1932. Kenya

No. 18020/1.

SUBJECT CO 533/419

Sale of Wheat Ordinance.

Importations under —.

Previous
Main file.
Subsequent
3047/1/33.

FILE C.

(1646) Wt.46003/258 5,000—2/49 N.P.Co. G.682/10

1 Gov. Kenya 133. 19th March, 1932

Refers to the reduction of wheat harvested owing to locust damage, and transmits a memo submitted by the Kenya Farmers' Association regarding a scheme under which they propose to import wheat from Manitoba & W. Australia. States Govt's proposals in regard revenue on such importations - involving refund of duty to Association. Asks for telegraphic reply to course proposed.

This proposal is very similar to that put forward by the Kenya Farmers Association in para 5 of the 17270/31 and rejected by the Govt, when the Association original proposals for ~~restrict~~ prohibitive duties on wheat were refused.

It is in effect a subsidy to the wheat mills to the ~~extent~~ of

(a) £21500 in respect of refund of Customs duty on imported wheat and

(b) ~~and~~ say £8,500 on reduced railway rates from the Coast to Nairobi.

As regards (a) it seems necessary to proceed by way of direct subsidy and not by way of refund of import duty, if the mills are to be subsidised, because the latter might be held to infringe the m. f. n. clauses of the Congo Basin Treaty.

As regards (b) it cannot be held that this is on all fours with reduction of rates on imported maize caused by famine conditions and there seems no justification whatever for the reduction of railway rates on wheat imported by the Agency for the mills if unless a similar reduction is applied to all imported wheat.

In effect these proposals also contravene the undertaking in 18 in 16289/30 that traffic in and milling of imported wheat should remain unrestricted.

There seems reasonable cause to complain of the action of the Governor and S of S in approving the proposals without reference to the S of S.

? In the first instance it seems desirable to obtain legal opinion as to whether the proposals as they stand can be approved without breach of treaty obligations or of the undertaking in 18/16289/30 if this is to be regarded as still in force.

? It is also for consideration if Treasury should be consulted seeing that these proposals affect the financial situation.

It will be noted that a reply by telegram is requested

[illegible] action ... the ... resolution ... all ... disposing power ... of a particular importer

W.E.B.

H.S. Parishker
5/4/32

The ^principal^ object of the legislation discussed in 16289/30 and subsequent papers was so to regulate the export of Kenya's surplus wheat as to equalise the losses on exported wheat among the producers. The Pool was in fact a form of compulsory co-operation for export marketing.

See para 2 of 12 in 16289

Thanks to the locust, Kenya now has no exportable surplus; local production in fact will suffice for only 40 per cent. of local requirements. To enable the millers to operate without ruinous loss (there is apparently no possibility of profit) and to preserve the local market which has been built up with considerable difficulty, it is proposed to refund to the Kenya Farmers' Association the equivalent of the import duty on wheat specially imported from Canada or Australia for mixing with the local product.

See, e.g., the letter flagged in 18027/32

I cannot see that in giving the assurance described in para. 4 the Governor has in any way contravened the undertakings given in Mr. Moore's telegram of 13th December 1930. The import of wheat will remain unrestricted in the sense that there will be nothing to prevent any non-member of the Farmers' Association from importing as much as he likes if he is prepared to pay the cost.

18 on 16289/30

None the less, it remains true that the proposed refund of duty and remission of railway rates amounts to a ^scarcely^ veiled subsidy to the wheat-growing ^and milling^ industries at the expense, not indeed of the consumer, but of the taxpayer at large. Government subsidies to depressed industries can be justified only when it is apparent that consequences even more serious will accrue to the State by their being refused.

The 1931 Agricultural Census shows that there were eleven wheat mills in the Colony, which converted 143,632 bags of wheat into 38,850 bags of fine flour, and 68,586 bags of inferior flour. The acreage under wheat was 68,815, divided among 381 European growers. No statistics are available of the native labour employed.

x of 200lb

Clearly, both wheat growing and ~~import~~ milling are industries of importance to Kenya, but it remains questionable whether their importance is sufficient to justify a gift by the community of £21,500. The objection to affording this relief would be modified if the amount refunded were treated as a loan to the Kenya Farmers' Association, bearing interest at the current rate, to be repaid when, in the opinion of the Governor and the Secretary of State, the industry is in a position to do so.

This suggestion might be put to the Governor by telegram. I see no reason to seek Treasury concurrence beforehand.

C.R. Freeston
6/4

I have had the advantage of discussing this with Mr: Freeston.

2. In spite of the apparent wealth of detailed information provided, I find difficulty in understanding the exact position. It looks, however, as if this were that the aid asked for must be granted, otherwise the mills will have to shut down. And they will have to shut down, because--despite the price difference of about [illegible] between local and imported flour--these " superfine flours" are not in fact comparable articles, and the price for the local article cannot be increased ~~from~~ above its present level without leading the consumer to turn to the imported stuff.

3. The action which the Govr: has taken does not, I think, leave us much option here. I would put to the Govr: Mr: Freeston's suggestion. And, after discussion, I gather that Mr: Freeston inclines to the view that we should ask for Treasury concurrence. It would certainly be safer to do so. One could argue that point either way, more or less convincingly; my own view is that we should approach the Treasury.

4. One dislikes all these special arrgts: very much; and it is difficult to avoid a feeling of being hustled into action that--given other conditions--would perhaps not have been agreed to. But the Govr's position is so difficult that one feels that criticism ~~is~~ of this kind is (feels) somewhat out of place.

The 7-4-32.

[illegible] 7/4/32

Sir S. Wilson.

Efforts to preserve Kenya's industries do not meet with very good fortune, but there seems no option but to give the required relief on wheat necessarily imported, and I do not think that the Governor can be blamed for giving the pledge.

I am uncertain on the question of consulting the

the Treasury.

No doubt if we do not do so we may risk criticism if Kenya's finances should ultimately become desperate. On the other hand it seems a little unfair to the Treasury to drag them into this matter of ~~veto~~ detail, with a considerable history behind it, when covering approval is urgently needed and when action has already been taken committing the Government.

B.H.G.

Unless we are to contemplate repudiating the Governor's pledge, I think that we must take the responsibility of not consulting the Treasury.

W.C.B.
8/4/32

As proposed.

B.H.G.
Stone

8.4.32

Tel. 73 Conf. to Governor Kenya 11/4
Cas. - 11/4/32

3 Gov. Kenya — Tel. Conf. — 14/4/32
Foresees great difficulty in carrying out the suggestions in No. 2. Submits arguments with a view to the reconsideration of the proposal in No. 1.

There seems no reason why the Agency should refuse liability for the loan if they are convinced that assistance will not be forthcoming in any other way. They naturally hope to get free assistance.

It seems worth while, in order to get the principle of this being a loan accepted, to be prepared to admit nominal interest and to hold out the possibility of writing the amount off if the industry within a period is not in a position to repay.

The alternative is to accept the Governor's proposals in spite of the objection indicated in 2. — as it is out of the question to repudiate the Governor's assurances and it is clear that assistance is required.

H.E. Boris[illegible]
22/4/32.

(No. 3)
(para 4)

On 19th March the Governor spoke of "the absolute necessity of ordering the wheat immediately" and the assurances were given to the K.F.A. not later than March 18th.

It is ∴ a safe deduction that the wheat is now on its way from Canada or Australia; and it is therefore useless to speculate on what might have happened if "events" had been allowed to "take their course".

It will be recalled that Sir E. Grigg obtained S. of S.'s sanction to his Agricultural Advances scheme as an "emergency measure" to meet a specific crisis. This was two years ago; the Colony's surplus balances are still awaiting the return of the £100,000.

Draft tel. herewith. As things have turned out, we can hardly withhold this from the Treasury, but ? it will be enough to send them the correspondence. LF.

[signature] 23/4.

If the intention (indicated in paragraph 3 of No.1) to keep down the local price of flour is carried out, it would seem that the flour consuming community (no doubt mainly European and Indian) will benefit and not merely the milling interests. To that extent there is less justification for saddling those interests with the liability for a loan. Presumably this is what the Governor has in mind in differentiating this proposal from the aid given to the cereal industries last year and the year before which is repayable by a cess on export when the price

Draft tele No.17 of 1931 in 17126/31

reaches

reaches a certain point.

Further insistence on the loan may reflect on the undertaking of the Kenya Farmers' Association (referred to above) to do their utmost not to raise the price of flour and to retain the coast markets. I attach a note from Major Dale giving some particulars in regard to the Kenya Farmers' Association, but in this case, of course, they are only acting as an agency in respect of a sectional interest.

It is true that a reduction on the freight rate for Uganda cotton was recently refused, but if the price of flour is not raised the Uganda consumer would presumably also derive a benefit. As regards Mr. Freeston's draft, A the Secretary of State has, in the telegram in No.2, already made the point as to the objections to this arrangement, and I submit an alternative draft B for consideration, which makes play with the undertaking of the Association in regard to ~~the~~ price, which seems to me material.

J.H. Allen
26/4/32.

Sir S. Wilson

I think we have no option but to give way, as in draft B. But it is a subvention in favour of a particular industry.

W.C.B. 26.4.32

Sec of State

As the Governor had already

Come that himself I did not

bother you with this question when

I passed No 2 on this file.

I think you should see now, as

the Governor does not see his way

to treating the amount refunded as

a loan.

I agree with Mr Battenley, and

am in favour of telegraphing as in

"B".

S.H.G.

