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CABINET

EAST AFRICAN GROUNDNUTS SCHEME

MEMORANDUM BY THE MINISTER OF FOOD

I think my colleagues may like to have an account of the present position of the East African Groundnuts Scheme as I found it during my recent visit to the three scenes of operation in Tanganyika.

2. I left London on 22nd May, arriving at Nairobi on 23rd May. On 24th May I and Mr. Plummer, the Chairman of the Overseas Food Corporation, had consultations with Sir Philip Mitchell, Governor-General of Kenya, and officials of his Government. On 25th May I went to Dar-es-Salaam and met Sir William Battershill, Governor of Tanganyika, and officials of his Government. I inspected the port at Dar-es-Salaam and was informed of the transportation problems facing the port and central railway. These problems arise as a result of the general and rapid development of Tanganyika, of which the groundnuts scheme is only one part. But unless resolutely dealt with they may prove a limiting factor on both the scheme and on other valuable dollar earning and dollar saving developments on the territory. (See paragraph 13 below.) On 26th May I went to Kongwa, the first area on which clearance work was begun. After four days in this area I went to Urambo where clearance work has now just begun, and on 1st June I flew to the Southern Province where, according to present plans, nearly two-thirds of the groundnut area will eventually be situated. In this, the largest, most important and most promising area, clearance has not yet begun. It will be begun this year on the basis of improvised communications, but satisfactory development in this area cannot take place until a railway from a temporary port near Lindi, has been completed. This should be early next year. Full development in the Southern Province cannot take place until the permanent port at Mikindani, which I visited on 1st June, has been built. The port will not, I estimate, be completed until two years from now. On 4th June I returned to Kongwa where I spent three more days, and then proceeded to Dar-es-Salaam on 8th June, and had an important further conference with Sir William Battershill and his officials. I then returned via Nairobi, where I addressed the Rotary Club on the groundnuts scheme, and came home via Entebbe, the capital of Uganda, where I had the pleasure of meeting Sir John Hathorn Hall and his officials. I was accompanied throughout by Mr. L. A. Plummer, the Chairman of the Overseas Food Corporation, and Major-General Harrison, the resident member of the Board in Tanganyika.

Transfer of Responsibilities

3. It will be recalled that the scheme could only be started last year by means of employing an existing organisation, the United Africa Company, as managing agents while the necessary legislation setting up the Overseas Food Corporation was being passed through Parliament. The United Africa Company acted as managing agents from the arrival of the advance party in Africa in February, 1947, until 31st March, 1948. On 1st April, 1948, the newly-formed Overseas Food Corporation took over operational responsibility for the scheme. They had, therefore, been in charge of the scheme for only six weeks when I visited Kongwa.

Record of Managing Agency

4. I came to the conclusion that the United Africa Company had performed its functions as managing agency to the best of its ability. There is no doubt that the directors and officers of the United Africa Company threw themselves into the scheme with great enthusiasm. No-one who has seen what they did in their fourteen months of responsibility can fail to be struck with the amount which they accomplished in the face of very great difficulties. If, therefore, I point out the serious mistakes which they made it must be borne in mind that no-one undertaking a scheme of this nature and magnitude could possibly have avoided making some mistakes in the initial period. Nevertheless it is important that we should recognise two serious errors which the managing agency committed in their conduct of the scheme. Otherwise its present position and future prospects cannot be fully understood.

Maintenance of the Heavy Tractor Force

5. The first error committed by the managing agency was, in my view, a failure to appreciate correctly the magnitude of the maintenance problem which would inevitably be presented to them by the operation of several hundred heavy tractors in the African bush. This problem was greatly intensified by the fact that the available tractors had to be purchased (at, of course, a greatly reduced price) from war surplus stores, and by the fact that their condition turned out to be such that they almost all needed overhauling before they could be operated. This situation presented a problem of maintenance such as only the Army or the R.A.F. has ever tackled. No commercial organisation, except, perhaps, the London Passenger Transport Board, has faced anything of the kind. I found that even after the experience of last year, when maintenance had broken down badly, the officers of the United Africa Company were still reluctant to face the necessity of putting in heavy tractor repair shops on an adequate scale and staffing them with a sufficient number of fitters, or of imposing adequate maintenance schedules on the contractors engaged in clearing the bush.

