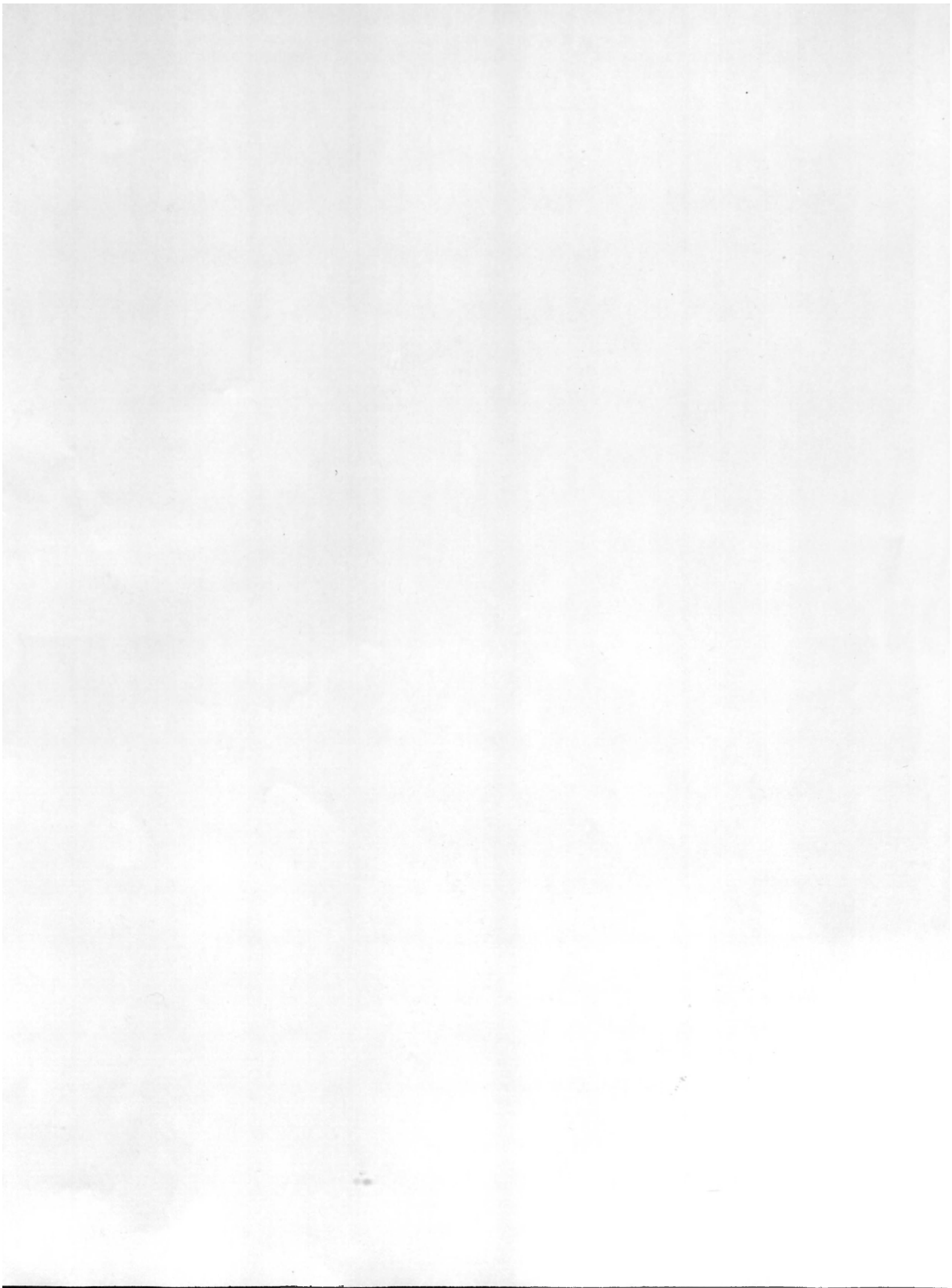

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COMPANY FORMATION IN KENYA BEFORE 1945. WITH PARTICULAR REFERENCE TO THE ROLE OF FOREIGN CAPITAL.

by

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ABSTRACT

This paper will examine some aspects of capitalist development in Kenya before 1945. The role of the state will be evaluated in the context of opposing interest: those of local and foreign capitalists, respectively. The paper endeavours to illustrate the process of domestic accumulation of capital that ran parallel with investment from metropolitan firms in the colony. The areas and types of investment are explored and a comparison is implicit in the arguement with the present stage of indigenous capital accumulation. The analysis concludes with some detailed case studies on particular foreign companies that entered Kenya before 1945, where the aim is to show in some detail the competitive relations of capitalist production when applied to the control of a particular commodities; for instance, tea. The theme throughout this discussion is competition of capitals, a mechanism which was the driving force behind both the expansion of foreign firms into the region as well as the absorption by these foreign companies of local capital.

COMPANY FORMATION IN KENYA BEFORE 1945, WITH PARTICULAR REFERENCE TO THE ROLE OF FOREIGN CAPITAL.

Introduction

In Western Europe and America in the late nineteenth century and early twentieth century there was an enormous growth of industry and a rapid concentration of production in ever larger enterprises - which was a characteristic feature of advanced capitalism. This new stage of capitalism was marked by the increasing size of enterprises and the formation of cartels and monopolies which attempted to control particular branches of production.[1]

The emergence of these monopoly forms of capitalism did not, however, preclude the laws of capitalist competition. Capitalism in this concentrated form sought to expand to areas where it could realise a higher rate of profit. The establishment of administrative control over Uganda and Kenya at the end of the nineteenth century by the British, was in response to pressure from British merchant capital to increase control over supplies of agricultural commodities.

It is important from the outset of our analysis to establish a distinction between merchant and industrial capital, and to explain their interdependence. Merchant capital derives its surplus product from engaging in unequal exchange, ie. selling a particular commodity at a price higher than its value. Merchant capital is the intermediate step of transformation from money capital to productive capital. The accumulation of merchant capital requires the expansion of commodity production which has the effect of disrupting pre-capitalist modes of production.[2] In East Africa in the first half of the twentieth century, this form of accumulation of merchant capital is evident.

On a global level, by the beginning of the twentieth century the profits to merchant capital had begun to dwindle due to the concentration of production in response to competition, and it was increasingly forced to give up its' 'independent' role and act as an agent of industrial capital.[3]

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1. V.I. Lenin, Imperialism, the Highest Stage of Capitalism, (Progress Press, Moscow, 1968), pp. 14-27.

2. For a fuller exposition of these points see: G. Kay, Development and Underdevelopment a Marxist Analysis, (Macmillan Press, London, 1975), Chapter five.

3. G. Kay, ibid., p.124.

Due to the intensely competitive conditions for merchant capital which was to culminate in the collapse of primary commodity prices during the depression, it was forced into the sphere of production. By the end of World War Two industrial capital was prompted to invest directly in production in the developing areas.

In this paper, the intention will be to examine the development of capitalism in one colonial area: Kenya, with an emphasis on the competition between capitals which occurs at all levels of accumulation, both merchant and industrial. However, in Kenya, unlike in many other British colonies, surplus from capitalist production was not the exclusive domain of the metropolitan bourgeoisie, but was shared between this class and the local settler class. Therefore, the focus of this study will not only be on the efforts of British based cartels to control the conditions of production in Kenya, but on the relationship between local and foreign capitals.

To begin with, the role of the state is evaluated in the context of the opposing interests of local and foreign capital. It is important to draw a constant distinction between the local administration and the metropolitan government in support of their respective interests. The next part illustrates the process of domestic accumulation in the colony which ran parallel with investment from British conglomerates. By analysing capitalist growth from the perspective of company formations it is possible to examine all types of enterprise from agriculture to manufacturing and to assess their relative importance. The areas and type of investment of these local firms is explored and a comparison is implicit with the present stage of indigenous capital accumulation. The section on trading outlines Britain's trading position in East Africa and the competition between the different national merchant capitals which ultimately necessitated their move into production after the war.

The section on the role of international capital reveals the nature and extent of foreign investment in different branches of trade and production in Kenya before 1945. In each area of accumulation, an attempt has been made to show the point at which merchant capital finds itself compelled to convert to industrial capital after the Second World War. This part is concluded by three case studies on particular foreign companies which entered Kenya before 1945, each in a different sphere of activity. The aim here is to show in more detail the competitive relations of capitalist production when applied to the control of certain commodities such as tea and soda ash. In both these commodities a near monopoly was finally established by foreign industrial firms over the Kenyan source of production.

Part 1. **THE ROLE OF THE STATE.**

East Africa from the late 19th century was linked to world market forces through British Colonialism. At the time of the advent of British administrative control of these territories the area had limited indigenous markets as well as poor communications, and was later to be settled by a small group of European farmers whose interests were distinct from and often opposed to those of British capital. It is within the context of these opposing interests that we will examine the role of the state,[4] both central and local, in capitalist development before 1945.

From the outset of British administrative control of the three East African territories, there emerged a policy of simple primary production by metropolitan capital. Colonial development in Africa in the 1920s was designed to increase the the supply of raw materials to British industry and at the same time to encourange the growth of 'captive' markets in the colonies for British manufactured goods. Therefore, when it came to providing loan capital for development in these colonies the central British administration was loath to supply this finance. However, in response to the interests of the local settler class, the colonial bureaucrats in East Africa encouraged a policy of infrastructural development.[5] The finance for such developments in the late 19th and early, 20th century was provided by the central government through 'Grants in Aid',[6] which were designed to promote such infrastructure as roads and railways that would facilitate the extraction of primary products

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4. Colonial records regarding government policy on industrialisation are scant for the pre- Second World War period, which to some extent limits the analysis.

5. In general, the colonial government before the war backed the settler interests, see for a fuller exposition of this point: W. McGregor Ross, Kenya from Within, Revised edition, (Frank Cases, 1968.)

6. By 1936 the total of such grants in aid to British territories in Africa had only reached £27,000: Lord W.M. Hailey, An African Survey, (Revised edition, Oxford University Press, 1956, p.1323).

Grants in aid after 1929 were administered under the first Colonial Development Act, which had been put forward mainly as a means to help solve Britain's unemployment problem, and was therefore designed to provide funds which would in the first place service the interest on loans raised by colonial governments giving contracts to British firms. In fact, economic depression prevented colonial governments from raising loans, hence the low figure for 1936 quoted above.

from the interior. By the end of the 1920s, government investment in infrastructure in East Africa had been considerable; for instance almost 1300miles of new railway track were opened, with a corresponding expansion in rolling stock and five deep water berths were built at Mombasa between 1920 and 1932.[7]

Indeed the Colonial Development Act of 1929 had placed emphasis on the construction of railways and promotion of trade and commerce with Britain. Thus, in addition to the grants in aid to insolvent colonies from 1929, the central government decided to make available free grants or loans of up to £1m per annum for all British colonies, with relief on interest charges. The scheme took for granted that a large amount of expenditure would be generated by colonial economies themselves through the export of primary produce. But the instability of world commodity markets, on which colonial economies largely relied, caused a cut back in revenue after 1929, despite the surplus generated between 1925-1929. After 1930 a policy of 'retrenchment' was followed by the central government. Existing services were to be cut back, and once budgets had been balanced, all administrations were expected to build up large surplus balances to remove finally the need for British grants of whatever kind. These programmes of retrenchment in the East African colonies, as well as some poorer colonies, totally ruled out the use of the CDA concessions for new projects of any kind.[8] The following table shows how negligible was the effect of CDA to East Africa.

Table 1 - Allocations to EA from the Colonial Development Fund

Year	Kenya	Tanganyika	Uganda	
1929/30	0 0	112	0	
1930/31	67	81	18	
1931/32	-14	63	0	(£'000's)
1932/33	11	17	0	
1933/34	0	13	-1	
1934/35	117	126	2	
Total 1929-35	209	412	21	

(Source: C.D.A.C. Annual Report 1930-1940, in Brett p. 137)

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7. E.A. Brett, Colonialism and Underdevelopment in East Africa, the Politics of Economic Change, 1919-1939, (Nairobi, Heinemann, 1973). This book is one of the best sources of information regarding British policy towards the colonies, before 1945.

8. E.A. Brett, ibid, pp.143-144.

By 1930 even grants in aid had been precluded (supposedly replaced by the CDA scheme), and the policy of retrenchment was in full swing. The Lord Privy Seal in September 1931 suggested to the colonies that in order to assist the United Kingdom, colonies in receipt of grants in aid should make all economics possible, 'whilst in those better placed no loans should be raised if possible, since every loan raised will necessarily put a fresh strain on the structure of British credit'. The depressed conditions in Britain and the colonies had made it impossible for the CDA assistance to be utilised to any effect. Revenue in the colony was derived mainly from local sources, of which the most important established by the local administration were native hut (or poll tax) and customs duties, which alone produced 60-80% of all revenue in the colony. The settler community objected to any form of direct income tax, which they were successfully able to evade until 1938, when the central government was able to force a bill on the colonial administration to tax the local European farming community. Including cross-payments with regard to the railway administration, expenditure in Kenya Colony rose from £1,909,051 in 1922 to £3,114,912 in 1930. Kenya's public debt in 1936 was equal to £17,560,000; £17,200,000 of this was incurred between 1921 and 1933, of which 75% was for railways and harbours. As revenues dropped in the 1930s, interest became a heavier burden on the local administration.[9] At no time had the metropolitan government made provision for long term loans to assist either agriculture or manufacturing. Indeed, the colonial administration in East Africa was frowned upon by the Colonial Office for investing a heavy proportion of its revenue in infrastructural developments that were not considered necessary on such a scale in an area that did not have a very high resource potential. The Colonial Office felt that both settler and native agricultural production was too small to merit the high level of protection offered. 'The whole policy of Kenya requires review with the general end of tapering off the bounties and protection on the parasitical crops and so stopping them becoming a burden on the real economical industries of the country.'[10]

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9. G. Oates, The Colonial Office, Kenya and Development, 1929 - 1945, an unpublished conference paper presented at the Cambridge History Conference in June 1975.