27.4.32

[illegible]

1/5/32

4 To Gov tel. No 88 2.5.32

5. Gov. Kenya — Tel. 75 Conf. — 3/5/32

Asks for early reply to No 3, as Leg. Cou. meets 4th May.

Crossed 4. No action necessary.

L.F. action is required as indicated on draft of 4.

H.S. [illegible]

3/5/32

Further action L.F. on No [illegible]

6 To Treasury - w/c 1.2.3 & 4B. B/16 — at once — 4 MAY 1932

No 1

7. Governor Byrne 149 Conf. (Air Mail) — 8th Dec 32.

States that on account of the continuance of the locust menace a similar position has arisen in the wheat industry to that which existed earlier this year. Encls a memorandum in which it is recommended that the suspended duty on wheat should be removed & the system of importation under licence continued subject to a refund of five sixths of the basic duty.

8. Governor Byrne 153 Conf (Air Mail) — 16th Dec 32

States that Executive Council recommend that proposals regarding wheat importation in No 7 should be given effect. Encls a memorandum by the Commissioner of Customs & states it has been necessary to issue a further special warrant for £4.164 to complete refund on 1932 importation. Requests tel reply.

This is all rather confusing. Many of the figures given in the various memoranda are inconsistent with each other and with those cited in No 1. Even in the Governor's despatch (para 4 of No 8) there is a curious discrepancy

Put shortly, the Governor's request is for authority to extend into 1933 the arrangements approved for 1932, whereby relief was afforded to the wheat-growing & -milling industries of the Colony.

In 1932, the wheat necessary to bridge the gap between local production and local consumption was imported under licence; it paid full duty (i.e. 6/- per 200 lb. bag basic, and 3/- suspended); but the equivalent of the duty paid was refunded by Government to the Kenya Farmers' Association.

The concession now desired for 1933 differs only in that instead of a refund of 9/- per bag, the basic suspended duty (3/-) is to be temporarily abolished and 5/6ths of the basic duty is to be refunded.

The principle was conceded by S. of S.'s telegram of May 2nd (No 4); the 'undertaking' not to raise the price of flour against the consumer has apparently been observed; conditions as regards shortage of local production owing to locusts have reproduced themselves, and the S. of S. has no alternative but to

Concur.

? Tel. as in draft

sending copy of 7.8 and above tel.m to Treasury LF ref. 6.

I agree. (I presume that Kenya will approach Uganda and T.T., and make the best bargain it can as regards the share of the normal customs duty payable to these administrations in respect of flour exported to them from Kenya. They have fairly strong arguments to advance in favour of concessions.)

The 29-12-32.

[signature] 29/12/32

When the tel: has gone, the Tanganyika Dept. should see. It may be a point to be taken up with other Customs points raised by the Armitage-Smith report.

W.C.B. 29.12.32

at once

See on 4009/33 Td EA

S Beal 7.1.33

DESTROYED UNDER STATUTE

9 To Gov Kenya Tel No 208 [initials] 30-12-32

10 Treasy. (w. 7, 8 & 9) [initials] 2/1/33

LF v. Dept T.T. ...

Cw 9. 8

AIR MAIL

KENYA

No. 153

CONFIDENTIAL.

GOVERNMENT HOUSE
NAIROBI
KENYA

RECEIVED
27 DEC 1932
OFFICE

16th December, 1932.

Sir,

I have the honour to inform you that the memoranda, copies of which accompanied my Confidential Air Mail despatch No.149 of the 8th December, in regard to the importation of wheat in 1933 were discussed in Executive Council on the 10th December.

No 1

2. The unanimous advice of Executive Council, in which I concur, is that effect should be given to the recommendations contained in paragraph 16 of the joint memorandum by the Director of Agriculture and the Commissioner of Customs, which include the removal of the suspended duty on wheat and the continuance during 1933 of the system of importation of wheat under licence, five-sixths of the basic duty on wheat being refunded to the licensees. This will mean payment of import duty at the rate of Shs.1/- per bag instead of Shs.~~9/-~~ 6/- per bag, which is the full rate including suspended duty, on an anticipated importation of some 60,000 bags.

Copy to Try. 2/1

3. In the light of the facts presented in the memorandum, no alternative course appears to be feasible, and I trust that you will raise

no....

THE RIGHT HONOURABLE
MAJOR SIR PHILIP CUNLIFFE-LISTER, P.C., G.B.E., M.C., M.P.,
SECRETARY OF STATE FOR THE COLONIES,
DOWNING STREET,
LONDON, S.W.1.

no objection to these proposals. It is intended that the whole position should be reviewed directly the yield of the 1933 harvest is known.

4. When the Resolution regarding importation in 1932 was moved in the Legislative Council in May last, it was estimated that approximately 48,000 bags would be imported and a Special Warrant for £21,500 was issued accordingly. On account of locust damage the shortfall on the 1931-32 crop was greater than was anticipated and importations this year have in fact amounted to 62,964 bags. It has, therefore, been necessary to issue a further Special Warrant for £4,164 to complete the total refund required. In regard to the 1932 importations, I enclose a copy of a memorandum by the Commissioner of Customs dated the 30th September, 1932 for your information.

62964 - 48000
= 14964 @ 9/- = £6734

5. With reference to your despatch No. 887 of the 9th November, the annual report now overdue from the Agency appointed under the Sale of Wheat Ordinance, 1930 has not yet been received in its final form, but steps are being taken to expedite its completion and submission.

NOY 18020/32

6. I should be grateful if a telegraphic reply might be given as early as possible to paragraph 3 of this despatch.

I have the honour to be,

Sir,

Your most obedient, humble servant,

Brigadier-General.

MEMORANDUM ON THE WHEAT POSITION IN RELATION TO CUSTOMS DUTIES, SEPTEMBER, 1932.

As an outcome of protracted discussions following an urgent request to Government from the wheat interests to impose what amounted to a prohibitive Customs duty on imported wheat and wheat flour (32/- per 200 lbs) in order to secure local markets for the local industry, there was incorporated in the Customs Tariff (No.2 Amendment) Ordinances 1931 of Kenya, Uganda and Tanganyika Territory, which were enacted simultaneously on 4th December 1931, provision for the imposition of a Suspended Duty of 1/50 per 100 lbs on imported wheat and an additional suspended duty of 1/50 per 100 lbs on imported wheat flour. These suspended duties were imposed by Proclamation in Kenya only, the total duty chargeable in the three territories then becoming

		Kenya.	Uganda.	Tanganyika Territory.
Wheat	3/- per 100 lbs plus suspended duty of 1/50 per 100 lbs.	4/50	3/-	3/-
Wheat flour	3/- per 100 lbs plus a Suspended Duty of 3/- per 100 lbs.	6/-	4/50	4/50

2. After the lapse of a comparatively short period of time, it became evident to the Government Wheat Agents (the Kenya Farmers' Association Ltd) that through damage caused by locusts and for other reasons the yield of wheat would fall so far short of anticipations that the wheat flour requirements of the three territories could not possibly be met from this source and that a considerable quantity of either wheat or wheat flour would require to be imported to meet the needs of consumers during 1932.

3. Precisely three months after the enactment of the Ordinances empowering the Governments to impose additional duties on wheat and wheat flour, which fell far short of the demands of the industry for virtual prohibition, the General Manager of the Kenya Farmers' Association in a letter to the Director of Agriculture dated 4th March 1932 stated that his Association acting as Government Agents had "carefully collected figures from all growers of wheat, and the final figures disclosed position much worse than had been anticipated so far as visible supplies were concerned". In order to keep the mills employed and to safeguard the local industry generally he therefore suggested the free importation under licence of "sufficient wheat to supply milling needs until local wheat is available in milling condition". In his opinion urgent action was again necessary to save the industry.

4. After discussion of this entirely new problem the Government of Kenya finally agreed that the Customs duties including the suspended duties should remain in force and should be imposed on wheat so imported, but that a refund of an amount equivalent to the duty paid on wheat imported under licence should be made by the Treasury. The Secretary of State (in his telegram No.88 of 2.5.32) acquiesced in the suggestion provided that its operation was strictly limited to the period ending 31st December 1932 and sanction to this course of procedure was given by the following motion passed in Legislative Council on 4th May, 1932:-

> "Whereas, by reason of destruction by locusts and other causes, the yield of wheat from the 1931-32 crop is insufficient to meet the requirements of the milling industry for the production of flour for the needs of East Africa, and whereas it is expedient to import wheat in the grain rather than in the form of flour, Council do therefore approve that the amount of duty levied on such wheat imported by the Agency appointed under the Sale of Wheat Ordinance, 1930, be refunded to that Agency; provided that the quantity of wheat in respect of which such refund shall be made shall be confined to that amount which does not exceed the shortfall of the crop mentioned above for purposes of the normal milling requirements, and provided also that it shall be restricted to such quantity as may be imported between the first day of April and the last day of December, 1932, under licence issued by the Director of Agriculture."

5. Since the passing of this Motion 3,578 tons of wheat have been imported under licence (3,281 tons from Australia and 297 tons from Argentine) representing a duty payment and a consequent Treasury refund of £18,035.

6. Under the Customs Agreements the Customs duty paid on goods subsequently transferred to another territory being a party to the Agreement must be allocated to the consuming territory and in the absence of formal sanction from the other Governments to vary the Agreements the duty paid on wheat imported into Kenya under licence and subsequently transferred in the form of flour to Uganda or Tanganyika Territory would be due to the consuming territory. On the assurance, however, of the General Manager of the Kenya Farmers' Association that the stocks of Kenya wheat remaining on hand were amply sufficient to meet the needs of the neighbouring territories until the end of 1932, this question was not pressed either by myself as Commissioner of Customs for Uganda or by the Governments concerned.

