

## AGENCY HOUSES VIEWPOINT

The Agency Section of the Plantation Association of Ceylon despatched a seven-page memorandum to the Prime Minister on May 20 refuting some of the "charges" made in the Report of the Committee of Inquiry on Agency Houses and Brokering Firms.

The memo listed the following seven points as the main charges made against Agency Houses and London Principals.

- (1) They are not efficiently managed.
- (2) They permit the retention of foreign exchange from sale proceeds for periods in excess of the time stipulated by the Controller of Exchange.
- (3) Their development programmes are geared only to meet private profit considerations and not the National interest.
- (4) Remittance of profits and head office expenses have been given priority even at the cost of not incurring local items of expenditure deemed essential for development purposes.
- (5) No free competition in the London Auctions: Collusive action between brokers and buyers alleged.
- (6) With the impact of Sri Lanka's fiscal measures upon them, they had endeavoured more and more to earn their profits outside Sri Lanka than within it.
- (7) Monopoly has developed in the Agency Houses through merger, the creating of affiliates and subsidiaries and the formation of inter-locking directorates. Agency Houses, together with Brokering firms have reached a position of well-nigh total control of the plantation economy.

Taking up each of these seven charges the memorandum makes the following points.

1. **Inefficient Management.** The specific charges on inefficient management referred to shade trees, fertilizer application and accounting systems. The estates were acting on the advice of the T. R. I. regarding shade trees. Regarding fertilizers the State Fertilizer Corporation has not been able to provide supplies. Regarding accounting systems the Company's accounting systems in preparing of estimates to cover the "basic cost" with an element of profit—this was done in exceptional cases. Accounting policies applicable to estates managed by an Agency House varied from company to company.
2. **Violation of the 4 months rule and delay in remitting the sale proceeds within this period or within a 10-day period after payment has been made at the London end.** "Where delays have occurred in regard to remittance of sale proceeds within a specific period, it should be borne in mind that such companies that had not complied with the terms of the undertaking may have had valid reasons to offer for the delay. The report states that in a large number of instances the account sales had not been certified by an Approved Auditor despite the undertaking given by the Agency Houses on behalf of Sterling Plantation Companies that there would be certification. The suggestion was made by the Department of Exchange Control that there should be such certification but it was not implemented because of the cost factor.
3. **Development Programmes.** It has to be understood that

a significant percentage of companies have not been able, over the past few years, to declare any dividend owing to losses incurred by them consequent on falling commodity prices and increased prices of input in order to maintain their holdings at reasonable agricultural levels and also provide for such levies as export duty which had to be paid regardless of profitability. Within these rather restricted and confined limits a detailed examination of the performance of these companies would show that they have perhaps in a greater degree than even the Rupee Companies undertaken factory development programmes as well as replanting programmes. The failure to keep to the percentages required of them in certain cases could, no doubt, be examined individually and explanations offered.

4. **Remittances.** It would be pertinent to point out that the total of Head Office expenses, taxation and dividends should be considered not as a percentage of net proceeds from sale of tea by Sterling Companies managed by the Agency Houses, as this would represent only the volume of teas which have been sent to the London Auctions but rather as a percentage of the total turnover from these Companies. Expressing Head Office expenses as a proportion of London sale expenses (as done in the report) distorts the picture by excluding sales at other centres. Head Office expenses which would be a little over 2% when considered against the total turnover, had necessarily to be incurred as long

as Sterling Companies were permitted to exist. The monies remitted have been done with Exchange Control authority and with the due observance of all Government Regulations.

Referring to Charges 5, 6 and 7 the memorandum states "We can do no better than quote an in-depth report on the Marketing of Tea made by a Specialist Team on Tea Marketing appointed by the Consultative Committee of the Planters Association in India. The report was made in January, 1975 and dealt analytically with the functioning of the Indian and London Tea Auctions.

Referring to the lack of free competition at the London auction the memo states that the study team is of the opinion that the various charges of collusive under-selling by broker/buyer communications are without foundation and reflect ignorance of the mechanics of the system of sale through Auctions.

Referring to monopoly through mergers and inter-locking directorates the memo states that the team found no evidence of any international rigging arrangements to cut tea prices down and on the contrary found ample evidence that international market prices function, much as theory would expect inter-linked competitive markets to behave. In fact, the auctions (particularly an internationally linked system of auctions) represented the most natural and fair system of disposal and that it was more important to strengthen this system rather than to find alternatives to it."

The P. A. quotes the C. B.

Nearly two pages of the memo quotes the Central Bank report to back up their case. The memo states: "It will not be out of place to refer to the Annual Report of the Central Bank of

Sri Lanka for the year 1974 which *inter-alia* states as follows:

"The decline in output in the plantation sector is a matter that needs urgent consideration. It could have very serious long-term implications for the availability of foreign exchange in particular and for economic growth, because at present the most serious hindrance to a higher rate of growth is the shortage of foreign exchange. There is, no doubt, that the major plantations will continue to be the largest potential net earner of the foreign exchange for a very long time to come. There are no indications that non-traditional exports, even gems, will effectively displace tea, rubber and coconut as the three major sources of foreign exchange. The country has had no problem in selling all the tea, rubber and coconut that it can produce. The difficulty is that it has not been able to produce more.

"The factors that contributed to the decline in production recently needs to be carefully studied and reviewed in the shortest possible time. Although it is difficult at this stage to clearly determine all these factors some of them are quite obvious. What is even more significant is that the major factors that have affected the fall in productivity have been strictly outside the purview of the industry and the industry itself has been relatively helpless. Since the early seventies a climate of considerable uncertainty has prevailed in the plantation sector with threats of nationalisation and to add to this, commodity prices have also been in a depressed state. As a result of this, there has been an element of neglect in most plantation properties because the level of investment to maintain these properties in good condition has declined. When prices rose in 1974, the industries were not in a position to step up production very sharply in order to maximise the benefits from the boom. In the light of this, the implementation of the Land Reform programme over a short period of time of two years has had the most adverse repercussions from the point of view of export earnings.

"The overall decline in the plantation crop sector could, therefore, be attributed to the sharp curtailment in expenditure and the climate of uncertainty that has prevailed in the last three years since the implementation of the Land Reform Scheme.

"The productivity in the plantation industries in the past has been very largely due to good management and there was little doubt about the quality of management of these estates in earlier years. Furthermore, it is in a climate of confidence and certainty that the plantation industry would be in a position to plough back profits or increase their capital investments through credits from lending agencies."