6. This major error is the largest single factor in the delayed timetable of the scheme, by which 1947 perforce became a year of preparation and experimental clearing, and 1948 must be regarded as the first operational year. My own view is that the maintenance shops and establishment have only now reached the point which they ought to have reached almost a year ago. The Overseas Food Corporation is well aware of this situation, and Major-General Harrison, the resident member in charge of the scheme in Africa (who was Lord Mountbatten's chief engineering officer during the Burma Campaign), is fully seized of the nature and magnitude of the maintenance problem. The highest priority is now being given to the establishment of really adequate maintenance facilities; but it will, in my opinion, take a full twelve months before this initial error has been fully overcome. This does not mean that the rate of repair and the standard of maintenance will not begin to rise at once. Indeed it is now rising.

Storekeeping and Accounts

7. The second mistake committed by the managing agency was a failure to envisage the magnitude of the storekeeping and accounting problem. There is no doubt that the managing agency, in its laudable enthusiasm to launch the scheme at the earliest possible date, did not fully face up to its responsibilities in providing adequate storekeeping and accounting personnel in Africa. The problem was undoubtedly a most difficult one. It must be remembered that not only in the case of the heavy tractors themselves, but to a considerable extent in the case of all other equipment, the scheme is being run on the basis of the use of war surplus stores and equipment. This, of course, is highly advantageous in that a part of the initial expenditure thus flows back into the hands of the British Treasury. But no-one who has not witnessed it can fully imagine the chaotic state in which many of the cargoes of war surplus stores arrive at Dar-es-Salaam. I inspected the sorting of tons of war surplus equipment newly arrived from the Middle East, consisting of thousands of hammers, wrenches, spanners, files and other hand tools, inextricably mixed with motor tyres, benches, household goods and equipment of every kind. The greater part of these stores are in potentially good condition, but they arrive in the greatest confusion and it is a task of the utmost difficulty to trace them satisfactorily by means of invoices and other proper accounting procedure. On the other hand, if these goods had not been bought by the managing agency, literally by the ton, as they

were being disposed of in the Middle East, Egypt and elsewhere, the effective start of the scheme might have been delayed by many months and the opportunity for cheap purchases lost.

8. Nevertheless, the result has been that inadequate records of a great deal of this equipment in the early months of the scheme were kept by the managing agency. In this case also the Overseas Food Corporation is fully alive to the necessity of establishing accurate accounting methods at the earliest possible date. I have appointed Messrs. Cooper Bros., the well-known accountants, as the Overseas Food Corporation's auditors and one of the partners of this firm, Mr. Perfect, is spending several months in East Africa engaged in instituting a really satisfactory system of accounting. I had long conversations with Mr. Perfect and I am satisfied that he is receiving the utmost co-operation from the officers of the Overseas Food Corporation. It should be possible to bring the accountancy position under control within, say six months from now.

Necessity for the Transfer of Responsibility from the Managing Agency to the Overseas Food Corporation

9. It had become apparent early this year that the managing agency had made these two grave mistakes, and I took the view that there was little chance of them being able to remedy them in the few months which in any case remained to them of responsibility. In order that really energetic steps should be taken to put the position right at the earliest possible date, it seemed to me imperative that the Overseas Food Corporation should take control. I therefore agreed to the transfer of responsibility at the earliest possible date, that is, 31st March, 1948. This early transfer of responsibility made it impossible for the Overseas Food Corporation to receive from the managing agency a really satisfactory inventory, &c., but for the reasons given in paragraph 7 above, a delay even of several months, would not, in my opinion, ever have produced a satisfactory inventory and accounts. I feel convinced that the early transfer of responsibility provided by far the best method of correcting the position both in regard to tractor maintenance and accounts, and in the general conduct of the scheme. The real truth seems to be that the scheme has proved too large an undertaking for any private firm, even in the case of so considerable an organisation as the United Africa Company. It is probable that only a public corporation, backed by the resources of Government, can adequately undertake a task of this magnitude.