7. From the Kenya Crop Report for August 1932 it would appear that the acreage under wheat this

year is approximately 40,000 acres or 6.6% less than the acreage harvested in 1931 and although it is hoped that the yield per acre will be considerably higher than in 1931, there appears to be some reason for apprehension that the amount produced will fall seriously short of the amount required for consumption in the three territories in 1933. It is with this eventuality in view that the present memorandum has been prepared.

8. If local yields fall short of local requirements in the three territories, it would seem that the policy of the Kenya Government may operate in five directions, viz:-

(a) The repayment of an amount equivalent to the duty collected on wheat imported under licence may be continued, the duties remaining at the scales at present in force;

(b) Repayment may be discontinued, the duties on wheat and wheat flour remaining unaltered;

(c) The suspended duty on wheat in the grain may be reduced or cancelled for the time being, the duty on flour remaining at its present figure;

(d) The suspended duty on wheat flour may be reduced or cancelled for the time being, the duty on wheat in the grain remaining unaltered;

(e) The suspended duties on both wheat and wheat flour may be reduced or cancelled by Proclamation.

9. Taking these alternatives in the order quoted:

(a) A continuance of the refund system with unaltered rates of duty would certainly safeguard the industry by keeping flour and bread prices at their present figure, but it is extremely doubtful whether such a course of action would be justifiable for a second year having in view the fact that despite the shelter afforded the acreage planted has decreased. The complication mentioned in paragraph 6 would also assume a different aspect and the proportion of duty collected on wheat milled into blended flour and transferred to Tanganyika Territory or Uganda would require to be allocated to the consuming territory, unless formal agreement to waive allocation is [illegible];

(b) Discontinuance of refund and [illegible] of the present duties would also [illegible] the wheat grower and to some extent the miller, as prices would not fall, but the miller would be required to pay full duty on any wheat imported by him to make good short fall in local supplies. As the growing and milling industries appear to be very closely connected in the matter of price control, the profit accruing to the industry as a whole would decrease and final revenue receipts from imported wheat and wheat flour would improve;

(c) A reduction or cancellation of the suspended duty (1/50 per 100 lbs) on wheat, without alteration of the duty on flour, would ease the situation of the miller requiring wheat from overseas and the maintenance of the full duty on wheat flour might conceivably make it profitable for him to do so, but it is possible though not probable that locally milled foreign wheat may come into competition with locally milled Kenya wheat. The revenue would benefit to the extent of 3/- on every 100 lbs of wheat imported;

to do what?

(d) Reduction or cancellation of the suspended duty on wheat flour without alteration of the duty on wheat in the grain would stimulate imports of flour and reduce local prices, to the detriment of both miller and grower. No logical argument for the pursuance of this course can be found;

(e) Reduction or suspension of both suspended duties would also have a serious effect on both grower and miller as the coastal markets would almost certainly be lost and a tendency towards a general reduction in prices would be induced, revenue receipts improving on account of increased importations. The desirability of reverting to the position existing immediately prior to the enactment of the Tariff Amendment Ordinance of December 1931 might however be explored.

10. Suspended duties may be varied by Proclamations in any of the territories after prior consultation with the other parties to the Customs Agreements, an alteration in basic duties requiring mutual agreement to amend the Common Tariff. The latter course does not appear to be necessary.

11. As present arrangements terminate on 31st December and some action may require to be taken early in 1933 I have thought it advisable to prepare this memorandum in order that the possibilities of the situation may be studied at leisure. In all the circumstances it appears to me that alternative (c) viz cancellation of the suspended duty on wheat in the grain, may prove to be the best course to pursue if the future prospects of the wheat growing and milling industry are reasonably good as the miller is definitely safeguarded against large importations of foreign flour upon which a high rate of duty would continue to be charged and the danger in present circumstances of active competition between foreign and local wheat in the grain is remote. The matter is, however, one which requires careful consideration and there would seem to be no reason why in due course it should not be referred ~~and~~ confidentially to the Wheat Advisory Committee for an expression of their opinion.

Sd/- [illegible] Walsh.
COMMISSIONER OF CUSTOMS.
KENYA AND UGANDA.

CUSTOM HOUSE.
MOMBASA. 30TH SEPTEMBER, 1932.

Y

KENYA

GOVERNMENT HOUSE,
NAIROBI,
KENYA

KENYA.

No. 141

BY AIR MAIL.

CONFIDENTIAL.

8th December, 1932.

Sir,

With reference to your confidential telegram No. 88 of the 2nd May last on the subject of the importation of wheat under licence free of duty, I have the honour to inform you that, on account of the continuance of the locust menace, a position has arisen in the wheat industry similar to that which existed early this year and led to the passing of the following Resolution in the Legislative Council on the 13th May :-

No 4

Copy to 21

> "Whereas by reason of destruction by locusts and other causes, the yield of wheat from the 1931-32 crop is insufficient to meet the requirements of the milling industry for the production of flour for the needs of East Africa, and whereas it is expedient to import wheat in the grain rather than in the form of flour, Council do therefore approve that the amount of duty levied on such wheat imported by the Agency appointed under the Sale of Wheat Ordinance, 1930, be refunded to that agency; provided that the quantity of wheat in respect of which such refund shall be made shall be confined to that amount which does not exceed the shortfall of the crop mentioned above for purposes of the normal milling requirements, and provided also that it shall be restricted to such quantity as may be imported between the first day of April and the last day of December, 1932, under licence issued by the Director of Agriculture."

2. I now enclose copies of a joint memorandum of the 30th November by the Director of Agriculture and the Commissioner of Customs in which it is

recommended....

THE RIGHT HONOURABLE
MAJOR SIR PHILIP CUNLIFFE-LISTER, P.C., G.B.E., M.C., M.P.,
SECRETARY OF STATE FOR THE COLONIES,
DOWNING STREET,
LONDON, S.W.1

recommended that the suspended duty imposed in December last on wheat in the grain should be removed and that the system of importation of wheat under licence should be continued subject, however, to a refund of five sixths instead of the whole of the basic duty. I also enclose a copy of a memorandum by the General Manager, Kenya Farmers' Association Ltd. dated the 15th November.

3. These proposals will be considered in Executive Council on the 10th instant, but I considered it desirable to transmit copies of the enclosures to you without delay, in case reference to you by telegram should become necessary.

I have the honour to be,

Sir,

Your most obedient, humble servant,

BRIGADIER GENERAL.
GOVERNOR.

DEPARTMENT OF AGRICULTURE,
P.O.BOX NO.358
NAIROBI,

30th November, 1932.

No.C/WHEAT/0/2/387

CONFIDENTIAL.

The Hon. Colonial Secretary,
Nairobi.

WHEAT AND WHEAT FLOUR.

In conformity with your AGR.1/17/114 Vol.II of the 19th October, a meeting was held in Nairobi on 10th November, at which the following were present :-

The Hon. Director of Agriculture (Chairman)
The Hon. Commissioner of Customs
Colonel G.W.C.Griffiths, General Manager, Kenya Farmers' Association
Lord Francis Scott
Messrs. Bouwer, Gibson and Joiner, members of the Wheat Advisory Board
The Acting Deputy Director (Plant Industry) (Mr. Blunt) and the Agricultural Economist (Mr. Liversage) in attendance.

2. At that meeting the position of the wheat industry of Kenya so far as it relates to the grower, the miller and the consumer, was closely examined, and the various alternative methods of meeting the situation were exhaustively discussed.

3. Although the ultimate yield from the present crop is still unknown, we are of the opinion that the attached memorandum submitted by the General Manager of the Kenya Farmers' Association Ltd., (the agents under the Sale of Wheat Ordinance) represents very fairly the actual position as it exists to-day. From this memorandum it is evident that the crops in sight will be entirely insufficient to supply the 1933 flour requirements of the local markets of Kenya, Uganda and Tanganyika Territory, and that the shortfall (estimated by the Agents to be approximately 60,000 bags wheat) will require to be imported either in the form of wheat in the grain or wheat flour.

4. In these circumstances it becomes necessary to weigh with the utmost care the probable effect of a continuation of the locust infestation both as regards immediately forthcoming yields and the ultimate future of the industry, to judge the consequences of a collapse of the industry and to assess the proper limit of assistance, if any, which should be afforded by Government to tide the industry over the twofold disaster of a catastrophic fall in prices which by a most unfortunate coincidence synchronised with a serious shortfall in yield consequent upon the locust plague.

5. From a study of the history of wheat growing in Kenya it is clear that favourable prices during the earlier stages of development induced a somewhat unhealthy stimulus, a number of farmers planting wheat in areas

which were not properly suited to this crop. As a result the aggregate yield per acre was unsatisfactory and when world prices collapsed and locusts appeared, an elimination of unsuitable areas under wheat followed as an inevitable consequence. There remain, however, large tracts naturally suited to the growing of wheat as an economic crop, and having regard to the advances which have been made in Kenya during recent years in the direction of breeding rust resistant varieties of wheat, it is undeniable that in certain areas wheat-growing is worthy of encouragement from the point of view alike of the producer, the miller and the consumer. In the opinion of the Director of Agriculture these areas are amply sufficient to meet all flour requirements in Kenya, Uganda and Tanganyika Territory. The capacity of the local flour mills is also more than equal to all probable demands and in this connection the initiation by the Wheat Advisory Board of some scheme of rationalisation to place this side of the industry on a better economic basis would appear to be worthy of investigation by it, though it is to be noted that some mills have already closed down.

