributor. It is possible, however, that the views of the producer and those of the producing countries on important aspects of the industry (such as lowering production costs and seeking out the most profitable markets for its products) might diverge". (A. S. Jayawardena and Nalin Jayapalan, Central Bank of Ceylon).

The following two diagrams illustrate the phenomenon.

..... AND IN SRI LANKA



A	S. Cumarasamy
B	D. A. Neale
C	P. G. Uglow
D	J. D. N. Banks
E	R. Wijeratne
F	A. L. de Montfort

The dotted line indicates Companies linked through Directors only.

The broken line (---) indicates Companies linked through relations of directors. Lion Shipping took over the agencies previously serviced by W. Boustead. The principal shareholder (5-7-67) is a very close relative of the Chairman of W. Boustead. (Agency Report p. 44, para 12).

(Source: Registrar of Companies & S. Candappa, Centre for Social and Religion.)

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foreign owners. Hence they developed methods or modes of exploitation in regard to each of these functions. Exploitation was their goal, these services were means for it. As good businessmen they performed these tasks well to their maximum advantage. Being British "gentlemen" they made the exploited feel that their agencies were really serving the colonized people. They built up an educative system, a means of advertising and life styles within the country which softened the sensitivity of the native elite to the exploitation. The entire economic, political, legal, educational and social system of the country was adjusted to suit their priorities.

We can thus see how the power and profit of the Agency Houses and their masters increase with the combination of these functions under one House and a group of interconnected houses.

Estate Management

The Agency Houses and Tea Companies have been responsible for the setting up of the rigidly pyramidal and hierarchical system on the estates and in the industry at large. This is a pyramid of wide disparities in wages, life styles, opportunities and relationships. The plantation companies built up a highly stratified social system in the country. At the base of the pyramid was imported cheap labour from South India who were in semi-slave conditions, in labour camps. The labourers were paid a subsistence wage — just enough to survive, work and reproduce. The Indian labour was brought in and controlled by a class of middlemen *Kankany's* who were paid according to the number of workers reporting for work on an estate, who thus had a vested interest in making the harsh system work.

Above them are the subordinate staff of Tea-maker and clerks who had a lower middle-class status in the estates. They had quarters separated from the "lines" of the labourers. The supreme authority on the estate was the Superintendent helped by his assistants. His life style was that of the upper class in the country, his income among the highest of earned incomes. The

Continued on page 12

Government Corporations replacing functions of Agency Houses

Over a period of years some of the functions of Agency Houses have been taken over by the following State Organisations in Sri Lanka.

- Tea, Rubber and Coconut Research Institutes.
 - Ceylon Insurance Corporation — takes over insurance work.
 - Fertilizer Corporation — has now a monopoly of import of fertilizer.
 - Shipping Lines — a part of the transportation by sea.
 - Freight Bureau — distribution of freight.
 - Bank of Ceylon and People's Bank — Banking, foreign exchange transfer.
 - Consolidated Exports — enters packeting and sales in foreign countries too.
(In 1973 accounted for nearly 1/8 of Sri Lanka Tea Export.)
 - Petroleum Corporation — supplies oil and agro-chemicals.
 - Building Materials Corporation and State Engineering Corporation — handles building operations
 - State Trading Corporation — importation.
 - Plywood Corporation — Tea Chests.
 - State Plantations Corporations — Management of Estates.
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company directors and Agency House Directors ruled from Colombo and London. Their salaries and perquisites were several times more than that of labourers and subordinate staff.

The Commission reported—"The rigid class division that exists on the estates can be seen in the most dramatic form in the glaring disparities in the housing provided to the management, the staff, and the workers. The pattern is identical on all estates, and conforms to the traditional 19th century class stratification which was introduced by the British. The pattern of 'bungalows' for the management, 'quarters' for the staff and 'lines' for the workers has been preserved in all estates and Agency Houses have not made any attempt to alter this traditional policy with regard to housing".

Being the world's leading tea trader and exporter for nearly a century Britain built up a complex of planting, financing, transporting, blending, packeting and retailing firms which came to dominate the world's trade in tea. This complex of functions and services were built up by the 'Giants' in the plantations industry through a wide network of Holding Companies and Agency Houses. These Agencies soon performed services vital for the plantation industries; and the geographical spread of interests intimately associated with Agencies into the principal producing centres en-

abled them to gain wide control over the world's production and marketing of these commodities. In the case of tea, for instance, this has caused problems where the Agency Houses acting as representatives of tea estate Companies had also to act on behalf of overseas buyers.

The activities of Agency Houses in this country, over the years, have revealed these same tendencies. The Agency Houses Commission has gone to the extent of showing how these Houses have attempted to increase their profits at any cost (see Box page 10). Even in the actual sales of the end product the prevailing system has resulted in foreign exchange losses to this country (see Box page 11).

With the field appearing less open for British interests, the migration to East Africa was also stepped up (see 'Tea Drain'). Meanwhile Sri Lanka has kept adjusting to the situation and encouraged as many of its own State Institutions to handle the services performed by the Agency Houses:

In recent years the feeling has kept growing stronger, particularly among the two major producer countries, Sri Lanka and India, that the world's tea trade is not as competitive as it is generally made out to be. They were convinced that the producers have not realised the prices they would have in a more competitive market. Intervention by the F.A.O. and a resultant Commodity Agreement has somewhat eased the position but efforts at arriving at a "floor price" where producers will receive a minimum price for export tea has yet not met with the co-operation of the East African producers whose relationship with the Agency House interests is very clearly interlinked. Once again, the migration of tea to East Africa is proving a blow to Sri Lanka's interests.

The whole issue has surfaced strongly in recent weeks with the findings of the Commission of Inquiry on Agency Houses and Brokering firms being made known; with the exposures on British T. V. showing the living conditions of tea estate workers; and with fresh pressures from trade unions pushing the Government towards the take-over of the estate sector as envisaged in its programme.

THE TEA DRAIN

When Independent Sri Lanka and India began to take in more taxes, and when the companies felt insecure in these countries they began to move assets to East Africa.

An effort was made by the sterling interests, principally those engaged in the industry in Sri Lanka, to develop plantation assets in East Africa. Soon after the institution of Exchange Control in Sri Lanka it was noted that some of the profits repatriated by the British estate owners from Sri Lanka and held by Sterling Companies in the U.K., were being employed for plantation develop-

ment in East Africa. Negotiations on this matter by this country proved fruitless. The flight of capital occurred, partly through the transfer of moneys realised from the sale of plantation assets here — some of these being considered to be of low profitability. It also took the form of a transfer of funds that could have been considered to be a part of working capital employed here, the replacement being made by local bank overdrafts. A number of British concerns linked with the tea plantation industry in India and Sri Lanka have strong links with the tea plantation industry in East Africa.