10. Colonial Office Report - CO 852/12/15201, Macmillan Library.

The imperial government was clearly not willing to offer capital assistance on any large scale for agricultural concerns that it considered to be non-viable. However, when the depression hit the prices of primary commodities hard, the administration was forced to support these 'uneconomic' farmers, and a land bank was formed in 1931 to provide credit on easier terms. However the most common forms of credit before and after 1931 were through the commercial banks that had established themselves in East Africa during the 1920s; all of whom would advance loans to handle the producers crop.[11]

It will be shown that both on a general and specific level that the British need for complementary colonial economies resulted in a lack of in interest in industrial development in the colonies. Furthermore in the few cases where colonial industries did present a threat to metropolitan capital, they were squashed by the central colonial administration.

The work of the development agencies set up in the 1920's reflected the British government's unwillingness to establish colonial industries. The Empire Market Board for instance gave no assistance to manufacturing and limited itself to the marketing of Empire food and raw materials. The Colonial Development Advisory Committee placed no limit on its sphere of activity, but ignored the industrial sector. By 1939 it had allocated just under £8 million of which £151,000 was for industrial projects, and of this amount, only £23,000 or 0.3% of the total allocations had been disbursed (£16,000 of this went to the meat processing plant for Tanganyika.) As we will show in the section on trade, by the late 1930's Britain still dominated the E.African market for manufactured goods, and needed to defend this position against any threat from potential local manufacturers.[12]

The two most significant cases where the British government suceeded in destroying import substitution were the match factory set up by Japanese interests and a twine factory which was backed by British capital, both of these projects were in Tanganyika. The match company was under pressure from the Colonial Office in 1928, for schemes of this kind might present a serious threat to the hold which British manufactured goods had exerted over East African markets. Accordingly, the British government imposed an excise duty on the local product which served to contradict the local protection afforded by the existing import revenue duty. The match

11. R.M.A. van Zwannenberg, Colonial Capitalism and Labour in Kenya, 1919-1939, (East African Literature Bureau 1975), p.21.

12. E.A. Brett, op. cit., p.268.

factory, having to face such staggering conditions was to collapse after several years.

Another example of pressures brought to bear by British industrial capital on 'infant industries' in the British colonies before the Second World War can be found in the case of the twine and cordage industry which had grown up in Kenya and Tanganyika in the 1920's. The Imperial Preference system established between Britain and her colonies after the Ottowa agreement of 1932, was supposed to guarantee colonial producers free access to British and Commonwealth markets. However, when the question of colonial industries exporting their manufactured goods to Britain arose, it became clear that the Preference system functioned only selectively as this letter from the Secretary of State addressed to the Governor of Tanganyika in 1934 showed: "... the Secretary of State has received very vigorous complaints from the binder twine manufacturers in this country about the importation of binder twine from Tanganyika. While the actual amount is not large; only abour 500 tons out of a total consumption of about 10,000 tons p.a., the manufacturers complain that the arrival of the twine in this country and its offer at prices substantially below their own is threatening to undermine the whole structure of the industry...the home market is the only secure market which the manufacturers enjoy and it is only in that market that they can make any profit at all...the Secretary of State cannot but admit that the complaint of the manufacturers is a reasonable one...the agreement by which the rope manufacturers have undertaken to foster the use of colonial sisal in this country and elsewhere, is of the greatest importance to the colonial sisal producers and they could not possibly countenance any action which would alienate the sympathies of the rope manufacturers'.[13]

This was a clear threat to the colonial producers of twine that if they did not cease their exports to metropolitan markets then stern measures would be taken against them. The Tanganyikan company refused to agree to restrict its exports, so a prohibitive tariff was invoked in 1934 on a whole range of articles, including sisal twine. These moves forced the Tanganyikan producers to negotiate with the Federation and agreed to raise its prices if it was to be allowed entry to the British market. Under these conditions they could not survive and the company ceased operating in 1936.

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13. The details of this conflict and the official correspondence between the Colonial Office and the Tanganyikan twine company are to be found in a pamphlet: Prohibitive Duties on Colonial Empire Products, (1934), Macmillan Library.

Cunliffe Lester, the Secretary of State for the Colonies, was in 1938 asked to explain the untimely demise of the twine industry in Tanganyika by some members of the Joint East Africa Board (JEAB) who had been involved in the Tanganyika scheme. In defence of the Imperial Government's actions Cunliffe Lester denied that "all goods manufactured by native labour within the Colonial Empire would be debarred from Britain" but he stressed that "the great interest of the Colonies is to secure markets for their primary products' and underlined the importance of 'complementary preferences covering primary exports to Britain and British manufactured exports to the Colonies". The basis of the Imperial Position was made clear in the conclusion to his speech:

.."It is only in comparatively few cases that a conflict of interests arises, and in such cases I hope that the realisation of the importance of the general policy will lead to satisfactory agreements (as in the case of the Cordage Company".)[14]

The members of the Tanganyika legislative council did not consider the arrangement to have been satisfactory in any way and one of them was reported as saying after the decision was taken to impose the tariff on the twine industry:-

"If we are to accept it as a hard and fast rule that no industry can be allowed to establish itself without having to pay the full cost of Customs Protection as it exists in this country today, we can never hope to establish local industry in this country and what will be our position in the future if we allow this to happen?.[15]

These examples show the Colonial Government's support of the interests of British industrial capital. However, if the plant concerned only produced for the local market, as in the case of the Kenyan sisal bags industry (East African Bag and Cordage), then the attitude of the metropolitan government was one of indifference. The only two cases during this pre-war period where state support was given to manufacturing projects was the flax mill in Tanganyika and the beef processing factory in Kenya. In the case of the Liebigs meat factory the state undertook to provide not only the loan capital

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14. Pamphlet, ibid.
15. Ibid.

for the construction of plant, but they also guaranteed to ensure the factory a consistent throughput of cattle by introducing compulsory purchase legislation. This assistance to the meat packing industry was prompted by settler demands for an outlet for their high grade chilled meat. More important to the administration in Kenya was that the factory provided a chance for the forcible 'destocking' of Kamba herds, which the administration considered to have seriously overgrazed the land.[16]

It was, however a consistent principle in Kenya, where the settler class was more substantial than the other two territories, that if the interests of foreign capital affected 'local' manufacturers the local administration would consistently back the local producers, albeit not always successfully. The most striking case in the pre-war period was with regard to the manufacture of wattle extract. Throughout the 1930's a prolonged battle was fought between the international company, Forestal Land and Timber Company, who used the Colonial Office to support its claims to monopoly, and the local producers of wattle extract, an Asian firm, Premchand Raichand, who were backed by the local bureaucracy. Forestal was in a stronger position due to its size and influence at the Imperial level, and eventually won the battle to control the conditions of wattle production in Kenya by establishing a duopsony with the Asian competitor on terms favourable to itself.[17]

It is necessary to substantiate the claim that the settlers were able to manipulate the local administration to their own advantage, in Kenya. Lord Delamere's effect on the policies of local government in defence of the large settler farming interests can be illustrated by his role in the Repeal of the Income Tax Ordinance of 1920.[18] The New League, which represented a group of settlers, with Lord Delamere as its spokesman objected to the introduction of taxation that would affect the 'non-native' classes. The tax bill had been instigated in response to Colonial Office pressure in the 1922 Budget for the Colony. Lord Delamere then moved a resolution in the Council that, the Income Tax Ordinance of 1920 should be repealed and increased

16. This move was met by strong resistance from the Kamba cattle owners who were to delay the whole operation for several years by blocking the attempts of the administration to force them to sell cattle to Liebig's meat factory. These details can be found in: Kenya National Archives (KNA), CS 2/23. In

17. M.P. Cowen, Wattle Production in Central Province: Capital and Household Commodity Production, 1903-1964, (IDS Nairobi Working Paper ZAugust 1975).

18. W. McGregor Ross, op.cit., pp. 156-157.

import duties should be substituted for income tax on European settlers.' The Kenya government made representations to the Secretary of State that the tax was unpopular in the colony, and the Secretary of State sanctioned the repeal of the income tax bill in May 1922. The provision was that new customs duties, calculated to produce equivalent revenue of a type to fall on 'non-native' purchasers were substituted. This victory of the larger settler class had avoided direct taxation and at the same time promoted nationalist measures designed to encourage import substitution of many goods, particularly foodstuffs. Indeed the principle of protection was re-affirmed by the Kenya Tariff Commitee of 1929.[19]

Indeed the whole financial policy of the colony up to 1930 was founded on the principle that Africans should provide the bulk of tax revenue while the Europeans had access to most of the services. However, by 1933 with the slump conditions in Britain, there was increasing pressure from Britain that the continued failure to balance the budget in the colony should lead to the introduction of income tax. It was accordingly introduced in 1936, as there had been a change of governorship that year, which the Colonial Office hoped would ensure the uninterrupted passage of the bill. The income tax was finally introduced in that year after two unsuccessful attempts, one in 1920 and the other in 1931.[20]

Therefore, it can be concluded that very little direct assistance was given to the processing and manufacturing industries in the East African Colonies before the Colonial Development and Welfare Act in 1940, which was to make available £5m per year for ten years for 'schemes for any purpose of its people'.[21] During the 1930's the Kenyan Farmers Association (KFA) had kept up constant pressure on the East African section of the London Chamber of Commerce for imperial policy's tolerance of industrialization in the colonies. In 1936, the East African Section of

19. Details to be found in. The Report of the Kenya Tariff Committee (Government Printer, Nairobi, May 1929); available in Nairobi University Library.

20. Lord Hailey, op.cit., p. 1323.

21. Ibid, p. 1324.

the Chamber of Commerce pressed the Colonial Office for a clear decision on the issue, and the reply was that 'there was no law by which the Colonial Office could prohibit industries'.[22]

The war was to act as the final catalyst to the changing needs of British industrial capital, so that after 1945 a new set of colonial policies were to emerge. The managing director of Smith Mackenzie[23] had even claimed by 1939 that 'the opinion in England on secondary industry in the Dominions was altering to the better'.[24]

Therefore it can be observed from the outset of colonial rule that there occured a juxtaposition of metropolitan interests with those of the local settler class. The dynamics of this proposition will be born out in the following sections.

Part II LOCAL ACCUMULATION, 1907-1945

Before examining the impetus behind the expansion of international capital into Kenya, it is first necessary to outline the nature of the local settler class in the Colony. The basis for their accumulation was the land and agriculture. However, we shall not be concern with the workings of settler agriculture in Kenya, a subject which has been dealt with elsewhere,[25] because the primary interest of this study is in non-agricultural capital formation. It is felt that this type of accumulation is best reflected by a focus on company formation.

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22. In: London Representation of East Africa, a London Chamber of Commerce Debate, in, the 'East Africa and Rhodesia', 25/1/40. (F.O. Library, London No:(S) 15318.).

23. Smith Mackenzie was one of the largest British-based, import-export firms which operated in Kenya from 1907.

24. E.A. Brett, op.cit., p. 279.

25. For instance, the research of Apollo Njonjo for his forth-coming Ph.D. thesis on 'Land and Class Formation in Kenya', (Princeton University), and also R. van Zwannenberg, 'Colonial Capitalism and Labour in Kenya', East African Literature Bureau (1975).

This analysis on company formation in the Colony has been divided into two parts, the first from 1907-1922, the second from 1922-1945. These divisions are important in that they reflect both a change in the pattern of company formation, which after 1922 is more extensive and diverse, and also a significant change in company law.[26]

Part II (a) Company Formation 1907-1922:

The settler class was primarily engaged in extracting surplus from agricultural production. Due to their prominent position, they were able to use state mechanisms to support their own interests; for instance legislation was passed which ensured that most productive land was allocated to themselves exclusively, and the labour laws guaranteed supplies of 'native labour' to European estates. What was the pattern of company formation and in what type of enterprises did these few individuals invest?

A most striking feature of this first period of company formation in Kenya is the instability of such investments and the interlocking nature of ownership.[27] The average life span of the first thirty-five public companies to be registered in the Colony (the date of formation to the date of winding up) was only nine years, with five of them surviving for less than one year. The 'concentration of assets' of these firms amongst such few individuals can be shown by examining their personal holdings. Lord Delamere, one of the most prominent settler barons, owned a share in the capital of three of these companies, These companies were Unga Ltd, Nyama Ltd and the Times of East Africa, an important instrument of settler politics. Nyama was a cattle ranch, and Unga was a grain milling concern. Delamere's position as a large farmer and politician was thus reflected in his business formations.

The infamous Capt. E.S. Grogan, another prominent settler-politician, who was principally a timber concessionaire and property speculator, had shareholdings in a total of 6 out of these 35 companies. Most of these companies were owned jointly with

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26. These two subdivisions were chosen partly in accordance with the registers in the Companies Registry, Nairobi. 1922 was the point when the Indian Companies Act, operative in Kenya before that time, was changed to the British Companies Act, which in itself was partly a move to accomodate the increasing scale of company formation in the Colony.