6. As regards the consuming public, a reference to comparative prices will shew that, so long as customs duties on wheat, and wheat flour, remain on the present scale, the consumer as such derives a direct pecuniary benefit from the existence of the local industry, and if world prices harden the benefit should in due course become more marked. In regard to customs duties, it should be observed that other imported foodstuffs are ordinarily charged with a minimum duty of 20 per cent. ad valorem, and any reduction of duty on wheat and wheat flour below this level would be at variance with the treatment accorded to imported foodstuffs in general.

7. On the supposition therefore that under normal conditions wheat-growing in Kenya up to at least the point of provision of sufficient quantities for all local requirements, is desirable in the general interest, consideration of what steps, if any, should be taken by Government to surmount passing difficulties becomes urgently necessary, as by the Secretary of State's instructions existing arrangements terminate on the 31st December, 1932. It is appreciated that the indefinite continuance of conditions of short supply in the Colony would rightly call for readjustments of the fiscal system in regard to wheat and wheat flour. It is desired, however, to emphasise the opinion of competent authorities that the present situation is entirely due to a continuance of those circumstances which necessitated action by Government in 1932. There appears to be the same justification for similar action in 1933 as in 1932, and it should be noted that in the absence of the serious damage by locusts which has again been experienced, the supply of wheat would have proved sufficient for East African requirements and the position now under consideration would not have arisen.

8. As stated in the memorandum recently submitted to Government by the Commissioner of Customs, action through the Tariff along six lines is possible as follows:-

(a) the repayment of an amount equivalent to the duty collected on wheat imported under licence may be continued, the duties remaining at the scales at present in force;

(b) repayment may be discontinued, the duties on wheat and wheat flour remaining unaltered;

(c) the suspended duty on wheat in the grain may be reduced or cancelled for the time being, the duty on flour remaining at its present figure;

(d) the suspended duty on wheat flour may be reduced or cancelled for the time being, the duty on wheat in the grain remaining unaltered;

(e) the suspended duties on both wheat and wheat flour may be reduced or cancelled by Proclamation;

(f) an alteration of both basic and suspended duties.

9. The probable effects of action in any of the directions indicated in the preceding paragraph were fully investigated at the meeting held on November 10th.

10. Complete discontinuance of the present refund system and maintenance of the present duties (wheat 3/- plus 1/50 suspended duty per 100 lbs., flour 3/- plus 3/- suspended duty per 100 lbs.) would effectually debar the miller from importing wheat in the grain. As a result the operating milling cost per bag would rise, imports of wheat flour to make good the shortage would increase, and costs of both local wheat and wheat flour would rise to an equivalent of parity with imported flour. Thus such producers as have been sufficiently fortunate to secure their wheat crop would reap a short-lived but very definite advantage at the expense of both miller and consumer, the burden falling particularly heavily on consumers at long distances from the Coast, but the situation so created would be extremely unsatisfactory, as a sharp advance in prices would again provide an artificial stimulus to wheat-growing, increased milling costs consequent upon inadequate supplies of wheat would either be passed on to the consumer or the majority of the mills would cease operations, and the consumer would suffer until such time as the vicious cycle results in over production on an uneconomic basis. It is on these grounds that we are forced to the conclusion that a mere cessation of the grant of rebates on imported wheat would not be in the general interest.

11. A reduction of the duties charged on imported wheat and/or wheat flour would tend to alleviate the position of the consumer to the extent of the reduction. So long as the importation of wheat is necessary to make good the shortfall in local production we can see no valid reason for the continued imposition of a suspended duty on wheat in the grain imported into Kenya and therefore recommend that the Proclamation imposing this duty (No.116 of 4.11.31) be revoked so far as it relates to wheat in the grain, but if it is agreed that present circumstances are abnormal and that reasonable Government action should be taken to keep the industry alive during this entirely abnormal period, due account must be taken

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of the position not only of the consumer but also of the grower and miller. Exemption of wheat from payment of duty on importation without alteration in the rate chargeable on imported flour might tempt the adventurous to embark on the essentially uneconomic experiment of erecting mills at Mombasa and/or Dar-es-Salaam, thus creating an exotic industry of no lasting value to any section of the community. The relief from payment of a suspended duty on wheat (which is imposed only in Kenya) would not, however, afford sufficient inducement to embark on a venture of this sort. Reduction of the duty charged on, or complete exemption from duty of, wheat flour would bring the imported article into acute competition with the local product and we are satisfied that this course of action would have the immediate practical effect of closing the coastal markets to local flour. Up-country consumers might benefit for a time in some small degree by a fall in the price of local flour, consequent upon overseas competition, but the producer would suffer and the miller, whose position at the present time is an unenviable one, in all probability would find it no longer possible to operate with any hope of profit, and in fact the whole industry would be jeopardised.

12. For these reasons we are forced to the conclusion that the interests of producers, millers and consumers can only be maintained by a continuance of the existing duties (other than the suspended duty on wheat to which reference has already been made) and that in order to secure an economic output from the local mills some relief must continue to be given in the matter of the customs duty on wheat imported for this purpose.

13. A reduction or cancellation of the customs duty on imported wheat would provide a satisfactory solution of this difficulty and one which would be in conformity with accepted practice were it not for the danger to which attention is drawn in paragraph 11, and it therefore appears necessary to achieve the same result by a somewhat ~~difficult~~ method, viz. by a continuation with modifications of the rebate system covering wheat imported under licence.

different?

14. Pursuing this line of reasoning, we attempted to ascertain from the members of the Wheat Advisory Board the minimum amount of rebate which could be granted without endangering the ultimate prospects of either miller or grower. The Board agreed that the suspended duty on wheat should be removed, but were firm in their advice that the situation of the industry was such that what is in effect the free admission of wheat for milling purposes imported under licence should continue during 1933, unless up-country consumers could be called upon to face an increase in the price of flour and bread. The position in regard to the obligation on the part of the Government of Kenya to allocate to consuming territories, parties to the Customs Agreements, the duty chargeable on imported wheat converted locally into flour was pointed out and it was ultimately agreed that if the whole of the duty paid could not be refunded, five-sixths of the duty (2/50 per 100 lbs.) should be repaid to the importer, leaving one sixth (0/50 per 100 lbs.) as a net credit to Government.

15. As regards the procedure to be followed with reference to the allocation of customs duty on flour manufactured in Kenya from imported wheat and subsequently

transferred for consumption in Uganda or Tanganyika Territory, the provisions of the Customs Agreements can be followed without difficulty if millers supply details of the percentage of imported wheat incorporated in the flour so transferred. In the absence of an agreed variation inthe terms of the Customs Agreements the calculation would naturally be based on the actual duty collected on the wheat (3/- per 100 lbs.) without reference to any Treasury refund which may be allowed by the Kenya Government, but as it is understood that a large proportion of flour transferred to the neighbouring territories (more particularly from Eldoret) will be manufactured wholly from Kenya wheat, the proposed retention of one sixth of the duty should suffice to cover the amount to be credited in respect of that portion of foreign wheat transferred to Uganda or Tanganyika Territory in the form of flour.

16. After the most careful consideration and bearing in mind the chief cause of the prospective shortage, namely damage by locusts and the locust menace, also the continuing collapse of prices in the world's wheat market, and not least the interest of the consuming public, we therefore recommend:-

(a) that the suspended duty on wheat be removed until such time as local supplies are sufficient to meet local needs, when the position should again be open to review;

(b) that the system of importing wheat under licence in 1932 be continued during 1933, five-sixths of the basic duty paid on such wheat being refunded through the Treasury to the licensee;

(c) that the High Commissioner for Transport be asked to continue the concession allowed in 1932 to wheat imported under licence either by application to such wheat of country produce rates or by a reduction of the rate chargeable on imported wheat to bring it into conformity with the country produce rate;

(d) that the Wheat Advisory Board and the Agents be instructed to impress upon wheat growers the necessity for such action as may be requisite to ensure that under normal conditions sufficient wheat for East African requirements should be grown locally in order to justify the continuance of a policy of protection of this industry;

(e) that the position be reviewed immediately the yield from the 1933 harvest is known.

17. We would add that we have had an opportunity of discussing the case with the General Manager, Kenya and Uganda Railways and Harbours, and we understand that, if the course we recommend be followed, he will be prepared to advise the High Commissioner for Transport that the present concession in regard to the railway freight rate should be continued.

ALEX HOLM
Director of Agriculture.

G. WALSH
Commissioner of Customs,
Kenya and Uganda.

THE KENYA FARMERS' ASSOCIATION
(CO-OPERATIVE) LTD.

NAKURU. 15th November, 1932.

The Hon. the Director of Agriculture,
P.O. Box 338,
NAIROBI.

Dear Sir,

IMPORTATION OF WHEAT.

1. THE PAST YEAR: Last year, on the instructions of the Wheat Advisory Board, we requested you to represent to Government the necessity of allowing the importation of wheat, duty free and with low railway rates, to fulfil the shortfall of the local mill requirements, due to the severe setbacks the producers had suffered in low prices, rust and heavy locust damage.

At the time of making the application to you, we expressed the opinion that were the facility granted, a stimulus would be given to the industry to ensure a sufficient area being planted in wheat to provide the mill demands for 1933 and the succeeding years.

Further, this Association issued circulars encouraging the planting of wheat.