Prospects of the Scheme

10. My colleagues may have noted that both in my speech at Nairobi and on several occasions since my return, I have been at pains to warn the public that the scheme will certainly both take longer and cost more than was foreseen in the original White Paper (Cmd. 7030). This is not only because of the above-mentioned mistakes on the part of the managing agency. The technique of clearing the bush and of subsequent agricultural operations undertaken on this great scale can only be learnt by experience. Even taking 1948 instead of 1947 as the first year in which clearing really began, it may be asked whether the full development of the scheme will be realised in the 5-year period envisaged in the Wakefield-Martin-Rosa Report and the White Paper. It is quite possible that the period of development will last over 6 or even 8 years instead of the original estimate of 5 years. On the other hand, there may be a remarkable degree of acceleration once the initial capital equipment in the form of ports, railways, roads, buildings, heavy tractors in running order, &c., have all been established. However, the scheme is now under way and an appreciable acreage should be cleared by the end of this year. And so far as I could ascertain no insurmountable obstacle had arisen to the ultimate development of the scheme to its full proposed magnitude or even beyond it.

11. I have also taken care to make it clear that the initial capital cost of the scheme will be larger than estimated. This is for two reasons. First, the cost of almost everything which the Overseas Food Corporation has to buy for the purposes of the scheme has increased greatly since the original estimates were made. For example, the prices of petrol, diesel and lubricating oil have all increased by between 30 and 50 per cent. In a word, the scheme is not exempt from the effects of the world-wide inflationary process. Second, it is also clear that the initial capital or non-recurring costs of clearing the bush and establishing

all the plant and equipment necessary for cultivation were seriously underestimated by the Wakefield, Rosa, Martin Mission even apart from the rise in world prices. For example, as stated above, the amount of maintenance equipment and personnel necessary for the heavy tractor force was by no means adequately envisaged. Again, it seems clear that more tractor hours per acre than was originally estimated will be needed in clearing the bush. This is mainly because the initial processes of flattening the bush and pushing aside the scrub and trees into "windrows," will have, it is now clear, to be followed by rooting operations by which the tangled mass of roots left below the surface are broken up and cleared. It is not possible, in my opinion, to give any estimate at this stage of the increase of capital costs which will be attributable to this factor. This is mainly because experience has so far been almost entirely confined to one area, *i.e.*, Kongwa. The bush encountered in the other two areas is of a different character. This does not mean that there will be no rooting problem in these areas, but the problem will be a different one and may be in some of the areas a much smaller one. Again the rooting process may be facilitated by starting the rotation of crops in some areas with sunflowers rather than groundnuts. Or again it seems probable that the rooting problem is much more manageable if the initial clearing work is done in the wet rather than the dry season.

12. How all these (and many other) factors will interact on what turns out to be the final cost of clearance per acre, it is quite impossible to judge to-day.

Economic Justification of the Scheme

13. The fact that the scheme will take longer and cost more than was envisaged does not distinguish it from other major pioneering enterprises. Nevertheless, the extent to which the capital cost may be increased would be a matter of the gravest concern but for two important considerations:—

(a) The initial non-recurrent cost of clearing the bush is not, of course, the major factor in determining the cost per ton at which groundnuts and other crops will be produced. Rough calculations which I have had made in my Department seem to show that a doubling of the estimated capital or non-recurrent costs would in itself only add between £1 and £2 to the cost of production per ton—according to whether the capital charge were amortised over 33 years, or over 99 years which is the full term over which the Overseas Food Corporation possesses an option on the land. The main factor in determining the cost of production per ton will, of course, be the costs of the *agricultural* operations, since they will be annual, recurrent costs. It is true that the rise in world prices, for example, the increase in the price of petrol, oil, &c., will inevitably increase these recurrent agricultural costs also. It is as yet too early to form an estimate of whether these agricultural and recurrent costs were under-estimated, apart from the rise in the prices of supplies, &c.