27. There is a parallel here with the present stage in Kenya of primitive accumulation by indigenous Kenyans.

other members of his family, notably his wife G.E. Grogan and his brother A.W. Grogan. All these 6 companies were concerned with the exploitation of land and property and they included Kilindini Harbours and Wharf Co.Ltd; Upper Nairobi Township and Estate Co; Masailand Trust Corporation; Ndimu Ltd; Miti Ltd; and Kenani Fibrelands.[28] The control of Kilindini Harbour and Wharf Company became controversial and illustrated the political strength of this settler class when it came to manipulating the state to its own a advantage. The company had been set up in 1906 by Capt. Grogan, along with his wife and another settler, W.C. Hunter, with the Grogan family having the controlling interest. Grogan had been 'unofficially' granted 50 acres of land abutting on Kilindini Harbour in Mombasa, which was not confirmed until 1918. Here he had constructed a small timber wharf, equipped with overhead transport gear for unloading cargoes from ships. There was strong pressure on the administration from elements of the settler group to purchase the wharf. They resented the fact that an essential service was controlled by an individual rather than by the state. Finally after four years of negotiation, Grogan agreed to sell to the Government the wharf and 50 acres of land at a price of £350,000, in 1925. This 'package' included the wharf which had been valued at £37,000 in 1920 and 50 acres of land which had been granted to Grogan under a lease with nominal rental only, and some adjacent properties- making in all a total of 146 acres. The Government had not only paid an e exorbitant price for the wharf and surrounding lands, but they were not able for some years to come, to enjoy the use of the wharf which had been privately leased by Grogan to a wharfage company. This lease continued to operate to the exclusion of the new owner: the Government. Furthermore, within six months of purchase, the wharf began to show signs of collapse.

W.C. Hunter, a company secretary by profession had shareholdings in no less than 9 companies, several of which overlapped with Capt. Grogan. These companies, including the Upper Nairobi Township Co. were mainly concerned with property and farming. Similarly Mr. W. Fletcher, a law clerk in Nairobi, had shares in eleven companies. Again these companies were largely concerned with land, property and farming, the only exception being Nairobi Motor Transport a company run by he and Hunter. Fletcher was also involved in Lord Delamere's company' Nyama Ltd', with Hunter.. His companies also overlapped with Capt. Grogan, for instance the joint subscribers for the Masailand Trust Corporation were Grogan, Allsopp and Fletcher.

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28. Kenani Fibrelands was a sisal estate and Miti Ltd was a timber company, The others were concerned with land and property development.

The Mackinnon Brothers[29] owned two companies in this group, which were both concerned with land development: the Nairobi Prospecting and Acquiring Syndicate (1907) and Mackinnon Bros Ltd. (1911). These two had established themselves through the import-export trade.

If these settlers were not engaged in farming full time, they all were engaged in some kind of profession, which they used as a base for accumulation. These were quite varied - accountants, solicitors, jewellers, engineers, architects and so on. However a common feature of this early phase of primitive accumulation is the combination of ownership and management in these firms. Some other characteristic features of these early companies are that the areas of investment are limited in scope and directed towards concerns that will reproduce capital rapidly. In other words we can consider this stage of accumulation to have been highly speculative, given limited areas of investment and the unstable nature of many firms. An example of this concentration on particular types of enterprise can be found in the fact that out of a total of 35 companies, 25 were involved in land and property development and agriculture, with the rest in trading and small scale servicing such as printing and newspapers. Another aspect of this initial stage of capital formation is the scarcity of investment in forms of manufacturing, that require more capital. We only see capital expanding into basic manufacturing in the next period after 1922. The only exception to this rule after 1907 was the Mombasa Electric Light and Power Company, formed in 1908 to generate electric power in Mombasa, which became the first town in British East Africa to have electric light. The company was notable in other respects for it was unusually a partnership between Asian and European shareholders; Messrs Esmailjee Jivanjee & Co. held 70% and Ald Udall et al held 30%. In 1924 this company was to be incorporated as East African Power and Lighting Co, a public company. This formation included the recruitment of 'foreign' expertise in the form of Power Securities Corporation and Balfour Beatty,[30] who acted as the companies'management and technical consultants until 1970.

All the first 35 public companies are now extinct, although several, as in the case of EAPL were reconstituted in a different form. Unga, originally Lord Delamere's preserve, was reconstituted several times,

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29. These were the Mackinnon brothers who also controlled the East African Trading Company.

30. From 1922 onwards the East African Power and Lighting Company have been managed by power Securities Ltd and Balfour Beatty of London; until 1970, when the power industry was nationalised in Kenya.

and from 1928 onwards it was controlled by the KFA which was dominated by large settler farmers.[31] However most firms died prematurely, for quite predictable reasons. For instance the 'Cooperative Society of B.E.A.' went into liquidation only / nine months after its formation in 1907 due to 'the large number of debts which still remain'. The Nairobi Printing and Publishing Co. collapsed in a similar fashion, the same year as its formation in 1904. The Times of East Africa, a newspaper controlled by Lord Delamere lasted from 1905-1908 when it was reformed. The absence of Asian capital in the public company sector was not altogether surprising for their merchant capital was not yet on a large enough scale to form public companies, and their commercial activities around the turn of the century were confined to business partnership forms. The two exceptions in this group were the Mombasa Electric Light Co, which was a partnership, and the Indian Trading Association, registered in 1904 with an issued capital of Rupees 100,032 which went into liquidation six years later in 1910.[32]

This pattern of early company formation of settler companies in Kenya Colony exhibits certain features which are common to most preliminary stages of primitive capital accumulation. These features can be summarised as general instability, limited range of enterprises often of a speculative nature, and interlocking personnel, both in terms of management and shareholding.

Part 11 (b)

Company Formation, 1922-1945.

Number and Size of Companies: We have laid stress in the first period (from 1907-22), on the unstable pattern of the earlier public companies formed in Kenya. Conversely, the 1922-45 or interwar period is characterised by a greater degree of stability and by the expansion of companies in the Colony, a process accompanied by an increase in the numbers and activities of firms both local and foreign. Indeed it is predictable that after two decades of capital accumulation in the Colony, companies would survive over a longer period and exhibit more stable characteristics. The following table shows

31. Unga Ltd is still in existence and is part of a larger conglomerate, Mercat Ltd, which is now the dominant firm in the bread and grain milling industry.

32. This information on early companies in Kenya was derived from the first Public Companies Register in the Department of the Registrar General 1907-1922.

the number of firms on the register and those struck off each year between 1927-1945.

Table 2 Companies on the Register and those Struck Off.

Year	Co's on Register	Co's struck off	S.off Co's as % of Total
1927	289	19	6.6
1930	399	37	9.3
1933	47?	30	6.4
1936	593	29	5.0
1939	641	25	4.0
1942	670	18	2.6
1945	811	16	2.0

(Source: Annual Reports of the Registrar General).

This table illustrates a consistent trend of expansion in the total number of companies on the register in the Colony, with a corresponding decline in those struck off or removed from the register over the period between 1927 and 1945. (1930 marks the highest number of companies failing which is when the effects of the Depression were felt in the colony).

Private Companies:

This growing level of company formation was accompanied by an expansion in the size of such companies as well as in the range of activities in which these firms were engaged. Out of a 1/3 list sample of companies registering between 1922 and 1945, the average paid up capital for the eighty five companies was £97,065. However, this average covers a wide range of firm sizes, (with a standard deviation of 22,457). Some companies have only a small paid up capital; for instance, Cobb Ltd, a settler firm of planters had an equity of £499. But some were much larger such as the East African Tanning and Extract Company,[33] which was owned by a British firm of wattle extract manufacturers, and had a paid up capital in 1937 of £800,000.

This sample of private companies gives some indication as to the areas of investment in which each racial group was involved. Table (4) shows that the largest category of all the communities together is that of

33. The East African Tanning and Extract Company was owned by Forestal Land and Timber Company from 1933. This parent company was based in Britain and was a dominant manufacturer of bark extract.

wholesale and retail at 27% of the total number of companies, followed by agricultural production at nineteen percent, import-export at seventeen point eight and building construction and real estate accounting for nearly seventeen percent of the total. From this sample European firms predominate in the area of agricultural production largely due to the fact that the settlers had preserved this particular area of accumulation exclusively for themselves. The next largest area for investment by Europeans in this sample is in property and real estate and there is only a small interest in manufacturing of any kind. This is predictable because the processing of agricultural products was undertaken by the settlers in some cases collectively through such organisations as the Kenya Farmers Association, Kenya Co-operative Creameries, and the Kenya Planters Union. It will be shown that in the larger public companies during the same period of company formation (1922-45) Europeans took quite a substantial interest in processing of primary products.

The regulation against land holdings in the most productive areas of Kenya that applied to 'non-Europeans' ensured that Asian [34] participation in agricultural production until Independence, was minimal. From the sample it is clear that Asian merchant capital was channelled mainly into trade and services, the largest category being the import/export trade, followed by wholesale/retail and services. Thus there was a considerable increase in the rate of Asian company formation before 1945. Furthermore, leaving aside the registered companies, Asian partnerships also formed an overwhelming proportion of those firms registered under the Business Partnership Act.[35] For instance in 1949 they constituted no less than 90% of these business, although by 1955 this proportion had dropped to 75%, Africans having filled the gap. (Africans do not really feature in company or business partnerships until after the Second World War when in 1946 24 companies were formed).

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34. In 1915, the Crown Lands Ordinance empowered the Governor to veto land transactions between races. Even in 1908, Lord Elgin had noted, '...as a matter of administrative convenience, grants of land in the upland areas should not be made to Indians'. Africans were confined to the Reserves which had been established by the Colonial Government. This had the effect of reserving the mass of the prime agricultural land for white settlers.

35. The Partnership Act enabled only two partners to participate in business which was not protected by limited liability, which meant that debts incurred by the business could fall on the partners personally. This would be a considerable disincentive to developing any large scale business under the partnership act and therefore most partnerships consisted of small shops. 'Partnerships' must be distinguished from limited liability companies in this paragraph.

However, it is significant that in the earlier years of company formation these Asian business partnerships were largely confined to wholesale and retail trade on a very small scale. Any enterprise that needed to raise large sums of local capital could do so more effectively through the vehicle of a joint stock company.

It is clear from this sample that Asian merchant capital was not to expand in any significant way into manufacturing until after the Second World War. However this needs qualification as Asian firms had moved into certain forms of primary processing even before 1945, the most important being oil milling and cotton ginning in both Kenya and Uganda. The merchant capital accumulated by this group through trade and commerce and small scale primary processing before the war was to provide the basis for their move into industrial production after 1945. Leys identified this class as a merchant capitalist class which was poised to become an industrial bourgeoisie of the classical type'.[36] After the war, large industrial empires grew up such as those of the Madvhanis, Chandaria and Manji's although this potential industrial bourgeoisie was never able to fully consolidate its position in Kenya beyond making temporary alliances, because of its failure to control state powers.

The weakness of settler capital was evident when it came to withstanding competition from Asian and foreign firms and is shown by its failure to move into industry after the Second World War. Therefore immediately after the Second World War, between 1945 and 1955 a large proportion of local settler firms were absorbed either by Asian firms or by foreign based corporations.[37] Although the movement in quantitative terms in the 1922-45 sample is limited, a tendency of Asian firms taking over European enterprises is evident. The following eight companies fall into this category, ie. they were owned by Europeans before the war and almost all of these were taken over immediately after 1945.

36. Colin Leys, Underdevelopment in Kenya, the Political Economy of Neo-Colonialism, (Heinemann (EAEB), London, 1975), p. 38.

37. A point which is drawn out in more detail by R. Eglin, The Oligopolistic Structure and Competitive Characteristics of Direct Foreign Investment in Kenya's Manufacturing Sector, Mimeo, (Cambridge University, 1975), p.16.

Table (3)

Changing Ownership of Firms

Company	Year Registered	Business	Transfer Date	From	To
J.R. Stephens	1922	Drapers	1945	J.B. Stephens	J.M. Desai & Sons
n.a.	1924	Cotton ginning	1945	C. Small	Kassim et al
Woolworths	1928	Merchants & Jewellers	1943	Lewison	Patels
Keith Timber	1928	Prop acquisition	1930	Keith	Singh et al
Nzoina Press	1930	Printing	1945	Palamanoff	Keshavji et al
United Dairies	1933	Dairymen	1955	J.M. Watson	Patels
Lobster Pot	1941	Catering	1970	L. Holden	K.S. Jamal et al
Morgan & Wood	1945	Merchants	1950	Morgan	Patel et al

(Source: Private Companies sample, 1973).

Public Companies:

It is necessary for the completeness of this analysis to examine public company formation during the same period, 1922 - 1945. This has been achieved by a one quarter list sample of all those public companies formed between those dates, see table 5. There are fewer public companies in Kenya than there are private, and it is important to bear in mind that public companies are in general larger formations than their private counterparts. To give some indication of the comparative size difference between two types of company, the average capital per company in each of the samples was calculated. From eighty five private companies the average paid up capital per company was £97,065(with a standard deviation of 22,457), whereas the average equity for the 22 Public companies was £396,083 (standard deviation, 20,908). The Public and Private companies therefore coming from different populations of companies / exhibit differerent characteristics, with the private companies showing a slightly higher variation from the mean.[37A]

Table (6) Constitution of Samples:[38]

Private Companies				Public Companies		
Racial Gp		No of companies	%	Racial Gp	No's of companies	%
Asian	-	50	59	Asian	2	9
Foreign	-	14	16	Foreign	9	41
European	-	21	25	European	11	50
		85	100%		22	100%

The different composition of the samples clearly show that the Asian group form the largest proportion (59%) of the private companies while in the public group European and Foreign firms predominate together with 91% of the total number of companies. Whereas the private Asian firms are

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37A. A 2 tailed t-test showed that the difference between the two values of deflated paid up capital is significant at the 1% level (t=15.47).

The Companies paid up capital values were deflated by a cost of living index 1971=100) to account for price changes over the period,1922-46. The cost of living index was derived from a study of real wages. See M.P. Cowen and J.R. Newman, Real wages in Central Kenya, 1924-1971, mimeo, Nairobi, 1976.

38. These racial groups are derived not from the nationality of directors, as in the Registrar's classification, but rather those firms with over 50% of its shareholding falling within a particular racial group. Before 1945 there were very few 'inter-racial' partnerships, so this method is quite an accurate assessment of majority ownership.

concentrated in the area of trading with small capital requirements. The European and Foreign groups of public companies are largely situated within the areas of manufacturing and general engineering and mining, (see table 5). The agricultural sector of the public companies sample accounts for eighteen percent of the total number of firms, and local European firms are dominant in this area. The manufacturing group contains five companies three of which are local European. These firms are significantly all concerned with the processing of primary products whereas the two foreign firms in the group are engaged in non-agricultural manufacturing. It will later be shown in the part on 'International Capital' that the numbers and scope of firms in all forms of secondary industry were limited in the pre-war period.