2. CAUSE AND EFFECT: In reviewing the past, the period of time which must elapse between cause and effect should be fully realised. In September, 1931, we had a large over-carry of wheat from the previous year; prices were low, and rust and disease were seriously affecting the yield which had previously been considerably reduced by locust damage. There was a definite tendency to go out of wheat growing.

By March, there were definite indications of a shortage and improvement in the value of local wheat was indicated by the discontinuance of rebates being paid from the Local Pool. This improvement was too late to overtake the decision of some growers not to plant wheat. However, considerable areas in the Nakuru and Molo districts were prepared for wheat, but owing to the severe locust menace at the planting time, much of this land was planted in linseed, buckwheat and beans which are not damaged by locusts. Despite these various reasons, the area under wheat would in all probability have been sufficient to provide the requirements of the local and rebate markets had there not been further serious locust damage. It can be fairly stated that the Colony can and will provide next year more wheat than will be required within the Colony, Tanganyika and Uganda, assuming, of course, that the locust damage is not severe and that importation free of duty is allowed in order to maintain supplies required by the local mills so that growers will be assured of a ready market for their wheat when produced.

3. REBATE MARKETS: In granting the request for free import last year, you pointed out the necessity of the rebate markets at the Coast and in Tanganyika being retained, and, while reducing the rebates allowed to the mills, it has been possible to fully retain these markets - 27,271 bags having been disposed of to them during the year. To Tanganyika the quantity has been about normal - i.e. 17,133 bags. To Mombasa there was an increase - the quantity totalling 7,178 bags. The balance has gone to Congo markets and stations en route, showing, also, a slight increase and amounting to 2,961 bags.

The potential value of these markets to the industry is apparent and, having been gained, every effort should be made to retain and extend them.

4. WHEAT CONSUMED 1931/32: The wheat taken by the mills during the last year (1st September, 1931, to 31st August, 1932), amounted to 135,984 bags. (This figure includes the 27,271 bags required for rebate markets). In addition, 15,485 bags were sold in the Colony as chickwheat etc., making the total consumption 151,469 bags. Of this amount, 46,894 bags were imported wheat.

5. POSSIBLE IMPORTS: After carefully reviewing the estimates received and taking into consideration the locust damage, the Wheat Advisory Board is of the opinion that the amount of wheat available for sale in the Colony from the 1932/33 crop will amount to 86,229 bags.

From this should be deducted 10,000 bags as required for chicken feed, etc., leaving for the mills a balance of 76,229 bags. If we take the last year's mill requirement of... ... 135,984 bags

and deduct........................	76,229	"
we have a balance of	59,755	"

which it will be necessary to import if markets remain the same as during the past 12 months.

If the Rebate Markets of 27,271 bags are discarded, the import necessary will amount to 32,484 bags, while if the rebate market at Mombasa extends, as is anticipated, the total rebate market will be 33,000 bags instead of 27,271, and the import necessary will reach 65,484 bags. This figure may be reduced by the amount Machakos area can deliver from their June crop. During the past two years locust damage has accounted for practically the whole of the wheat in this area.

6. <u>MILLS AND PRICES:</u> A year ago the price of Superfine flour in Nairobi was Shs.36/- per bag and Atta Shs.29/-. During the year, the price of Superfine has been reduced to 35/-. Atta fell to 26/-, but has since recovered to 29/-, while "Baker's Special" in Nairobi has advanced an average of 1/50.

The lower grades of wheat have been increased in price to the mills and the percentage of expensive imported wheat has been greater than was anticipated, so that the mills have fairly kept faith with the spirit of the agreement arrived at when imported wheat free of duty was approved.

The milling industry is carrying on at a loss and any increase in cost of wheat to them must be handed on in a proportionate increase in the price of flour to the consumer.

During the year, owing to the losses they were incurring, the Eldoret Flour Mills, Eldoret; Atta Limited, Gilgil; and the Electric Flour Mills, Nairobi, have all closed down and the Chairman of Directors at the Annual General Meeting of the Kenya Farmers' Association informed the meeting that their flour mill losses during the year were between 9,000/- and 10,000/-.

7. PRICES: (As at 15th November, 1932).

		Local	Imported
Mombasa	(Superfine)	28/-	36/75
"	(Atta)	26/-	33/75
Nairobi	(Superfine)	35/-	46/-
"	(Atta)	29/-	43/-
Kampala	(Superfine)	46/94	54/-
	(Atta)	39/44	50/50
Dar-es-Salaam	(Superfine)	29/-	36/75
	(Atta)	27/-	33/75

If present prices of local wheat are maintained and wheat is imported on the same terms as last year, the above prices for local products will remain unaltered.

Now let us view the position if import is not allowed. The mills will not retain their present turnover.

Last year's milling was made up as follows:-

To Uganda..................................			17,000 bags
" Rebates:-			
	Tanganyika	17,133 bags	
	Mombasa.........	7,178 "	
	Others..........	2,961 "	27,272 "
" Kenya Highlands............................			91,713 "
			135,985 bags

The 76,229 bags of wheat available from the present crop will go to supply the local market of 91,713 bags, leaving an import of 15,484 bags to complete the Kenya requirement. As the turn-over of the mills will be practically halved, their overheads will be greatly increased. This added cost will have to be handed on to the consumer.

The wheat growers will be relieved from an obligation to maintain present prices, with the result that wheat prices to the mills will advance, and the price of imported flour (at present roughly 20,000 bags for Kenya and Uganda, because the low-priced local product will not compete with it on present terms) will advance at least 1/- per bag. The result will be the public will pay an increase of:-

Present imported flour Kenya and Uganda 20,000 bags @ 1/-	20,000/-
Uganda, 17,000 imported in place of local at 10/06, increase	171,020/-
Tanganyika, 17,133 @ 8/25	141,347/-
Kenya, 15,484 imported to replace local @ 13/-	201,292/-
Mombasa, 7,178 @ 9/25	69,986/-
Local, due to increased price to mills and cost of milling, 76,229 @ 9/- ...	686,061/-
	1,289,706/-
Less 25 per cent..............	322,426/-
	967,280/-

The nett result from the consumer's point of view will be an immediate increase of about 25% in the price of bread, resulting in demands for removing the duty on flour; the subsequent collapse of the wheat industry for ever; and the loss of the hard won markets for Kenya flour in Mombasa, Tanganyika and the Congo.

8. <u>BENEFITS FROM FREE IMPORTATION:</u>

(a) Wharfage on imported wheat;
Railage " " " to Nairobi;
Re-railage on 27,271 bags to Rebate Markets;
Wharfage on 17,133 bags to Tanganyika.

(b) Trade balance better maintained by a lower price being paid for wheat, than would be paid for flour.

(c) Maintaining a considerable staff in the mills with the ability to purchase goods on the local market, to the general benefit of trade, who will otherwise join the ranks of the unemployed.

(d) Making use of the extensive capital sunk in mill business in the Colony.

(e) Provide supplies of offals most necessary to the stock and poultry industries, in view of the damage done by locust to the grazing of the Colony.

(f) Save the public of the Territories something like £50,000 in their bread costs, making that much more cash available for circulation in ordinary commodities, to the benefit of trade and revenue.

(g) Immediately have available markets for the 1933/34 wheat.

9. EFFECT ON WHEAT INDUSTRY: It must be realised, if there is no import of wheat, that the mills must close for the latter part of the year, which will result in the Kenya flour and Atta going entirely off the market and it will take a very long time to re-establish them again. The Colony and neighbouring territories will be stocked with imported flour and have orders in transit, all of which will militate against the re-establishment of the local flour on the market.

There is the further psychological effect on the wheat growers; if they appreciate that Government is endeavouring to assist them in their present distressed circumstances, they will continue; if not, many may go out of wheat.

10. WHEAT INDUSTRY IN THE PAST: Acres of wheat planted and bags harvested:-

Year	Acreage	Total bags	Bags per acre	Average Price
1927/28	75,102	173,958	2.31	18/54
1928/29	82,951	228,141	2.75	15/39
1929/30	63,217	293,468	4.64	13/19
1930/31	72,150	194,337	2.69	9/27
1931/32	43,135	74,196	1.02	13/74

There is a very definite indication in these figures:- The result of 1927/28, with only 2.31 bags and a price of 18/54 was an increase in acreage. The acreage fell in 1929/30, but the good yield and price of Shs.13/19 again stimulated planting. The real cause of low acreage in 1931/32 is due to the poor yield and low prices, but the reduction in yield is mainly attributed to locust damage.

The statement is very generally made that the crops which will be reaped this year and have not suffered from locust damage will give a heavier yield per acre than has been the case for 10 years.

There is every indication that the good yield and Shs.13/74 average price per bag paid for the 1931/32 crop will stimulate production, and there are good grounds, particularly in view of the improved varieties of wheat being propagated, to conclude that the industry will very soon regain its importance in the economic structure of the Colony and, by export, provide credit overseas to assist in providing funds for our heavy interest commitments.

There is the further point that the gold field at Kakamega may develop to one of considerable proportions, using quantities of flour and atta which should be supplied from local wheat.

11. <u>CONCLUSION:</u> The Home country has introduced a quota system and guaranteed a price to the farmer for his wheat. This is being paid for by the consumer.

This application to strive to save the Wheat Industry provides for cheaper bread to the consumer than will otherwise be the case and the only loser in the Colony will be the State, who will possibly forego some portion of its customs duty - a duty not imposed for revenue purposes, but to protect and establish the industry. The present unfortunate position has been brought about by serious locust infestation, which has caused serious damage to wheat crops during the past three years.