(b) There is, however, in my view another consideration of overriding importance, which justifies, and indeed necessitates, the prosecution of the scheme with the utmost vigour. And that is that the economic justification for investing a large amount of public money in the provision of a new source of oils and fats for this country in particular, and for the world in general, has greatly increased since we decided to launch the scheme. The original White Paper envisaged that the cost of production of groundnuts would be some £18 a ton and that they would be sold during the first three years at £30 a ton and after that at £20 a ton. If there was now any likelihood that world prices of oils and fats would fall to the lower of these levels, the economic soundness of the scheme might be in question. Fortunately for the scheme, though unfortunately for our balance of payments position as a whole, this is far from being the case. On the contrary the prices of oils and fats have risen continuously and steeply since the scheme was launched. We are at present paying India £68 a ton for groundnuts and we have recently paid similar prices to the Argentine for other equivalent oils and fats, and for the bulk of our groundnut supplies from West Africa we are paying £41 a ton. I sincerely trust that groundnuts, and oil seed prices in general, will not remain at these astronomical levels; and no doubt one of the most useful effects of production from the East African scheme will be to help to stop the precipitous rise in oils and fats prices which we are experiencing and to begin, if possible, to depress them. But it will be seen that an increase of even many pounds a ton in the estimated costs of production of the scheme and a considerable drop in oil seed prices will still leave a wide margin of profitability.

14. I attach in an Appendix the relevant passages from the speech which Mr. Faure, a Director of the United Africa Company, made on 31st March last on the occasion of the handing over of the scheme to the Overseas Food Corporation. It will be seen that Mr. Faure, who is a leading expert on the world supply position in oils and fats, regards our prospects in regard to oils and fats supplies with the utmost apprehension. I do not think his view is questioned by any expert opinion. Mr. Faure's speech shows how Conservative Party and press opposition to the scheme is more and more irritating this large body of business opinion which knows the facts of the situation. Therefore, in spite of the difficulties and delays which the scheme is experiencing, we have every justification in saying that if we had not launched the groundnuts scheme 18 months ago it would be imperatively necessary for us to launch it now.

J. S.

*Ministry of Food, S.W. 1,
6th July, 1948.*

APPENDIX

EXTRACT FROM SPEECH BY MR. W. A. FAURE, ON THE OCCASION OF THE TRANSFER TO THE OVERSEAS FOOD CORPORATION

The East African Groundnuts Scheme is not just an enterprise to put one or two ounces of margarine on the home ration—neither is it just another development scheme for Tanganyika. Both these objects are very important, and by themselves possibly quite worthy of all the efforts we are making but the Scheme is aiming far beyond these two limited objectives.

When I read the recent Parliamentary Debates, I was astounded at the lack of understanding—the lack of knowledge—the blindness of our elected representatives in the House.

I am almost getting tired of having to say it over and over again, but the pure naked fact is that the world is heading for a famine in oils and fats—not only in the primitive tropical regions but also, and even more so, in Europe and the other importing countries.

Europe will, this year, be short of 2 to 2½ million tons of fats (that is the equivalent of 5 to 6 million tons of groundnuts). We can only overcome the shortage by increasing exportable surpluses in the tropical countries, but just now these surpluses are dwindling fast. We have only to look at India and Pakistan, which vast continent before the war used to put close on 1 million tons of oils and fats into the European larder. The increase in the India population and the very slight improvement in the *per capita* fat consumption there have almost completely wiped out this source of supply. We know that in all other Far Eastern countries a very similar situation is beginning to crystallise.

It is quite certain that native agriculture, with its wasteful practices—wasteful as it destroys fertility and wasteful in the use of man-power—cannot possibly cope with the demand, and it is equally certain that there is only one way in which the situation can eventually be retrieved. That, and nothing else, is the problem to which the East African Groundnuts Scheme is endeavouring to provide the solution, and whilst the production of some 600,000 or 800,000 tons of groundnuts will go far to alleviate the oil and fat hunger in our own country, the much deeper significance of the Scheme is the creation of a prototype, which must supply the data and the experience that, if applied in all tropical areas, will enable the world to supply its needs.

It is really appalling that there is still such a lack of realisation of the dangers of the situation, and it makes me boil with indignation when this great scheme, to which everyone at home and abroad should give his fullest support, is being made an object of political squabbles. Instead of congratulating Mr. Strachey on the energy he is devoting to the realisation of the project, certain M.P.s attack him on details in an endeavour to score politically. I hate people who try to incapacitate their opponent when the referee is not looking or when the referee, in this case the British people, does not know the rules and has not been properly told what the game is being played for.

R.

146