Number and Size of firms by racial group:

Having examined the types of public and private company formation in Kenya before the war it is perhaps relavent to briefly allude to the Registrar General's statistics on the size of companies in general, which includes all of the three types of companies dealt with in this part, foreign branch firms, private and public firms.

Unfortunately there are no aggregate statistics on the relative size of firms in each racial group before the Second World War but the following breakdown for 1946 of nominal capital by each racial group is generally indicative of the scale differentials between them:

Table (7)   Number and Size of Companies Registered in 1946: (£)

1946	European		Asian		African	Total
	No of Co's	Total Nominal Cap.[39]	No of Co's	Total Nom Cap.	No	Nom Cap
	71	1,699,705	65	550,490	24	86,700

39. Nominal Capital must be distinguished from paid up capital of companies, and it is only used here because it is the form in which the Registrar General's statistics are organised. However, from other samples undertaken, it has been established that the nominal capital value stays quite consistently above that of issued capital. For/as the Registry filing fees are structured according to the nominal capital amount, there is a monetary dis-incentive in terms of filing fees, against firms having a huge discrepancy between nominal and issued capital. African companies, however represent a deviation from this norm for lack of knowledge of the Companies Act in the early days of company formation (after 1945) meant that there would often be a large discrepancy between nominal and issued capital.

Table (8) Average Nominal Capital for each group

	Asian	European	African
1946	8,500	24,000	3,612
1950	17,500	33,000	7,166*
1955	35,594	36,000	-

*(only 2 companies)

(Source: Annual Reports of the Registrar General)

In this table 'European firms' include foreign based companies, and this group has the highest capital per firm before 1950, although it is significant that by 1955 the average capital per company for European and Asian firms was approximately equal. These statistics do serve to bear out the contention from the comparison of public and private firms, that before 1945 Asian firms were generally of a smaller average size than their European counterparts.

Foreign Branch Firms:

In addition to those foreign companies registered in Kenya Colony as public or private firms, a large number of legally classified 'foreign' firms were formed as branch offices of larger companies registered outside Kenya.[41] A high proportion of this foreign category of firm invested in mining enterprises. In 1937 alone nine new foreign mining companies were registered. These moves were in response to the so called 'Kakamega Gold Rush' which attracted both foreign and local capital in a series of highly speculative ventures. The following table shows how tenuous was this form of investment in untried mineral resources:

Table (9)

Date	No. of Foreign Co's on Register 1927.- 1937.	Foreign Co's struck off.
1927	79	12
1930	103	1
1933	111	4
1934	103	17
1937	112	8

(Source: Annual Report of the Registrar General).

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40. These include all foreign based firms registered in Kenya as Private or Public companies.

41. These foreign companies are branch firms registered under Section 206 of the Companies Act and they are exempt from filing names of directors and any financial data. They cannot, therefore raise capital in Kenya and are merely branch offices of foreign firms.

PART III

TRADE AND TARIFFS IN THE COLONY.

a) Tariffs in Kenya Colony.

Before discussing the patterns of trade in East Africa, it is necessary to evaluate the composition of tariffs in Kenya Colony before the Second World War.

Prior to 1922, import duties in Kenya, as in all three East African territories were limited in scope and were designed to raise revenue without having any protective intent. However, the emerging class of estate producers amongst the settlers, which relied on exporting agricultural products as well as supplying the home market, clearly found that tariffs against imported foodstuffs were necessary for their survival. As part one has illustrated, the larger estate producers such as Lord Delamere, exterted extensive pressure over the local administration in the Colony. It is therefore not surprising that in 1922 the Bowring Committee, which had been set up to evaluate the need for protective tariffs in the Colony , deliberately adopted the principle of fostering 'suitable industries' as a foundation for economic policy.[42] The main idea behind the recommendations of the committee was to encourage local production for export in order to give stimulus to theagricultural industry as a whole and ' to improve the economic position of the Colony by so developing local resources so as to render unnecessary the importations of foodstuffs and other articles which could be locally produced'.[43] It was decided that each branch of the agricultural industry would be given substantial import protection for a period of seven years, after which time its effectiveness would be re-considered.

Thus in 1922 a whole series of import duties were imposed on specific and general classes of items, for instance beer had a duty imposed of 2/- per Imperial Gallon, , Cheese and Butter a duty of 1/- per lb, and

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42. Report of the Kenya Tariff Committee, May 1929, (Kenya Government Printer), p.3

43. Ibid., p.2.

wheat (on the grain) a duty of 5/- per hundred lbs. and ground, 6/- per hundred lbs. In addition manufactured goods were in general subject to an ad. valorem tax, having been divided into three groups that imposed an ad valoren tax of between ten and thirty percent.[44]

The structure of duties established in 1922 was to remain unchanged until 1930. In 1924 a Cost of Living Commission was set up to monitor price increases in the Colony, in response to considerable pressure from the white petit bourgeoisie,[45] who by the mid 1920's were ' feeling the squeeze' of increased costs on their standard of living.[46] This cost of Living Commission reported early in 1929, and it was in direct response to this commission that the Kenya Tariff Committee was set up in 1929 to review the system of tariff in the Colony. All the recommendations of the Kenya Tariff Committee were accepted by the Legislative Assembly (LEG CO) in 1930.

Under the new structure of tariffs, the aim was to protect certain local industries more specifically than before, and to reduce duties on certain items which affected consumption of the settler class. Thus, the existing system of classification by rates, was abandoned in favour of classification by commodities, and all the ad valorem groups were converted into duties for specific items.[47] The principle of suspended duties was also introduced c . some items in order th t the three East African governments could more easily adjust the common system of duties to their own requirements. There was a general move of tariff rates downwards, which was in response to the settler pressure which had instigated the Cost of Living Commission. There was a reduction in rates of duty on imported sugar, reduced from 12/= per 100 lb to 6/- per 100 lb; cotton piece goods from forty cents per lb to thirty cents per lb; on cement the advalorem duty was reduced by 10%. The most drastic reduction was on wheat (on the grain) and wheat flour which was reduced from 5/- per hundred lbs. to 3/- and from 6/- per hundred lbs to 3/-, respectively.[48] This was certainly of assistance to the bulk of the white

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44. Blue Books of Kenya Colony, 1925-1937, (Macmillan Library, Nairobi). These contain the details of duties on each item.

45. This class are not only small farmers but also small shopkeepers etc.

46. For further information on the Cost of Living Commission and a complete real wages/prices index (1924-1972) see: Newman and M.P. Cowen, Real Wages in Central Kenya, 1924-71 op.cit

47. Kenya Tariff Committee Report, op.cit.,p.4

48. Information from Blue Books, op. cit.

In addition to the foreign mining companies that wound up many local mining companies mushroomed between 1929 and 1934. Most of them, such as the Nyanza Goldfields (1933) and the Kenya Mining Investment Ltd (1933) only lasted for a brief spell before collapsing under a mountain of debt. This form of speculative enterprise attracted both local and foreign capital alike.

By showing the extent of company growth and the type of formations we have been able to highlight several aspects of capitalist development in the Colony between the World Wars. The overall features are that company formation was largely in the area of agricultural production, ancillary services and the processing of primary products. It is also clear that such processing that did exist in Kenya before 1945 was controlled by both local European and Foreign firms, while Asians were more predominant in the area of trade. Therefore, before 1945, due largely to the limitations of capitalist development in the Colony, neither local or foreign capital had moved to any significant extent into manufacturing or secondary industry.

Table (4) Sample of Private companies registered from 1922-45 by nature of enterprise and racial group. (this constitutes a 1/3 list sample of firms registering with the Registrar General between 1922 - 1945).

	European	%	Foreign	%	Asian	%	Total
1. Agricultural Production & Anc. Services	8	50	3	19	5	31	16
2. Food and Bev Manf, Manf of Chemicals, Manf of Clothes and Textiles	1	14.2	1	14.2	5	71	7
3. General Engineering and Mining	1	100	-		-		1
4. Transport	-		2	50	2	50	4
5. Investment and Finance	1	33.3	-		2	66.6	3
6. Real Estate, Property, Building & Construction	6	46.1	1	7.7	6	46.1	13
7. Hotels & Catering	-		-		1	100	1
8. Import/Export	1	6.6	2	13.3	12	80	15
9. Wholesale/Retail	1	4.3	7	30.4	15	65	23
10. Publishing	-		-		2	100	2
Total Companies in each group	19		16		50		85

Table 5 PUBLIC COMPANY SAMPLE

1	Sector	EUROPEAN NO	%	FOREIGN NO	%	ASIAN NO	%	TOTAL NO	%
1	Agricultural Production & Ancillary Services	3	75	1	25	–		4	100
2	Manf, of Food, Beverages, Clothes textiles and Chemicals	3	60	2	40	–		5	100
3	General Engineering & Mining	2	40	3	60			5	100
4	Transport			1	100			1	100
5	Investment & Finance					1	100	1	
6	Real Estate, Property, Building & Construction	2	100					2	
7	Hotels & Catering								
8	Import/Export			1	100			1	100
9	Wholesale & Retail Trade			1	50	1	50	2	100
10	Publishing & Printing	1	100					1	
	TOTAL	11		9		2		22	100

		PRIVATE CO'S SAMPLE		PUBLIC CO'S SAMPLE	
		...	%	No	%
1	Agric. Production & Ancillary Services	16	19	4	18
2	Manufacturing of Food, Beverages, Clothes, Textiles, & Chemicals	7	8	5	23
3	General Engineering & Mining	1	1.2	5	23
4	Transport	4	4.7	1	4.5
5	Investment & Finance	3	3.5	1	4.5
6	Real Estate, Property, Building & Construction	13	15.3	2	9
7	Hotels & Catering	1	1.2	–	–
8	Import & Export	15	18	2	9
9	Wholesale & Retail Trade	23	27	2	9
10	Printing & Publishing.	2	2.3	1	4.5
	Total	85	100%	22	100%

consumers (Africans mainly consumed maize flour rather than wheat), but what was the effect on the Kenyan wheat industry? The Committee officially concluded that the reduction of duties on this commodity would '..have no effect on importations of wheat for milling in up-country mills... also no harm to the industry will be caused by a reduction in the duty to be levied on wheat on the grain to the normal rate on foodstuffs'.[49] Only two local industries were directly protected in the 1929 Report, beer was given an extra /50 cents duty, from the 2/- per Imperial Gallon imposed in 1922, and the tea duty was raised from /45 cents to /50 cents per lb.

It would seem from examining the changes in tariff structure in 1930 that the white consumers in the Colony were taking precedence over the principle of protecting local farming produce. This is certainly not the case, due to the existence of highly protective railway rates for local produce.[50] The Tariff Committee reviewed the existing railway rates and agreed to support the continuance of the present structures,[51] and the extension of the practice of differential rates between country produce and import traffic. These approved railway rates fell into three categories:

a) the principle of quoting low export rates to Kilindini or Mombasa for produce destined for overseas ports outside British East African territories should be retained.

b) that when the need arises to extend or retain markets within BEA territories, favourable maximum railway rates should be quoted, the question of consignments to the coast being given immediate consideration;

c) The principle of differential rates between country produce and import traffic should exist from all stations.

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49. Kenya Tariff Committee, op.cit.,p.19

50. Ibid., pp.8-10.

51. All the European members of the Tariff Committee agreed that the Railway rates should be retained and extended further to protect the agricultural industry. It is, however, significant that the Asian members of the committee dissented from this conclusion, thus representing the small trading class as apposed to those involved in agricultural production. '....The other party holds that the Railway Administration does not provide the proper machinery for debating and deciding the amount of assistance industries should receive through differential rates, that the existence of such a policy is likely to introduce political pressure of an undesirable type..'
(Kenya Tariff Committee, op.cit.,p.10).

Therefore it is clear that these railway rates provided an important medium of protection for local industries, enhanced the effects of protective duties, and rendered the imported item consistently more expensive than its local equivalent.

The tariff structure established in 1930, therefore was designed to balance the interests of the different sectors of the settler community, and the railway rates still favoured a strongly protective system. There is virtually no evidence of any intervention on the tariff question from the metropolitan government. The Ottawa Agreement of 1932 established a system of Imperial Preference between Britain and her Colonies,[52] which was a response to competition from other trading nations. However in Kenya Colony the internal tariff structure appears to have been unaffected by the Imperial Preference system, and the duties established in 1930 were to remain static until towards the end of the Second World War.[53]

b) Trade in the Colony.

As we shall show in later sections, the driving force behind the expansion of international firms to East Africa was the competition of capitals. In order to highlight the intense competition between national capitals before the Second World War, the trade figures of the colony will be examined. The response to pressure of competition amongst international trading and manufacturing firms in the East African market, was ultimately to go behind the tariff wall and produce the article within the colony. This mechanism of 'import substitution', was primarily in response to international competition, and started in Kenya before the war, with commodities such as tea and wattle, and was to expand after 1945 into the area of industrial goods such as paint and cement. The pattern of interwar trade in the three East African colonies will give some indication of the general nature of this competition.[54]

i) Imports:

The position of Britain in relation to other principal sources of supply is traced over a period of twenty two years from 1925 to 1947 in tables (10) and (15).

52. For further details on Imperial policy towards the colonies see: J.M. Lee, Colonial Development and Good Government, (Clarendon Press, Oxford, 1967), chapter 3.

53. Refer to the Blue Books, op.cit.

54. A more detailed consideration of competition for particular commodities will be found later in the case studies on international capital.

At first sight it appears that the share of Britain and the Empire in the two countries' imports (Uganda and Kenya) remains consistently higher than the 'other foreign' group, and that Britain itself is the largest single importer into East Africa.