We feel sure that the Government will realise the advantage to be derived by the Colony and neighbouring territories from the continuance of the policy adopted during 1932, to cover the 1933 year, which on present figures will mean an importation of 65,485 bags.

Trusting you will be able to give us some assurance on this matter at an early date.

Yours faithfully,
THE KENYA FARMERS' ASSOCIATION (CO-OP) LTD.

(signed) G.W.C.GRIFFITHS

GENERAL MANAGER.

B #9

4.

C. O.

Mr. Allen. 26/4/32.

Mr.

Mr.

Mr. Parkinson.

Mr. Tomlinson.

Sir C. Bottomley. 26

Sir J. Shuckburgh.

Permt. ~~U.S. of S.~~ 27.4.32

Parly. U.S. of S.

Secretary of State. has approved – see minutes sd of 6.11 2.5.32

DRAFT. TELEGRAM.

(CONSON. V. MINUTES)

GOVERNOR,

NAIROBI.

(Copy 1, 2, 3 and this to Treasury LF.)

Copy to Treas. B/12 -4 MAY 1932

18020/1/32. Kenya.

C.O.
R 2 MAY
D 3

Coded & sent 1 pm 2.5.32 G.B.

No. 88

Confidential.

Your confidential telegram 21st April. In view of your further representations and relying on undertaking of Association referred to in paragraph 3 of your despatch 19th March No. 133 I do not propose to press suggestion in my telegram No. 73 and I acquiesce in course of action proposed in your despatch strictly limited to period ~~ended 30th November~~ ending 31 December next. Please send home at end of period report on working of arrangement.

30

His Majesty's Eastern African Dependencies

CHD/LMR.

KENYA. UGANDA.
TANGANYIKA. ZANZIBAR.

TELEPHONE: WHITEHALL 5701/2/3.
ANY COMMUNICATION RESPECTING THIS MATTER SHOULD BE ADDRESSED TO THE SECRETARY. QUOTING REF.

TRADE & INFORMATION OFFICE.
Royal Mail Building
Cockspur Street
(ENTRANCE SPRING GARDENS)
London, S.W.1.

NYASALAND.
NORTHERN RHODESIA.

CABLES: EAMATTERS, LONDON
TELEGRAMS: EAMATTERS, LESQUARE, LONDON.

26th April, 1932.

3756/32

Dear Allen,

I am sorry to say that I have not been able to get frightfully definite accurate information with regard to the Kenya Farmers' Association in so far as its capital is concerned. There is nothing on record here, and I therefore spoke to Mr. Cripps of Messrs. Mitchell Cotts & Co., their London Agents. He could not give me the figure absolutely accurately, but he said the capital was somewhere in the region of £100,000, and he was confident that I would not be far wrong in taking this figure.

The remaining information which is on record here is a fact and might also interest you. The Kenya Farmers' Association was originally a company limited by guarantee. It was then turned into a company limited by shares, and Mr. Cripps informs me that it has quite recently become a co-operative society. In December 1926 the Plateau Maize Growers' Association was also amalgamated with it. According to the latest information in my possession the Chairman is Mr. James McKay, and the Directors:-

Mr. J.J. Toogood,
Mr. F.H. Weller,
Mr. W.A. Bouwer,
Mr. J.E.A. Wolryche-Whitmore,
Lt. Col. D. Pudsey
Col. Griffiths, C.M.G., (General Manager)

Yours sincerely,

C. H. [signature]

Deputy Commissioner.

H.T. Allen, Esq.,
Colonial Office,
Downing Street,
London, S.W.1.

COPY FOR REGISTRATION

22 APR 1932
COL. OFFICE

3

TELEGRAM from the Governor of Kenya to the Secretary of State for the Colonies.

Dated 21st. April.

(Received Colonial Office 3.32 p.m. 21st April 1932)

Unnumbered. Confidential.

Your telegram of 11th April Confidential No.73. Much regret my action does not entirely meet your views. The immediate problem we had to face was in effect either to admit sufficient wheat duty free to secure continuance of operation of mills without which wheat growing industry cannot be maintained or to let events take their course with result that as duty paid wheat is an uneconomic proposition it would not have (had) been imported. This would be against interests of the community and of neighbouring territories as cost of imported flour would rise in the absence of competition with local flour. The unsatisfactory position is exceptionable and almost entirely due to locusts.

The question was exhaustively examined by Executive Council and unanimously recommendation was to adopt first alternative. The Government suffers no actual loss beyond what it would have gained from increased imports of flour and this gain would be at risk of sorely crippling already unstable wheat industry. Railway and Port benefit slightly as they obtain additional traffic. The case is not comparable with the assistance granted in the past to cereal industry on loan basis. I trust above may cause you to reconsider your views for frankly I foresee great difficulty in carrying out your wishes) as Kenya Farmers Association is merely an agency making no profits out of transactions and therefore can hardly be expected to accept liability for repayment of loan.

copy to Treasury 13/4 - 4 MAY 1932

Ans. Tel. No. 88 L 5.32

C. O.

18020/1 Kenya.

Mr. Freeston 9/4

Mr.

Mr.

Mr. Parkinson

Mr. Tomlinson.

× Sir C. Bottomley. 9.4 ...

Sir J. Shuckburgh.

Permt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

DRAFT. tel.

Governor

NAIROBI.

conson.

Coded ... 1.30 PM 11/4/32

C.D.
R 11 APR
D 13

DOWNING STREET.

April, 1932.

No. 73 Conf. Your despatch 19th March 133. I ~~realise~~ recognise the force and urgency of the reasons which led you to give the assurances described in para.4. But in view of the strong objections in principle, of which you are well aware, to granting assistance to a particular depressed industry at the expense of the community, I should much prefer that the amount refunded to the Kenya Farmers Association should be treated as a loan bearing interest at current rate, to be repaid when I am satisfied on your advice that the industry can stand it.

I

I trust that you will be able to inform me that resolution for submission to Legislative Council is being amended on these lines.

Amount of relief on railway rates should similarly be liable to interest and subsequent repayment.

SECER.

KENYA.

No. 133

GOVERNMENT HOUSE,
NAIROBI,
KENYA.

AIR MAIL.

19th March, 1932.

No 3 on 17270/31

Ansd. tel. conf. 11/4/32 (2)

Sir,

I have the honour to refer to your predecessor's despatch No.724 of the 21st October, 1931, and to inform you that the damage caused by locusts and other factors have reduced the quantity of wheat, which has been harvested in the Colony during the season which has just closed, to such an extent that only 109,000 bags were harvested and, after making an allowance for seed and other needs, 32,000 bags only are believed to be available to meet the milling requirements of the Colony, which are estimated to be 80,000 bags before the end of the year, when the first crop of the new season's wheat will be ready for milling.

2. To meet this situation and to tide both the wheat and milling industries over this period of temporary shortage the Kenya Farmers' Association which, as you are aware, is the agency appointed under the Sale of Wheat Ordinance have submitted to Government a scheme under which they propose to import wheat from Manitoba or Western Australia for mixing with local wheat. This scheme, however, can only be put into operation if means can be devised for waiving the customs duty on such imported wheat and possibly reducing the freight rates on the Railway. I enclose a copy of the memorandum submitted by the Kenya Farmers' Association in which the proposal is set out at.....

THE RIGHT HONOURABLE
MAJOR SIR PHILIP CUNLIFFE-LISTER, P.C., G.B.E., M.C., M.P.,
SECRETARY OF STATE FOR THE COLONIES,
DOWNING STREET,
LONDON, S.W.1.

34

at length, together with a covering letter from the Director of Agriculture supporting the proposal and suggesting a means whereby the relief asked for can most conveniently be granted. I also enclose two further letters from the Kenya Farmers' Association, the former being a reply to a request for further information on the following points :-

(1) The capacity of the mills to pay the whole or part of the duty and compete with imported flour.

(2) Cost of imported flour at Mombasa and Nairobi as compared with cost of imported grain milled locally and flour landed at Mombasa and Nairobi.

(3) What profits (if any) are being made by the milling industry.

(4) The advisability of retaining the coastal markets even at a temporary loss in order that the "honesty of purpose" may not be challenged by neighbouring Governments.

(5) Can any assurance be given that the price of flour made from imported wheat with an admixture of local wheat will not be raised if the whole or part of the duty is remitted ? Alternatively what would be the position in regard to the price of local flour if the duty were not remitted?

3. The whole question was then considered by the Governor in Council which was impressed by the urgency of granting the relief asked for if the organisation of the milling industry and the local production of wheat were to be saved. It was pointed out that it would be disastrous to these two industries and to the interests of the Colony as a whole if the market for local flour, which has been won by strenuous efforts over a period of years, were to be allowed to collapse and trade connections to be lost. It was observed that if this relief is granted the Kenya Farmers Association has undertaken to do its utmost not to raise the local price of flour and to retain the Coast markets in spite of the heavy rail freights which the

up-country mills have to bear in competition with imported flour. In all the circumstances it was considered in the best interests of the Colony as a whole to waive the Customs duty on the proposed importation, which is estimated to amount to some £21,500. This emergency was not of course foreseen when the Revenue Estimates were drawn up and the figure in question, if realised, would have been of the nature of a windfall. To this extent therefore these proposals represent a real sacrifice of revenue especially as on the figures shown were this relief not granted the importations of foreign flour would presumably increase during the year with resultant profit to the customs. It was further agreed that there were obvious difficulties in amending the Customs Tariff Ordinance in order to provide this relief and the proposal therefore is that the duty should be paid in full but a refund made to the Kenya Farmers' Association on the lines of a draft resolution which it is proposed shall be moved in Legislative Council at its next session.