Table 10 Domestic Imports into Kenya and Uganda.

	1925	1935	1947
Britain %	(38.06)	(37.0)	(39.7) %
GB & British Possessions	68.99	59.0	67.9
Other Foreign	31.01	41.0	32.1
	100	100	100 %

However these aggregate figures are misleading, for not only is the absolute British share of total 'Empire' imports into East Africa static, but more important, if imports on government account (i.e. imports of bullion and specie and transhipment goods) are disregarded, the share of British 'private' business to the Colony was not thirty nine per cent in 1937, but nine point eight per cent, leaving Japan as the largest single supplier of goods to Kenya in that year, with eighteen point four per cent of the total.[55]

Before the Second World War, therefore, the other 'foreign' suppliers and most notably Japan, were seriously challenging Empire pre-eminence in the East African markets. In fact the war served as a temporary halt on this relaxing of the British hold over imports into East Africa, by knocking two of Britain's largest competitors, Germany and Japan, out of the East African market. Indeed a 'Report on the Economic and Commercial Conditions in British East Africa, 1937-38' went so far as to assert that, "apart from machinery, competition from Japan is now experienced in most lines for which East Africa affords a market".[56] An indication of how fast was this transition of Japan from a small supplier in the early 1920s to the largest single importer into Kenya and Uganda, can be well illustrated by its dominance of the cotton piece goods markets. Japan moved from having an eighteen per cent in 1925 share in Kenya and Uganda's market for cotton

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55. Unfortunately, the Annual Trade Accounts do not contain a table of imports into Kenya and Uganda, excluding the Government account from the British total. In fact, the point might have been overlooked had attention not been drawn to the fact in the publication: Economic and Commercial Conditions in British East Africa, (July 1937-1938), (Dept. of Overseas Trade).in the Macmillan Library.

56. Overseas Economic Survey, Ibid.

fabrics, to controlling over 70% of this market by 1935 thereby largely displacing Britain, India and Holland as the former suppliers of this product. By 1937, therefore, apart from exporting large quantities of cotton and silk piece goods to the East African markets at competitive prices, Japan was also supplying cement, clothes, boots and shoes, and enamelware. Japan had, of course, achieved this penetration of the East African markets by under-cutting the established suppliers, such as Britain. An example of such tactics can be found in the following comparative costs for production of glass plate and steel:

av. c.i.f. prices per cwt.	UK ...	26/-
" " "	Japan	10/9

(these prices were also well below those of any of Japan's other competitors). A similar picture can be observed in china ware and porcelain:

UK	S.101/-	(av. c.i.f. per cwt)
Japan	20/-	(" " 1000)
and tiles: UK	225/-	(av. c.i.f. per 1000)
Japan	69/-	" " "

(Source: Report of Economic and Commercial conditions in British E. Africa 1937-38, Department of Overseas Trade).

In glassware also Japan predominated, having ousted Britain as the main supplier of this product in the 1920s.

Table 11

Major Imports of glassware into Kenya and Uganda:

	1936	%	1937	%
UK	£ 7,339	25	8,573	22
Belgium	1,644	6	2,519	6
Germany	3,889	13	5,883	15
Japan	13,314	45	17,145	44
Total	29,126		38,943	

(Source: Colonial Trade Accounts)

This threat from the East to British and Empire predominance in the East African market did not go unobserved in Britain. In 1928 Ormsby-Gore, the Secretary of State, was being closely questioned in the House of Commons about the matter of Japanes trade with the Colonies in East Africa. Mr. Hannon(Cons) asked the Secretary of State for the Colonies whether the government was aware that an economic commission appointed by the Japanese Government had recently visited Kenya and Uganda, with the object of extending Japanese trade in these

colonies and furthermore, 'having regard to the loan commitments of this country to Kenya and Uganda, whether he will devise measures to safeguard British export trade to British East Africa against the competition of Japan and other countries?' Ormsby-Gore replied in the affirmative to the first part of the question but when it came to protection he asserted the Imperial Government's policy at that time, 'HM Government are anxious to foster British export trade to the territories concerned - and would welcome suggestions. But it would be inconsistent with existing international obligations to extend any preferential treatment to goods of British origin imported into these territories'.[57]

Another country to take a large proportion of the East African import trade from 1925-1937 was U.S.A. which was in fact ahead of Japan until it was ousted as the largest single non Empire trading partner in 1931.

Table 12 Imports (Kenya and Uganda):

	1925	1927	1929	1931	1933	1935	1947
Japan %	3.8	4.15	5.7	8.5	12.9	15.1	0.7
U.S.A.%	8.9	10.7	12.7	8.9	4.3	7.6	14.9
Out of the total: %	31.09%	36.0	40.07	36.8	36.6	41.0	32.0

(Source: OTS 1937, Ibid).

This table shows how the war was to temporarily destroy Japan's threat to the East African market, and how the U.S.A. was able to reap the benefits after the war, when it replaced Japan as the major non-Empire supplier. The U.S.A. was mainly concerned before and after the war with supplying technical and engineering goods to the East African market i.e. motor vehicles, oil, petrol, kerosene and tyres. These articles were in direct competition with similar goods from British firms, whereas the Japanese challenge affected not only Britain but also the other Empire territories (India for instance), particularly in the field of low cost enamelware and cotton goods.

ii) Exports:

The three territories of East Africa relied almost entirely on primary products for export before the Second World War. The following show

57. Article, Buy British, in East African Standard Newspaper, 14/1/28.

fabrics, to controlling over 70% of this market by 1935 thereby largely displacing Britain, India and Holland as the former suppliers of this product. By 1937, therefore, apart from exporting large quantities of cotton and silk piece goods to the East African markets at competitive prices, Japan was also supplying cement, clothes, boots and shoes, and enamelware. Japan had, of course, achieved this penetration of the East African markets by undercutting the established suppliers, such as Britain. An example of such tactics can be found in the following comparative costs for production of glass plate and steel:

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and tiles:	UK	225/-	(av. c.i.f. per 1000)
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(Source: Report of Economic and Commercial conditions in British E. Africa 1937-38, Department of Overseas Trade).

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Germany	3,889	13	5,883	15
Japan	13,314	45	17,145	44
Total	29,126		38,943	

(Source: Colonial Trade Accounts)

This threat from the East to British and Empire predominance in the East African market did not go unobserved in Britain. In 1928 Ormsby-Gore, the Secretary of State, was being closely questioned in the House of Commons about the matter of Japanes trade with the Colonies in East Africa. Mr. Hannon(Con) asked the Secretary of State for the Colonies whether the government was aware that an economic commission appointed by the Japanese Government had recently visited Kenya and Uganda, with the object of extending Japanese trade in these

colonies and furthermore, 'having regard to the loan commitments of this country to Kenya and Uganda, whether he will devise measures to safeguard British export trade to British East Africa against the competition of Japan and other countries? Ormsby-Gore replied in the affirmative to the first part of the question but when it came to protection he asserted the Imperial Government's policy at that time, HM Government are anxious to foster British export trade to the territories concerned - and would welcome suggestions. But it would be inconsistent with existing international obligations to extend any preferential treatment to goods of British origin imported into these territories'.[57]

Another country to take a large proportion of the East African import trade from 1925-1937 was U.S.A. which was in fact ahead of Japan until it was ousted as the largest single non Empire trading partner in 1931.

Table 12 Imports (Kenya and Uganda).

	1925	1927	1929	1931	1933	1935	1947
Japan %	3.8	4.15	5.7	8.5	12.9	15.1	0.7
U.S.A.%	8.9	10.7	12.7	8.9	4.3	7.6	14.9
Out of the total: %	31.09%	36.0	40.07	36.8	36.6	41.0	32.0

(Source: OTS 1937, Ibid).

This table shows how the war was to temporarily destroy Japan's threat to the East African market, and how the U.S.A. was able to reap the benefits after the war, when it replaced Japan as the major non-Empire supplier. The U.S.A. was mainly concerned before and after the war with supplying technical and engineering goods to the East African market i.e. motor vehicles, oil, petrol, kerosene and tyres. These articles were in direct competition with similar goods from British firms, whereas the Japanese challenge affected not only Britain but also the other Empire territories (India for instance), particularly in the field of low cost enamelware and cotton goods.

ii) Exports:

The three territories of East Africa relied almost entirely on primary products for export before the Second World War. The following show

57. Article, Buy British, in East African Standard Newspaper, 14/1/28.

the major Kenyan exports in 1937:

Table 13 Principal Exports from Kenya, 1937:

	£	%
Coffee	732,263	18.8
Sisal	673,719	17.3
Tea	466,872	12.0
Gold	415,967	10.7
Maize	198,832	5.1
Total Exports:	3,888,320	

(Source: C.E.S.).

The following table shows the main countries to which Kenya and Uganda exported.

Table 14 Direction of Exports from Kenya, 1923-33.

	1923	1925	1927	1929	1931	1933
UK %	47.1	56.4	47.4	36.9	36.6	35.6
Britain Poss.	36.7	27.8	23.2	35.2	41.1	42.3
Total Britain + Empire	83.8	84.2	70.6	72.1	77.7	77.9
Others: Belgium	4.9	3.5	5.0	6.2	4.9	3.0
Japan	1.7	2.1	11.2	10.6	3.3	7.9
U.S.A.	2.2	1.3	1.4	2.3	4.6	1.6
Total Others:	16.2	15.8	29.4	27.9	22.3	22.1

(Source: Annual Trade Accounts for 1933).

Britain, once again is of declining importance as a destination for East Africa's exports. The non Empire 'foreign' group takes a small, although increasing proportion of the exports of Kenya and Uganda. While the share of Empire is increased, that of Britain declined absolutely over this ten year period. Japan is also their largest non Empire receiver of East Africa exports, although its percentage of the total trade remained relatively small at eight per cent in 1933. Indeed, in 1928 the familiar concern was emanating from the House of Commons when in March some Labour members queried the expenditure on East African cotton growing made by the Empire Cotton Growing Association on the grounds that Britain was in fact subsidising a 'foreign' competitor: the Japanese. Figures quoted during this debate showed that

during the first nine months of 1927 nearly one quarter of the cotton exported from Mombasa was consigned to Japan.[58] They went on to suggest that Japanese steamers were carrying East African cotton free of freight charges, being subsidised for their purpose by the Japanese Government. During 1926, they claimed, 99,281 centals out of 790,748 centals of cotton exported from the E.A. dependencies were consigned to Japan. One would not be particularly surprised at this fact, as were the MP's , but their main cause for concern was that cotton growing in East Africa was subsidised through public funds via the Empire Cotton Growing Association. The President of the Board of Trade in reply, stated that the probable reason for Japan taking such a large share was that the freight rate from Kenya to Japan was lower than from East Africa to Britain, thirty two and forty shillings per cubic i.e. foot respectively.[59]

The overall trading position of East Africa in relation to international markets was becoming more competitive and Britain's 'Laissez-faire' system of the interwar years meant that her manufactured goods had to face increasingly tough competition from countries such as Japan and the United States, in colonial markets. As we have seen, Kenya's tariff structures favoured protection of local industries, and the duties on manufactured goods applied equally to British goods and those of other nations. The ultimate response of many British firms after the Second War was to go behind the tariff wall and actually produce goods within Kenya under protected conditions.

Table 15: Countries of Origin of Imported Trade Goods to Uganda & Kenya:

	1927	1928	1929	1930	1931	1932	1933	1934	1935	1947
GB & N.Ireland	38.3	34.6	37.0	44.3	44.5	39.3	38.3	37.6	37.0	39.7
Brit Poss.	25.6	27.6	23.1	20.4	18.6	24.1	15.1	23.3	22.0	28.2
Total Brit Empire	63.9	62.2	60.1	64.7	63.1	63.4	63.4	60.9	59.0	67.9

58. Article, Japanese Competition for East African Cotton, (EAS) in Macmillan Library. (3113128).

59. Ibid.

Table 15 (Cont):

	1927	1928	1929	1930	1931	1932	1933	1934	1935	1947
Belgium	1.4	1.3	1.5	1.0	1.4	1.6	1.8	1.7	1.9	3.6
Butch E.Ind.	2.4	2.2	3.3	3.6	2.6	3.4	1.8	1.7	1.4	1.4
Germany	4.6	4.4	4.6	3.4	3.2	2.6	3.1	3.5	4.4	-
Holland	4.9	5.4	5.1	4.0	4.3	3.9	3.4	1.4	0.9	1.4
Japan	4.1	4.5	5.7	3.3	8.6	11.0	12.9	15.0	15.2	0.7
U.S.A.	10.8	11.3	12.0	10.3	19.0	5.3	4.3	6.1	7.6	14.9
Persia	2.1	2.4	1.6	2.0	1.9	2.5	2.9	4.1	4.3	5.5
Foreign(Other)	5.8	6.3	6.1	7.7	5.9	6.1	6.4	5.6	5.3	7.4
Grand Tot Foreign:	36.0	37.8	39.9	35.3	36.9	36.6	36.6	39.1	41.0	34.9

Total £:	1927	1928	1929	1930	1931	1932	1933	1934	1935
	781611	8747777	8920579	6923665	5092665	4662859	4898722	5708025	66413[illegible]

Part IV INTERNATIONAL CAPITAL.

In this part the intention is to show the nature and extent of the penetration of foreign capital into East Africa, and Kenya Colony in particular before the Second World War. A general analysis of foreign companies operating in these territories will be followed by a detailed case study on three different types of company. Case studies are necessary in order to show the mechanisms of capitalism and the competition between the capitals, but the general outline of the numbers and types of firms within each area of investment, serve to set these case studies in context. The companies will be divided into three areas of investment, (see Table 16) the first being 'Food & Beverage Processing, and Estates', the second being 'Trading' and the last being 'Manufacturing & Minerals'. The average size of the foreign companies in table (17) for which issued capital is available, is £665,726 (for 1945). This gives some indication of the larger size of foreign investment compared with the local firms in section two; where the Public Companies' average issued capital was £396,083 (there is some overlap of firms with the foreign firms) and £ 97,068 for Private Companies.[60]

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60. The large size of paid - up capital for the Foreign firms is, of course, biased in that there are so few companies forming the average: only nine in 1945, (see table 17).

There will naturally be some overlap of the firms in different activity groups in Table (16), as for instance most trading companies by 1939, owned estates and some even manufacturing concerns, however they are divided according to their similar modes of operation. In both parts of this section on international capital, the focus will be on those companies operating in Kenya before 1939, although in the case studies rigid time boundaries will not be adhered to. The purpose of this loose time span being to follow the mechanism by which competition exerts pressure on merchant capital, which causes it to invest directly into production, thereby becoming industrial capital.[61]

The proceeding discussion of trade and company formation clearly shows that the basis for accumulation in the Colony before the Second War was agriculture and ancillary concerns. What has emerged is that apart from small scale processing, such as cotton ginning, sisal spinning, coffee and tea manufacture, factory production was not very significant in the three East African territories before 1945. Such manufacturing as did exist was designed to provide commodities and services for only a small Asian and European population, and a small, although increasingly large proportion of wage earning Africans. The products that were manufactured locally for these communities included: flour, fats, sugar, soap, beer jams, tobacco, cigarettes, and mineral waters. However it is important to bear in mind that the 'home production' of these articles had in none of these commodities (excluding tea and coffee) ousted the imported equivalent by 1939,[62] and the East African colonies were still heavily dependent on imports mainly from Britain. It is appropriate at this point to turn to those agencies or arms of British merchant capital that were to cater for such demand.

Trade Companies:

British trading and shipping companies quickly recognised the potential offered by new and expanding markets, in East Africa. The largest of these companies operating in the East African territories between 1906 and 1920s were, Smith MacKenzie(Inchcape Group), Baumann & Co, Gibson and Co, Leslie and Anderson, British East Africa Corporation, and Mitchell Cotts, (see table 16). These companies were all concerned with exporting primary

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61. Brooke Bond is an example of this mechanism, as we shall see in the case study.

62. This contention is borne out by the Colonial Trade Accounts for the inter-war years.

produce from East Africa in return for importing and distributing manufactured goods from Europe and America. By the 1930s Smith Mackenzie (and its subsidiaries), A. Baumann & Co, and Mitchell Cotts were probably the largest in terms of the value of the goods which they handled. How did they come to invest in East Africa?

Mitchell Cotts was a leading South African merchant and shipping organisation. Shipping and coaling were the two main activities of the company at the time of entry into East Africa in 1926.[63] The first shipping branch was established at Mombasa in 1926, extended to Nairobi in 1927, and Kitale in 1928. By 1932 they were able to establish themselves as the sole contractors for the supply of South African coal to the Kenya and Uganda railways, and they supplied over 100,000 tons in 1932.[64] The tactic of each of these firms was to establish a monopoly of one particular branch of production. Mitchell Cotts rapidly established their pre-eminence in the import and export trade through particular commodities. As we have said, their chief import into East Africa was coal. The primary exports, over which they had gained a secure hold by 1930, were wheat and maize. They managed (through skillful manoeuvering) to obtain the sole agency for the export of Kenya Farmers' Association (KFA) products. There is evidence that in this capacity Mitchell Cotts handled no less than 95% of maize export between 1928 and 1932, and in 1932 they also handled 95% of the wheat crop. The nature of this control over exports was pervasive, as this extract from their annual report of 1932 shows: "....we handle exclusively their (KFA) exports grain from the time it is received on rail to the time it is sold in London/ the commission on this to London alone from 1928-1932 accounted to about £10,000. In cases where ships are chartered, this naturally brings us agency fees and bunker orders, and in turn this assists our coal bunkering operations. London also earns buying commission on all KFA's [illegible] wants".[66]

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63. The move of Mitchell Cotts into East Africa was part of an overall drive to extend their area of operation from South Africa, along the Indian Ocean Shipping routes. Kenya was ideal from this point of view, as well as of offering outlets for raw materials and markets for imports.

64. Report by H.B. Hamilton, a general manager of Mitchell Cotts in the 1920's and '30's, on the company's business in East Africa, (Mitchell Cotts Company records for 1932, in Cotts House, Nairobi).

65. Ibid.

66. Ibid.

On a much smaller scale they were also involved in the coffee trade, and had set up maize and coffee mills at Kitale in 1928. As far as the import trade was concerned the company held a wide variety of agencies for manufactured goods, such as weighing machines of Messrs. Pooley & Sons, and products of the California Spray Chemical Corporation, such as insecticides for the coffee growers in East Africa. In 1933, Mitchell Cotts East Africa was incorporated as a wholly owned subsidiary of Mitchell Cotts & Co. Ltd., (who by this time had their head office in London). In 1936 the company added sisal to their list of primary products for export and in that year they purchased an existing settler sisal estate at Ruiru, East African Sisal Estates Ltd. In 1933 they also acquired Simpson and Whitelaw, a local settler firm of grain seed merchants.[67] Thus the Mitchell Cotts Group in East Africa consolidated through expansion in their own enterprises, and through the purchase of existing local firms involved in primary products. Their interests in primary production were enhanced after the Second War when they moved on a large scale into pyrethrum processing (working through state marketing bodies). In 1950 they bought out a settler tea company, known as Mekong Estates, which became 'Nandi Tea Estates Ltd'. However, despite these diverse activities before the war, the company relied for the bulk of its revenue on its coaling and shipping and freight carriage.

The British East Africa Corporation (BEA Ltd) was one of the oldest established trading companies in East Africa, and was to join the Mitchell Cotts Empire, after the Second War in 1946.[68] The BEA Corporation was incorporated in England in 1906 by a syndicate with interests in the East African territories. From the outset they acted as agents for and were closely associated with the Cotton Growing Association who wanted to encourage the cultivation of cotton in order to ensure supplies of raw materials to British manufacturers of cotton goods. This agency was the foundation of the BEA Company in East Africa, and lasted from 1906 to 1914, when 'some serious differences' arose between the BEAC and the Association over the method of financing cotton purchased by the Corporation.[69] However by 1914 the BEA Company were well acquainted with conditions in the East Africa market, and had invested directly in primary production covering a wide range of commodities; they owned or managed estates concerned with cultivating sisal,

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67. The Mitchell Cotts Group in East Africa, Royal Show Supplement, 1952, in the Kenya Weekly News, (Macmillan Library).

68. Ibid.

69. Annual Reports of the British Cotton Growers' Association, 1907-1914, (from the Mitchell Cotts Company records, Cotts House, Nairobi).

wattle, and owned numerous cotton ginneries. They also had many agencies for manufactured goods in East Africa. In 1939, the company was completely re-organised and registration transferred to Kenya. In 1946 all these primary processing and trading agencies were acquired by the Mitchell Cotts Group, as part of its post war drive towards consolidation.

Smith Mackenzie established in 1909 was another well known shipping agency that was concerned with warehousing and shipping, as well as importing manufactured goods into East Africa. The mechanisms behind the development of this company are so similar to the preceeding two, that we will not be concerned to delineate its activities in East Africa.

Gailey and Roberts does not fall into the same category as the other trading firms, as it was not concerned with exporting of primary commodities, but rather/it provided a servicing and importing function. Gailey & Roberts is an example of a locally established firm which was absorbed by international capital. James H. Gailey and D.O. Roberts were surveyors employed by the railway in 1904, who recognised the need for tools and equipment for the early settlers. James Gailey was known to have said, 'If Delamere persuades settlers to take up land here, they (the settlers) will need ploughs, spades, buckets, nails, and building materials.'[70] In response to the demand for such items of equipment and servicing, they set up an engineering workshop in Nairobi in 1904-5. Before the First War they enlarged the existing workshop and acquired another settler company, the Nairobi Engineering Company. Gailey and Roberts concentrated on offering service after sales, which meant the engagement of technical staff as well as the import of the necessary equipment. During the years between the company's formation and the 1930s the bulk of the company's work was in supplying machinery to farmers, but they also secured contracts to equip whole factories in Kenya and Uganda with machinery.[71]

The company had expanded fast. In 1926 the paid up capital was £13,504, and in 1930 it was £133,142. However by the mid 1930s the company needed more capital for expansion, and one of their main suppliers of agricultural and engineering equipment, the United Africa Corporation (UAC),[72]

70. Article, The History of Gailey and Roberts in Kenya, (EAS, 15/3/54).

71. Ibid.

72. The United Africa Corporation was a direct trading subsidiary of the Unilever Company in Britain, and it established offices in Kenya during the 1920's.

acquired 100% of the share capital, on the death of one of the partners. This Unilever subsidiary had thus managed to gain a direct stake in a most important 'industry' in the Colony: that of servicing and supply of agricultural equipment. Naturally with infusion of international capital and technical expertise, the company expanded rapidly. By 1938, the year after the UAC takeover, the company's turnover in Kenya alone totalled £373,750, and the goods imported on the company's account consisted of four percent of the total imports of Kenya and Uganda. By 1952, with total imports into Kenya of over £100,000,000, the turnover of Gailey and Roberts had increased to over £2,500,000. and by 1960 the company was achieving a £5,000,000 turnover annually.

Apart from Gailey and Roberts the trading firms investing in East Africa before the war exhibited characteristics in common- they were all concerned with exchanging commodities on an international level. As well as simply dealing in these commodities, these companies invested directly in the means of production, such as sisal cultivation, or coffee growing and curing. As the competition amongst merchant companies was so intense, these firms were really left with no option but to actually produce the primary product that they exported.[73] The longer case studies will bear out this argument in much more detail.

Food, Beverage and Estates :

These firms were concerned with exploiting one particular commodity exclusively in which they had a global interest. We will take a few examples from Table (16) All these companies except the sisal company? were concerned with processing agricultural products. However the establishment of manufacturing plants was in most cases preceded by a trading branch, through which that company had traded in tea, meat products, or tobacco, etc. Processing plants were usually set up by such companies in response to the international conditions of production of that commodity, and competition for the internal market. The British Imperial Tobacco Company (BAT) for instance, set up a trading branch in East Africa for the distribution of its tobacco products as early as 1907. From this date they encouraged the growth of the tobacco crop (particularly in Uganda) in order to export the raw material for manufacture in Britain. It became obvious that in order to avoid competition

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73. Hence the purchase of cotton and sisal estates by the Tanganyika Cotton Company (TANCOT) in the 1930's and Mitchell Cott's purchase of a large settler owned sisal estate in 1936.

with other imported tobaccos and cigarettes (such as Rothmans).[74] it was necessary to manufacture in the territories themselves. In 1934 the East African Tobacco Co. constructed its first factory in Uganda to process tobacco and cigarettes mainly for the expanding local market. Tobacco was not manufactured in Kenya by the BAT group until 1954, largely because the size of the Kenyan crop did not merit the construction of a factory.

The reason for Brooke Bond's entry into Kenya are similar and stemmed from a desire to grow and manufacture tea in the Colony in order to oust their competitors from the East African market, which was a small one. It also reflected the need of the Brooke Bond and the James Finlay Company to secure alternative growing areas to offset the perceived instability of the India and Ceylonese producing area. (see case study for a fuller exposition).

The manufacture of beer on the other hand was already undertaken by several small settler firms, although the largest producer of beer by 1930 was East Africa Breweries, formed in 1922. It was partly owned locally and partly owned and managed by the British brewing concern Ind Coope Ltd.

The only foreign firm to be assisted by the state during this period was Liebigs meat processing factory. The Colonial Government in Kenya and the Liebig company jointly financed the construction of a meat processing plant at Athi River, south of Nairobi, in 1935. Leibigs had wanted to find an alternative supply to Rhodesian meat in Africa, and Kenya seemed to offer conducive conditions, particularly as the state had an interest in promoting such an enterprise. The factory was to export a certain amount of chilled meat from the settler farms and process 'native' cattle for beef extracts, corned beef, and beef powder for the export market. The government guaranteed the company that a certain quota of cattle would be delivered to the factory each month and government de-stocking ordinances were to enforce this throughput of cattle. Not only were the interests of the settlers being served by finding export markets for their meat, but the state had wanted an excuse to destock particularly the Kamba herds as they considered that the land in Ukambani was being seriously overgrazed. These moves were opposed most strongly by the Wakamba cattle producers, who resisted successfully

74. The British American Tobacco Company's subsidiary in Kenya, the East African Tobacco Company was to finally take over Rothman's marketing organisation in 1967, after bitter competition.

for several years. This meant that the Athi River factory was not able to function at anything like full capacity for some years. Leibigs were in fact to manage the factory and market the products of the meat plant until the late 1960's when the Kenya Meat Commission was completely 'localised'. Wattle trees had been cultivated in Kenya since the early 1900's and there had developed since that time an export trade in bark to the European manufacturers of wattle extract. During the 1930's wattle commodities (ie. bark and extract) accounted for between 5-8% of total export commodities (by value). Wattle was grown on estates and also as a 'household commodity' amongst African farmers By the late 19?0's several small extract factories had been established in Kenya by settlers and Asian capital. The most prominent wattle extract factory by 1930 was the Kenya Tanning and Extract Company by the name of Premchand Raichand. Another Local settler company had also started production at Limuru and closed down in 1930.[75]

International capital, in the form of the Forestal Land and Timber Company came to take a direct interest in Kenyan wattle production when it accuired control of the Natal Tanning and Extract Company (a South African firm), which itself controlled the BEA Wattle Estates at Kikuyu and East African Tanning and Extract Company at Eldoret. During the 1920's, 80% of all wattle products were destined for European markets of which Britain constituted 50% (for extract). Thus the rationale behind Forestal's need to move into Kenyan wattle production was that is should pre-empt supplies of bark reaching its European competition in extract manufacture. Also international conditions of production in this commodity made it necessary for Forestal to control the wattle supply in Kenya. For the growth of wattle bark production in South Africa and Kenya had seriously threatened the use of quebracho the other major tanning material. Forestal was therefore concerned to control the wattle producing areas, as well as to try halting the flow of wattle bark to its competitors in Europe. A prolonged struggle was to take place in Kenya between Forestal and local firms (both merchant and industrial) before Forestal was able to enforce its hegemony over wattle production through all its stages.[76] We will not discuss further the nature of this struggle, as it will be drawn out in the case studies.