4. As such a refund will normally be required to be covered by a Supplementary Estimate and a Special Warrant, I should be grateful if your authority for the course proposed could be conveyed to me by telegram. Owing to the urgency of the case and the absolute necessity of ordering the wheat immediately so that admixture may start while there is still enough Kenya flour left to form a reasonable proportion of the final product Sir Joseph Byrne, before he left yesterday for Naivasha, authorised the giving of an assurance to the Kenya Farmers' Association that the refund would be made. Further, in his capacity as High Commissioner for Transport he has authorised the Railway to charge

country produce rates for this wheat between Mombasa and the mills, as was done in 1929 when, owing to famine conditions, maize had to be specially imported. The difference between these rates is Shs.3/- to Nairobi, Shs.4/14 to Njoro and Shs.4/96 to Eldoret.

I have the honour to be,

Sir,

Your most obedient, humble servant,

[signature]

GOVERNOR'S DEPUTY.

(5)

DEPARTMENT OF AGRICULTURE,
P. O. Box No. 323,
NAIROBI. 8th March, 1932.

NO. C/WHEAT/O/1/65.

CONFIDENTIAL AND URGENT.

The Hon. Colonial Secretary,
NAIROBI.

IMPORTATION OF WHEAT.

I attach copy of a letter, dated 4th instant, received from the General Manager, Kenya Farmers' Association. I believe the facts to be as stated, and the main proposal has my support.

2. The arguments advanced are, in my opinion, cogent and I would emphasise the importance of maintaining the organisation of the milling industry and of placing millers, not only in their own interests, but in those of wheat growers, in a position to continue supplying their customers with flour, the market for which has been won by strenuous efforts over a period of years. If these trade connections are lost and if the mills cease operations, even for a period, much time will be occupied and money spent in recovering the present position.

3. The proposal does not involve Government in the loss of any revenue estimated for 1932, if the precautions which I recommend in succeeding paragraphs are adopted. Indeed, this shortfall of locally-grown wheat will in any case result in additional revenue accruing from the duty on flour imports, as part of the local market, particularly at the Coast, will have to be surrendered.

4. As to waiving the duty on wheat imported in grain, it is in my opinion inadvisable in the circumstances to proceed by an amendment of the Customs Tariff Ordinance, especially in view of the reference which would be required to neighbouring territories and the other issues which might be raised, also to the need for an immediate decision and the temporary nature of the provision.

5. I therefore propose that the matter should be dealt with by resolution of Legislative Council along the lines of the draft attached. Having regard to the provisions of the Sale of Wheat Ordinance and the appointment under it of an Agency for the purchase and sale of wheat to the mills, it seems to me that the refund can well be restricted to importations made by the Agency. Further that it should only apply in respect to that quantity which represents the shortfall of the crop for the purposes of the normal milling requirements of the Colony. Again, that it should only apply to wheat imported during the period prior to the availability of the next bulk crop - i.e. during the remainder of the year. I have discussed the proposals made in this paragraph with the Commissioner of Customs and I gathered that he would raise no objection if Government decided to proceed in the manner now indicated.

6. It is clear that the mills could not maintain

their---

their flour market if the duty amounting to Shs. 3/- per 100 lb. plus the suspended duty now in operation of Shs. 1/50 per 100 lb. - equal in all to Shs. 9/- per bag of 200 lb. - were imposed without refund, and in discussion with the General Manager, Kenya Farmers' Association, I understand it to be the firm intention of the Agency and the mills to make an earnest endeavour not to raise the proce of flour, sold locally, above its present level.

7. On an assurance being given that Government would move along the lines herein suggested, or approve and deal with the request in another manner, orders could immediately be placed for the wheat required, in advance of the meeting of Legislative Council.

ALEX HOLM.

DIRECTOR OF AGRICULTURE.

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KENYA FARMERS' ASSOCIATION LTD.

NAKURU.

4th March, 1932.

The Hon. Director of Agriculture,
Nairobi.

Dear Sir,

IMPORTATION OF WHEAT.

(1) This Association, acting as Government Agents, have carefully collected figures from all growers of wheat and the final figures disclosed a position much worse than has been anticipated.

(2) The total amount of 1931/32 wheat, which, on the highest estimates, will be available for sale by farmers will be 68806 bags, to this may be added an approximate amount of 3,000 bags which will possibly be available from Nanyuki area, being reaped in March, this brings the total up to 71,806 bags.

(3) The over-carry of wheat from last season has been wholly used up. The mills and poultry feeders in the Colony have used, during the period 1st September, 1931 to 29th February, 1932 (six months) 29,761 bags of old crop and 31,131 bags new crop, a total of 60,892 bags, or just over 10,000 bags per month.

(4) If we take the maximum total crop available of 71,806 bags and deduct the 31,131 bags already consumed, we have an available balance of 40,675 bags. Experience has shown that wheat growers generally over estimate their available surplus, generally using more for seeding on farm use than they anticipate, added to which there is always a certain percentage of wheat rejected for mustiness, which is used for pig food and excluded from these figures. We therefore believe that the total balance to be delivered will not exceed 32,000 bags.

(5) The next wheat to be reaped will be in the Nanyuki and Machakos areas during August.

The crop from Machakos will be small and the Nanyuki crop not likely to exceed 6,000 bags. This wheat will not be in milling condition until the end of October. Nakuru wheats will be reaped towards the end of September and in milling condition about the middle of December, Molo and Plateau wheats become millable in January. We have, thus, available 32,000 bags of wheat to carry on our mills until the end of October, a period of 8 months.

(6) The "Wheat Advisory Board" have, with the idea of developing these markets, approved of a rebate system on wheat used in flour and sold in the Belgian Congo, Dar-es-Salaam and Mombasa.

The total wheat upon which rebates have been allowed, during the past six months, amount to 13,918 bags, these rebates, owing to the wheat shortage, have been discontinued, and a considerable portion of this business will have to be given up. Taking the figure of consumption during the past six months of 60,892 bags and deducting the 13,918 bags of rebate business, we have the figure of 46,974 bags, so that, if the business in Mombasa, Dar-es-Salaam and the Belgian Congo is entirely lost, the monthly consumption will be approximately 8,000 bags per month.

(7) Taking our available wheat at 32,000 bags and our monthly requirements at 8,000 bags, we have in sight, under favourable conditions, sufficient to carry us on until the 30th June, 1932, thereafter the mills will remain closed until, most probably, the 1st January.

(8) We have gone into the question with care, and believe any wheat to be used for mixing with ours must come from Manitoba or Western Australia.

Manitoba wheat, in parcel lots, would cost Shs.32/30 per quarter, free on board, New York, or Shs.150/50 per ton, freight approximately Shs.40/- per ton, to this must be added commission 1%, exchange 1½% and insurance, bringing the total to Shs.196/- per ton, c.i.f. Mombasa, wharfage 1%, handling Shs.4/- per ton and agents 50 cents per ton, bringing the figure to Shs.202/46 per ton, or Shs.18/08 per 200 lbs. free on rail, Mombasa, railage to Nairobi amounts to Shs.5/97 per bag, so the bag of wheat at the mill, Nairobi, would cost Shs.24/05.

From Western Australia, we have a quotation for a charter of 2,000 tons, this is on a basis of freight of Shs.35/-, which is not likely to be repeated and works out at Shs.14/04 per bag, free on rail, Mombasa, which with a railage of Shs.5/97 brings the Nairobi figure up to Shs.20/01.

(9) It would appear that without any duty, we are unlikely to be able to import wheat so as to land it in Nairobi at less than Shs.20/-. With good wheat it takes one and one-third bags to produce a bag of flour. The highest valued product of wheat is superfine flour which represents only 25% of the total production and is sold at Shs.35/- at the mill. Seconds and Atta represent 50% of the production and are sold at an average price of Shs.27/-, while bran and pollard, with a milling loss of 2% make up the remaining 25%. From these figures it will be seen that, were any duty to be added to the cost of imported wheat, it would not be possible to mill it economically in the Colony, and the prohibitive price, with added duty, would mean the closing of the mills.

(10) There are 24 registered mills in the Colony, employing a very considerable number of men of all races and were no wheat available these would be thrown out of employment. Several of the millers are highly technical men, receiving good salaries, and often on contract, were the mills to stop these men would have to be compensated and returned to England and South Africa. The use of locally milled flour has, after a long struggle, become fairly general and were the mills to close down for any period and this Kenya product not be available on the market, the whole of the labour would prove in vain. It would take years, were the mills again to commence business, before Kenya flour would again come into general use.

This would mean a large export of wheat at low prices, and before the millers would take any quantity of wheat the growers would have entirely gone out of business. The absolute necessity of keeping the mills running is so self-evident it requires no further remarks.

(11) Wheat should be imported only in such quantities as, with the local wheat added, will provide the mill requirements. The importation should be controlled and it should only be sold to mills in proportion to the amount of local wheat they consume.

(12) If wheat is to be imported, the importation is a question of urgency, so that it may be mixed with the local wheat available for as long a period as possible, and prevent our having to produce a flour from imported wheat alone.

(13) The fore-going paragraphs definitely indicate that the importation of wheat is an absolute necessity, and that such importation must be duty free and definitely controlled.