There were also several foreign owned sisal plantations that exported raw sisal to European manufacturers of twine, such as the Anglo-

75. For a fuller exposition see M.P. Cowen, Wattle Production in the Central Province, op. cit.

76. Ibid.

French Sisal Company and the East African Sisal Estates (which was taken over by Mitchell Cotts in 1936).

The examples given of primary manufacturing companies have made the general point clear - that there was a move to manufacture within a primary producing territory such as East Africa and this largely stemmed from the competitive conditions existing in the world wide production of commodities.

Manufacturing and Minerals:

As we have indicated concentrated manufacturing in East Africa before the Second World War was on the processing of raw materials and agricultural products. The major significant mineral (apart from gold which was short-lived), to be exploited in Kenya before 1945, was soda ash. The struggle for control of one of the world's richest deposits of soda ash will be analysed in the case study on the Magadi Soda Company.

The generation of power can be regarded as a 'manufacturing' activity in the non-agricultural sector. Power was an essential service in the development of all three territories.[77] Therefore, as early as 1906 the Mombasa Electric Light and Power Company was formed by the Esmailjee Jivanjee Company of Mombasa in partnership with some European engineers. The first power installation in the Nairobi area was in 1907 when a hydro-electric station was erected at Ruiru using three 130 kw, turbines. Nairobi grew so fast that soon additional installations were constructed with two 120 kw type steam generators at Parklands. Lack of capital for further developments prompted the formation of a London Board of this company, which was re-constituted as the East African Power and Lighting Company (based in London) in 1922 The chairman of this company was JG Stone, a well known pioneer of India and Colonial Supply Undertakings. During 1929 licences were obtained by the EAPL to purchase the Tanganyika Electric Supply Company, which provided power supplies for Dar es Salaam and other areas. Licences were obtained to supply Kampala, Entebbe and Jinja and the first power was produced there by East African Power and Lighting in 1938 (the government took over EAPL in Uganda after the Second World War). The Company therefore had a virtual monopoly of power generating in Tanganyika, Uganda and Kenya until after 1945.[78]

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77. Electric power is an example of an essential service which moves from local to foreign control, due largely to the need for large amounts of capital and technology for such an enterprise.

78. Article, East African Power and Lighting, in EAS, 5/5/65.

After 1924, the company became associated with Power Securities Ltd and Balfour Beatty and Co.[79] and these two companies provided the technical assistance and management services for the EAPL in Kenya until 1970 when the company was nationalised. Balfour Beatty and Power Securities were linked through directorship and shareholding, and had been involved in electricity supply and development since the turn of the century. Due to the specialised nature of power generation, this partnership was able to achieve a monopoly over power supplies in the East African territories.

A 'partial' industrial process was to be found before the Second World War in the cement grinding mill that was set up as the 'East African Portland Cement Company' by the Tunnel Cement Company of UK and Associated Portland Cement (the cement distributors Smith Mackenzie Baumanns and African Mercantile Company also took a small share of £ 20,000 each.[80] This mill did not manufacture cement through all its stages, but rather ground clinker that was the basis of the cement mixture. The reason for this partial 'import substitution' was that there had been a desire on the side of the distributors as well as the suppliers of cement to East African to cut the costs of freight which this mill achieved as clinker could be carried as ballast in ships.[81]

It is therefore plain that the extent of non-agricultural manufacturing in Kenya before 1945 was limited, although a certain measure of import substitution' in primary products had been achieved.

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79. EAS, Ibid.

80. From an interview with Eric Baumann in June 1975.

81. The high cost of freight for manufactured cement when imported into East Africa meant that the profit margins were quite low for both suppliers and distributors. Hence there existed a motive for some measure of 'import substitution'. However, cement was not fully manufactured from limestone within Kenya until 1953.

Table 16: The Principal Foreign Based Companies in Kenya before 1945

Date	Name of Firm	Business	Country of Origin & Parent Co.
	FOOD; BEVERAGE & ESTATES		
1922	East African Breweries	Beer	Ind Coope, UK
1924	African Highlands Produce Co	Tea	James Finlay, UK.
1924	Kenya Tea Company	Tea & Coffee	Brooke Bond, UK.
1931	Anglo French Sisal Co	Sisal Plantations	British/French.
1907	East African Tobacco Co	Tobacco Trading	
(1934)	"	Tobacco & Cigarettes (manf)	British American Tobacco (BAT), UK
1932	East African Tanning & Extract	Wattle-Bark & Extract	1) Natal Tanning and Extract 2) Forestal Land and Timber, (UK)
1935	Leibigs/Kenya Govt	Meat processing	Leibigs, (UK)
1936	EA Sisal States Ltd	Sisal production	Mitchell Cotts, (UK)
1906	B.E.A. Co	Manf. agents, exporters of Primary Produce	Mitchell Cotts (UK) - after 1945.
	TRADING		
1920	Bird & Co (Africa) Ltd	Merchants, Transporters Shipping, Freight, Warehousing	Bird & Co, (UK)
1920	Gibson & Co	Manf agents, exporters of Primary Produce - coffee, wattle etc	Gibson & Co, (UK)
1934	Holland Africa Line	Shipping & Warehousing	Holland
1924	Gailey and Roberts	Import and Distrib of Agricultural machinery etc.	United Africa Co (Unilever) 1937
	MANUFACTURING & MINERALS	(excluding food processing)	
1911 (1923)	Magadi Soda Company Ltd t/over	Extraction of Soda	1) E.African Syndicate 2) I.C.I. UK
1922	East African Power Lighting	Generation of Power	Power Securities UK & Balfour Beatty Co
1933	East African Portland Cement	Cement Clinker Grinding	Associated Portland Cement (UK)

Table 17: Size of some Foreign Firms by Paid-Up Capital.

Date	Name of Firm	Issued Capital 1930 £	Issued Capital 1945 £
	Food, Beverage, and Estates.		
1922	East African Breweries	2,085	70,637
1924	African Highlands Produce (f)	n.a.	n.a
1924	Kenya Tea Company(Brooke Bond)	50,000	150,000
1931	Anglo-French Sisal Company	n.a.	n.a. S.O.
1907	East African Tobacco Company	n.a.	n.a. S.O.
1932	East African Tanning & Extract Company	60,000	477,201
1935	Leibigs	n.a.	n.a. S.O.
1936	East African Sisal Estates	10,000	20,000
Trading.			
1920	Bird & Company	n.a.	n.a. S.O
1920	Gibson & Company	n.a.	n.a. S.O
1906 (1939 -	British East Africa Company reconsituted)	n.a.	47,410
1924	Gailey and Roberts	133,142	146,692
1934	Holland Africa Line (f)	n.a.	n.a.
Manufac-	turing & Minerals		
1911	Magadi Soda Company (ICI) (reconstituted 1923)	597,141	796,260
1922	East African Power & Lighting Company	570,000	4,213,333
1933	East African Portland Cement Company	35,000	70,000
TOTAL AVAILABLE ISSUED SHARE CAPITAL:	£	1,457,368	5,991,533
AVERAGE SHARE CAPITAL PER COMPANY :	£	182,171	665,726.

(Source: the Registrar General of Companies)

n.a. - not available.

S.O. - the company has been struck off the register.

(f) - branch of a foreign company.

PART V: CASE STUDIES: INTERNATIONAL CAPITAL

Three case studies have been selected, one from each group in table (16). They are not identical in content and style and each emphasis a different aspect of capitalist expansion. One theme that is drawn out in all three studies, is the need of both merchant and industrial capital at a particular stage of development, to control the conditions of production in certain commodities, in this case soda and tea.

The study on the trading company, A. Baumann and Company places stress on the need of merchant capital to diversify into manufacturing after the Second World War. The study of Magadi Soda Company shows how international conditions of production dictated the consolidation of firms manufacturing soda products on a global level, as well as the need for this conglomerate to control the East African area of production. The Brooke Bond study, on the other hand is long and concentrates in some detail on the competitive conditions surrounding tea production in Kenya before the war. The focus of the this competition during the 1930's and 1940's is on the methods used by the International Tea Committee (ITC) in seeking to control the conditions of world tea production. It will show not only how Kenyan tea production as a whole was fashioned according to the global requirements of the dominant producers, but also how one company, Brooke Bond, was able to effect a monopoly over internal tea marketing in Kenya by 1938.

PART V(a): TRADING: A. BAUMANN & COMPANY

A. Baumann, although originally a small family firm at the turn of the nineteenth century, emerged as one of the most important firms trading in primary commodities before the Second World War. During the 1930's they dominated the trade in groundnuts in Tanganyika, wattle bark in Kenya and coffee and cotton seed in Uganda.

The anatomy of this company illustrates the conditions that necessitated the movement of merchant capital into manufacturing. Alfred Baumann, a German by birth, worked in the 1880's for the German firm of Declarement & Donner who were a big hides and skins dealer in India. In 1899 he left this firm and decided to settle in London and bought an existing business, Schweder & Co, which was also involved in the hides and skins trade. This firm became a registered partnership in London and was re-constituted as A. Baumann & Co and it continued to deal exclusively in hides and skins. This business was profitable, and involved

exporting hides and skins from India and South Africa to tanners on the continent and in Britain; the Baumann company financed shipments which then would either be sold direct to tanners or at the London auction.[82]

By 1918, with the increasing concentration of capital and formation of cartels in Europe, manufacturers of this commodity were making direct contacts with the suppliers and the role of the middle man was being rendered redundant. One solution for this type of small partnership was for the company itself to expand into all aspects of the commodity, to become the supplier, the transporter and also the marketing agent. Alfred Baumann, therefore, examined the possibility of expanding the company's business into a primary producing area. J. Colinvaux, a Belgian who had previously worked for another British primary produce trading firm, Leslie and Anderson, went into partnership with Baumann to undertake this new venture. Colinvaux, through his former employment, realised the possibilities of East Africa in supplying primary commodities, and in 1926 they set up a registered partnership in Kenya and opened a branch in Mombasa. Alfred Baumann's son, Eric Baumann was in charge of the East African operation. The latter was soon to expand to Dar es Salaam where a branch office was opened in 1928, and in Kampala in 1931.

Competition for control of commodities:

From the late 1920's when the company began its operations in East Africa, the Baumann partnership was mainly concerned with importing a range of manufactured goods from Britain such as textiles, cement, building materials and equipment, in return for East African primary products such as oil seeds, coffee, wattle bark, groundnuts, maize, mangrove bark chillies, beeswax etc. Most of these primary products were purchased from Asian traders who brought the goods to Mombasa from the up-country markets - but in some commodities there was a necessity for the company to become more involved in the actual production of these commodities.

The two largest items of export from Uganda dealt with by the company in the 1930's were coffee and oil seed. This trade was not 'captured' lightly and Baumanns came to control the trade in these commodities after a period of bitter competition with other British based trading companies.

82. Interview with Eric Baumann (one of the first partners of the Kenyan firm in the 1920's), in June 1975.

By the 1930's Uganda was producing considerable quantities of coffee following encouragement amongst African farmers by the administration since the early 1920's. In 1931, Gibson of Gibson and Co, another primary exporting firm in East Africa, was urged by the then Director of Agriculture, Tohill, to set up a processing plant for the coffee crop. At about the same time, Gibson and Co and Jamal Ramji Co set up coffee mills indepdendently to handle the crop of approximately 10,000 tons of raw coffee. Coffee production expanded apace and the Gibson Company required an infusion of capital for the construction of new coffee plants and a general expansion of their operations. They accordingly approached another East African exporting firm, Leslie and Anderson to provide the loan capital, but after this company had turned down Gibson's request, A. Baumann & Co stepped in and agreed to finance the construction of new coffee mills in Uganda. This act enabled the company to out-manoeuvre one of its main competitors in Uganda, Leslie and Anderson, and to give the company a greater degree of control over the production of this commodity. Baumann's, in cooperation with the Gibson Company, thus came to dominate the trade in Uganda for about twenty five years. Some idea of the amounts of coffee and value that was involved in this trade can be estimated through the Ugandan coffee exports.[83]

Table 18: Exports of Coffee from Uganda

	Weight (cwts)	Value (£'s)
1926	32,221	£147,903
1927	43,578	170,568
1932	87,007	223,162
1933	100,444	210,638
1935	n. av.	231,000
1937	257,938	420,483

(Source: Colonial Trade Accounts: 1926-37)

(Note: most Uganda coffee was exported raw before 1935).