(14) The Directors of this Association and the Wheat Advisory Board have instructed me to ask Government to, at the earliest possible moment, grant a permit for the importation of wheat, duty free, to be sold to all mills in proportion to the amount of local wheat they consume. The quantity of wheat so imported to be only sufficient to supply the milling needs until local wheat is available in milling condition.

(15) I beg that you will place the position before Government and urge the necessity of immediate action, letting us know the decision of Government as soon as possible.

The period which must elapse between the Hon. Government gives its decision and the wheat arrives will be considerable and makes the immediate decision, if it is to be of value, necessary.

Yours faithfully,

THE KENYA FARMERS' ASSOCIATION LTD.

Sd. F.W.C. GRIFFITHS.

GENERAL MANAGER

KENYA FARMERS' ASSOCIATION LTD.

COPY

NAKURU. 15th March, 1932.

The Hon. Director of Agriculture,
NAIROBI.

IMPORTATION OF WHEAT.

Dear Sir,

With reference to the points put forward in your letter, ref. No.C.Wheat/O/1/77, of the 14th instant:-

(1) This is really a matter of economics and is answered to some extent by the certificates as to loss incurred in last season's working of Messrs.Unga Ltd. and the Kenya Grain Mills Ltd. In order that there can be no question of the mill profits, I enclose certificates signed by the auditors as to the losses incurred by these mills during last year. It must be further remembered that no dividend or interest of any kind was paid on the ordinary paid up capital (£35,316) of these two mills.

I do not know the exact figures for the other mills, but I do definitely state that not one mill worked at a profit.

The price of Superfine flour in Nairobi is Shs. 35/- and best Atta Shs.33/-. There are, of course, the other grades of flour and Atta sold at much lower prices. The large proportion of the flour and Atta business in the Colony done by Indian traders requires the employment of Indian brokers who are paid by the mills, and the average return to the mill for the last five months for all flour and Atta sold has amounted to:-

September	31/79
October	28/02
November	28/67
December	28/39
January	29/55
Average for five months	29/28

It must be remembered that the mills at present, for the best grade of wheat, pay 17/50 per 200 lbs. plus railage (averaging 75 cents), so that the best wheat costs 18/25 at the mill.

As it takes one and one-third bags of wheat on 75% extraction to produce a bag of flour or Atta, the price of wheat in the flour and Atta sold amounts to 24/33. It is true that the mills do not take all first grade wheat, bu the percentage of extraction is lower where the wheat is of lower grade and lower price, so that the result to the mill is the same. After making all allowances, the difference between the average selling price of 29/28 and cost of wheat 24/33 (or 4/95) is not sufficient to run a mill on and show any profit.

I enclose for your confidential perusal and return copies of the Kenya Grain Mill Cost and Trading Accounts for the months of December and January. I have not received the February statement yet, but the statements enclosed show the position clearly. From the above figures it will be realised that the present price of 18/25 at the mill is as much as mills can pay if they are to maintain the present price of flour and atta.

The mills hope that the wheat imported will be of higher quality, with possibly a greater extraction, than that at present milled and they may thus be able to sell at the present price.

(2) The comparative values of wheat and flour are:-

Imported Wheat:-

Free on rail Kilindini - no duty paid	-	14/04
and in Nairobi		20/10

apparently not duty paid

Imported Flour:-

Free on rail Kilindini - duty paid	-	33/50
and in Nairobi		41/77

It is expected that flour milled with an admixture of local wheat with imported wheat will still be sold at 35/- Nairobi.

In Kampala the price of locally milled flour is 40/60. Imported flour is sold at 50/31, the local flour being 10/- less than imported. Uganda last year purchased 15,677 bags of Kenya flour and atta and at a saving of 10/- per bag will benefit to the extent of at least Shs.156,770/- per year, provided millers can still continue to supply imported wheat flour at present prices. This would appear to be impossible unless some reduction is made in the present rate of railage on imported wheat, especially to Eldoret. Imported wheat at 14/04 per bag, and railage to Eldoret at 9/77, will make the mill price of wheat 23/81, and at this price they cannot possibly sell flour at Kampala at 40/60.

Uganda will make further savings by the maintenance of the Kenya mills as it is a purchaser of fairly large quantities of the lower grades of Atta which are not at present imported.

(3) With reference to the profits made by mills:- I am satisfied no profits are being made by any of the flour mills in the Colony. The Gilgil Posho and Flour Mills filed their petition last year. I enclose two certificates with reference to the other mills' business during the year. These facts speak for themselves.

(4) The question of the Coast markets presents difficulties:- railage Nairobi to Mombasa on Kenya flour amounts to 2/85 so that if you take flour at Nairobi at 35/-, plus 2/85 railage - Shs.37/85 is the cost in Mombasa, compared with imported flour at 33/50.

With reference to Dar-es-Salaam, taking the price of 35/- at the mill and costs of transit - Shs.5/30 - the actual cost is Shs.40/30 at Dar-es-Salaam. Millers are at present making a loss in this market and selling at 36/- which represents only 30/70 for Superfine flour at the mill and from this must be deducted the Agents' commission and godown rent at Dar-es-Salaam.

(5) It is impossible to say whether all mills could maintain the present price if the whole of the duty were remitted, because of the fact that overseas prices of wheat may increase, which would mean that the price of wheat to the mills would be higher than is estimated in these figures.

It is fair to assume that the imported flour would at the same time increase, but it must be remembered that a quantity of imported flour is really sold at below its real value in the Colony. There is the further factor that the heavier railage to the Eldoret Mills would result in the wheat they received costing them considerably more than the present local wheat, but it can be taken that if first quality wheat can be delivered at the mills at between 19/- and 20/- per bag there is no likelihood of the price of flour increasing. If theduty were not remitted there is no doubt whatever that the mills would have to close. This is a self-evident fact, as the wheat would in Nairobi cost in round figures 29/- and at Eldoret 32/-, and at this price no mills in the world could compete.

With imported flour at 41/77 and 45/56, respectively, cessation of milling, apart from all the other ill effects it would have on the Colony, would mean that the price of flour would probably go up; but even if it did not go above its present level, it would mean that the public (presupposing we import 40,000 bags of wheat) will pay 6/50 per bag at least on 30,000 bags of flour, or 195,000/- more during 1932 than would be the case were importation of wheat allowed duty free.

I trust that this has cleared up any points you may have had doubt upon.

Yours faithfully,

G.W.C. GRIFFITHS
General Manager
KENYA FARMERS' ASSOCIATION, LIMITED.

THE KENYA FARMERS' ASSOCIATION LTD.

NAKURU.

17th March, 1932.

The Hon. Director of Agriculture,
NAIROBI.

IMPORTATION OF WHEAT.

Dear Sir,

With reference to my conversation with you this morning, the exportation of flour to Dar-es-Salaam last year amounted to 27,986 cwts., or 15,677 bags of 200 lb. each. To take the half year, 7,838 bags: - The Consumption in Mombasa is difficult to estimate owing to the fact that if no rebate is allowed imported flour will be able to compete on advantageous terms with the locally milled flour up to probably as far as Voi. However, we can take the figure roughly as 5,000 bags of flour. In order to be on the same side we can assume that the amount of flour consumed in the coastal areas and Dar-es-Salaam will be at least 11,000 bags. If you take the total importation of wheat necessary as 42,000 bags and add 14,600, the 11,000 flour converted to wheat will have an importation of 56,600 bags. On the figures I have given you previously we have assumed that we will be able to continue our market price of flour with imported wheat at between 19/- and 20/- per bag. The actual cost of imported wheat on the basis previously submitted was 20/04 assuming that the whole of the duty were remitted. If the Country Produce Rate is applied instead of the ordinary existing rate, there will a saving of 3/06 per bag on imported wheat at Nairobi, which will mean that imported wheat will cost 16/98. If you take it that it is possible for the mills to retain their business at 19/50, then there will be a saving of 2/50 per bag on each bag of wheat sold to the mills. This, on 56,600 bags, will amount to 141,500/- . In order to retain the coast and Tanganyika markets and allowing slightly lower rebates than have been the case in the past, 127,000/- will be required for rebates in respect of wheat used for coast and Tanganyika. This leaves a balance of 14,500/-, which will be used to maintain the coast markets by allowing a rebate on the wheat now being milled, it being understood that at the present time no rebate is allowed and therefore practically no sales at the coast are being made.

After going into the figures, I am satisfied that if the Government, realising the great advantage it is to the Colony to retain the coastal markets and Tanganyika trade, decides to refund the whole duty on imported wheat and the railage charged on such wheat is Local Produce Rate, then the milling industry will retain these markets.

Yours faithfully,

sd. G. W. C. Griffiths

GENERAL MANAGER.
KENYA FARMERS' ASSOCIATION LIMITED.

DRAFT RESOLUTION FOR SUBMISSION TO LEGISLATIVE COUNCIL.

Whereas, by reason of destruction by locusts and other causes, the yield of wheat from the 1931 - 32 crop is insufficient to meet the requirements of the milling industry for the production of flour for the needs of East Africa, and whereas it is expedient to import wheat in the grain rather than in the form of flour, Council do therefore approve that the amount of duty levied on such wheat imported by the Agency appointed under the Sale of Wheat Ordinance, 1930, be refunded to that Agency; provided that the quantity of wheat in respect of which such refund shall be made shall be confined to that amount which does not exceed the shortfall of the crop mentioned above for purposes of the normal milling requirements, and provided also that it shall be restricted to such quantity as may be imported between the first day of April and the last day of December, 1932, under licence issued by the Director of Agriculture.