This table shows the huge expansion in exports of coffee which more or less doubles between 1935 and 1937, and it gives some idea of the scale of the

83. Baumann controlled the largest proportion of the Uganda coffee trade in the 1930's. Although there are no company records to this effect this contention was borne out from two sources, firstly from my own interview with Eric Baumann and secondly from M. Mamdani's research in his Class Formation and politics in Uganda, (Mimeo, Dar es Salaam, 1974).

trade particularly when one considers that Baumanns controlled the internal trade in coffee within Uganda as well.[84]

This may have been the largest commodity in which Baumann was dealing, but it was not the only one. The next largest commodity in terms of Baumann's turnover was cotton seed in the 1930's. This was sent in unprocessed form to British oil manufacturers. In the 1920's Leslie and Anderson, Baumann's biggest competitors in East Africa, were the sole suppliers of Uganda cotton seed to J. Bibes of Liverpool, who used the cotton seed to manufacture animal feeds. Leslie and Anderson sold the cotton seed crop by contract that fixed the price per ton of seed. Bibes were not entirely satisfied with such an arrangement, as the oil content of the seed tended to vary considerably, and they would have preferred to buy on the basis of the oil content of the seed. Colinvaux, who was in charge of the London Baumann's office, seized the opportunity to offer a more favourable purchasing contract based on the oil content of the cotton seed. The manufacturing firm naturally accepted the offer. Baumanns then reached an agreement with Leslie and Anderson, that they should share the cotton seed market between them, and supply East African cotton seed exclusively to the two largest animal feed manufacturers in the U.K: Unilever and Bibes. This trade was considerable and amounted to about 90,000 tons of oil per annum. The slump gave a further boost to Baumann's control over the cotton seed trade, as the price of seed offered to the ginning companies was so low that Baumanns were able to buy large stocks until the prices improved.[85]

In the 1920's, the logical commodity for the Baumann Company to go into was the trade in <u>wattle bark</u>, given the company's previous connections with tanneries of hides and skins. Before 1932, Baumanns purchased wattle bark mainly from Asian merchants, exported it to Europe and sold it to European manufacturers of extract. Baumann, as a merchant

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84. More direct evidence on the Baumann Company's interest in the trade in commodities is not available as until 1946 the company was a registered Partnership in Kenya so there are no financial details or annual reports. Also the early records of the company have been destroyed over time.

85. Interview, op.cit.

capital, represented a threat to industrial capital. The Forestal Land and Timber Company came to control wattle extract factories in Kenya in the early 1930's as part of a global drive to control the conditions of production in this commodity. Since 1926 Baumann & Co had been diverting supplies of wattle bark to Forestal's European competitors in extract manufacture. When Forestal moved into Kenya in the early 1930's in order to establish extract factories and absorb this wattle bark supply, Baumann changed its tactics and decided to export extract instead of wattle bark. Forestal's chief competitor in Kenya for the manufacture of wattle bark into extract was the Asian firm, Premchand Raichand, and Baumann was to champion the cause of this local capital in order to perpetuate its own share in the wattle trade.[86]

Forestal hoped to control the commodity in Kenya by forcing Premchand Raichand, the other manufacturer, into some agreement that would establish a joint share of the market which would favour the international company. Baumann's were strongly opposed to any kind of agreement between local and international capital which would exclude them. Therefore Baumann's urged Premchand Raichand to '... counter any ultra selfish motives on the part of Forestal, with the Government, and that .... in business circles Forestal's moves to readjust proportions of supplies of wattle bark to limit the issuing of manufacturing licences, to fix minimum export prices of bark and extract, and maximum purchasing prices would push Premchand Raichand into a position in which they will have to seek the active help of the Kenya Government to avoid being squeezed out of existence'.[87]

However Baumann's vigorous attempts to re-orientate the terms of the voluntary agreement between Forestal and Premchand Raichand failed, due to the political pressure that Forestal, was able to exert from London on the Colonial Office. In 1936, the first of these agreements was concluded and in 1939 it was renewed for a further three years. Baumann strongly objected to the terms reached under which the duopsony would operate and they maintained that only the state could 'wrench the agreement from the clutch of a demon.'[88] However, when it came to wielding power at the level of the Imperial Government, Forestal was in a stronger position than the trading company of A. Baumann, and the latter was gradually eliminated from the wattle extract trade in East Africa.

86. M.P. Cowen (1975), op.cit, pp. 38-40.

87. Ibid., p. 38.

88. Ibid., p. 38.

Baumann's loss of control over the wattle trade coincided after the Second World War with a a general decline in the prices of wattle extract and with the advent of synthetic tanning materials. However, Baumann continued to trade on a very small scale in wattle extract, although it dealt in such a wide range of commodities that the loss of one could be compensated for in other areas.

The Company Post War. Industrialisation and Diversification:[89]

After the war, high company taxation in Britain occasioned the transfer of all the assets of A. Baumann & Co to East Africa, and its subsequent incorporation as a public company on the Nairobi Stock Exchange. Another reason for local incorporation was to expand into new areas because as we have shown, commodity trade was susceptible to intense competition from other merchant capitals, and, more important, from industrial capital.

It was in 1948, therefore, that the company received a capital infusion from Steel Bros who took 25% of the share capital of the Baumann Company in East Africa. This company was a British based company which had been concerned with teak and rice production in Asia. Changing political circumstances in that continent had given rise to the desire of Steels to find alternative outlets for investment. This company, which was to expand rapidly to become a huge holding company by 1975, was eventually to take over the Baumann East African operation in 1973.

As we have stressed, Baumann's main interests before the Second World War had been confined to importing manufactured goods and exporting primary products. The only exception to this had been Baumann's investment in a cement clinker grinding mill in 1933. Importing cement was not profitable due to the bulk of the commodity, so Tunnel Cement Company, the former British supplier of the commodity after consultation with Baumanns, decided to set up a small cement grinding mill in Nairobi in 1933. Baumanns, Smith MacKenzie and African Marine Engineering (Mitchel Cotts), who were the other cement agents, each took a £20,000 share in this new company, known as East African Portland Cement. Baumanns were to become the sole distributors of cement from clinker in Kenya.[90]

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89. This analysis of the Baumann Company has been taken beyond the Second World War in order to show the historical requirement of merchant companies to diversify into industry.

90. The other two cement distributors in East Africa supplied Uganda and Tanganyika, so the East Africa market was thus broken up into three areas.

Another of Baumann's importing agencies was Leyland Paints products from Britain. There were problems for distributors of paint in East Africa, for very large stocks had to be held to cater for consumer demand. Competition was fierce for the rather limited pre-war markets, so that after 1950 negotiations began between Baumanns and Leyland Paints about the possibility of setting up a plant to manufacture paint in Kenya. The original plan was postponed until 1956, due to the outbreak of the Emergency in Kenya, but in 1956 a paint factory was constructed in Nairobi, as a 50/50 partnership between Leyland Paints UK and Baumann & Co, with the former providing the management and technical expertise. This only forestalled the other competitors in the East African paints market for a couple of years - for between 1958 and 1960 both Sadolins and Robbialac had set up other paint manufacturing plants in Kenya. Similarly Baumanns became agents of Hall Thermotank (J.D. Hall) and distributed their items. After the Second World War they set up jointly with the Hall Thermotank Company an assembly plant and engineering workshop. However Baumanns sold off their portion of the business to Hall Thermotank in 1968, as this activity in the refrigeration business was not really compatible with their other interests.

During the 1950's Baumann continued its moves towards diversification. by 1954 they had taken over Milmet Estates, consisting of 170 acres of coffee and a beef cattle ranch from some settlers. Also in the 1950's the company took a 50% share in the Kenyan subsidiary of Jardine and Matheson, tea exporting merchants. This partnership still purchases tea locally, blends and exports the product. The company also owns coffee factories in Uganda. This diversification drive was completed in 1965 with the acquisition of ABC Foods, another European owned firm that was verging on bankruptcy before Baumanns bought them out. This company manufactures a range of animal feeds.[91]

Baumanns had finally managed to gain access to the shipping and freight business when it acquired its old rival Leslie and Anderson and its subsidiary, Wafco Ltd in 1965. The UK company of Leslie and Anderson was experiencing financial difficulties and the directors approached Baumanns to request that they should take over part of the company's share capital. Its interests in East Africa ranged from food distribution

91. The information on takeovers of local companies and diversification was obtained mainly from the annual reports of the Baumann Company from 1953-1975, and from an interview with the Company Secretary of Baumann, (Nairobi, August 1975).

agencies to warehousing and shipping; Baumann had been competing with their steamship agencies since the 1930's.[92]

Thus, by the 1970's the Baumann Company in East Africa was composed of a gamut of enterprises in manufacturing and agricultural production as well as its old interests in primary commodities. Although coffee remained important to the company because of their direct investment in coffee mills in Uganda, their investment in other primary commodities such as wattle had waned.

By 1970 the Baumann Company, which had been locally based since 1945, had the remainder of its share capital purchased by Steel Brothers of UK. By this time Steels was a large corporation with subsidiary concerns in over thirty countries and in a wide variety of concerns ranging from housing construction to commodity trading and insurance.

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92. The Baumann Company also had plans in the early 1960's to consolidate their commodity trading empire by an amalgamation with the Tanganyika Cotton Company, but the fortunes of the latter declined and the plan never reached fruition. (Tancot was taken over by Lonrho in 1969).

PART V(b) CASE STUDY, MAGADI SODA COMPANY.

In this study of the development of soda ash production in Kenya, we intend to show how the needs of international capital were served by expansion into Kenya to control the source of production of the commodity. In order to do this it is necessary to outline the conditions of production that led to this concentration in the commodity on a world level.

a) Origins of Magadi:

Lake Magadi was first surveyed in 1900 by two Rhodesian prospectors by the names of Deacon and Walsh.[93] In 1902, thinking that this claim was of no commercial value, these two sold the concession to C. Coles, a mining engineer, who in the same year re-sold the rights to the East African Syndicate, a London based operation involved in land development in East Africa. The syndicate paid Coles Rupees 11,390 for the concession, and proceeded to mount a full scientific expendition on Magadi Soda Lake. In 1903 the surveyors reported, "reckoning twenty square miles of deposit at a thickness of 4", which represents over four million tons of raw soda".[94] The soda samples were sent to London for testing, and the percentage of soda content varied between 58.9% - 69%, which by international standards was most certainly commercially viable. It was estimated from the results of these experiments that "taking the market price of soda at £4.10.s. per ton (f.o.r. works), the value of the refined soda ash obtained from 1 ton of natural Magadi soda would be £3.9s."[95]

In 1904 a lease for the Magadi concession was drawn up between the Government of the Protectorate and the East African Syndicate for twenty years (renewable). This covered eighty-nine square miles, which included the lake together with the lands on the shores of the lake. The royalty payment by the lessee to the government was fixed at five percent of the net profits made on extraction and marketing of soda from the Lake.[96] The

93. There is some evidence of pre-colonial trade in salt from Magadi, but in this paper it has not been possible to explore the evidence.

94. Article, Magadi Sets the Pattern for Kenya, (EAS, 27/1/61).

95. Ibid.

96. M.F. Hill, The Story of Magadi Soda Company, (Published for I.C.I. in 1960), pp. 18-20).

East African Syndicate was reconstituted in 1906 as the "East Africa Soda and Railway Company". The technical advisers to the company were Chance and Hunt of UK. The draft prospectus proposed a calcinating plant at the junction of the branch line with the Uganda Railway and to later form a subsidiary to erect works in UK for manufacturing soda crystals and caustic soda under the advice and guidance of Chance Hunt Ltd. In 1908 the syndicate sought financial assistance from the UK Government to develop Magadi, but their efforts were unsuccessful. The prospectus had sought to arrange for the underwriting of the capital required for the project, but the response in London was poor, and in 1910 the syndicate was wound up and the Magadi deposits remained untapped.

In 1911, the Magadi Soda Company was launched, underwritten by Marcus Samuel & Co. and the Central Mining and Investment Corporation with a capital of £1,312,000 (M. Samuel were selling agents for soda products worldwide and in 1908 had offered their services to the East African Syndicate as sole selling agents for Magadi Products, a plan which came to naught as the deposits were undeveloped).[97] Clearly the first task of the new company was to establish contact between Magadi and the outside world, before any exploitation of the soda resources could be effected, and plans were drawn up to construct a ninety one mile railway to join the Uganda Railway, and a water pipeline from the Ngong Hills to Magadi, which was situated in an arid zone. This branch line, when constructed, would be handed over to the government and leased from them for a term of the new lease at a rental of five Shs. p.a. The line would be maintained by the Uganda Railway administration, but the costs of its construction was to be borne solely by the company; the railway administration also undertook to provide all rolling stock sufficient to carry 160,000 tons of soda per year. Profits on the working of the branch line would be divided equally between the Uganda Railway administration and the lessees. Royalty payable to the government by the company was readusted to two Shs. per ton of raw soda from Lake Magadi exported or sold; and if used for commercial purposes three Sh. per ton. of soda, or soda products.

The attitude of the government towards the project bears out an earlier a point that Imperial Policy was not particularly active when it came to financing infrastructural developments for the exploitation of commodities of industrial potential. The Uganda railway had been

97. Article, EAS, op. cit.

constructed to exploit the agricultural produce of the hinterland, but at this stage that was the limit of their commitment to 'private enterprise'.[98] The government, was not averse to providing generous land grants to companies such as Magadi, which held 2900 acres in the Masai reserve.

In the initial prospectus the underwriters of the Company, M. Samuel and Company, guaranteed sales of the company's product of 'reasonable market quality' during the first five years. It stated that the vendors felt justified in estimating that a profit of at least twenty Shs. per ton of soda products could be expected. The initial estimated expenses of the infrastructure for the project were as follows:

Cost of construction of the branch line	--	£250,000
Nec works for treating and handling soda and water supply	--	£250,000
M. Samuel & Co. surveying costs	--	25,000
Issuing expenses, underwriting	--	125,000
		£950,000

Which left £300,000 for working capital.[99]

However, the importance of Magadi to the British partnership, consisting of the Samuel Company, the British Aluminium Company and the remnants of the East African Syndicate, was to ensure that this soda deposit lay in their hands rather than under the control of their competitors. These companies involved in soda production and marketing were constantly on the look out for new sources of raw material as the market for soda products in Europe and the Far East was expanding very rapidly with advancing industrialisation. In fact, the Samuel Company had purchased a site at Irlam on the Manchester Ship Canal in 1913, where it was proposed to build a factory to manufacture caustic soda and soda crystals, using Magadi raw soda. A further project was underway by the same company at Hooghly, near Calcutta, in 1914, which was to manufacture only caustic soda. However, war conditions halted the progress of construction of these plants, and the company had to divert capital away from construction into supplying the Munitions Ministry from their existing capacity.

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98. The 'infant industries' concept was not to emerge until after the Second World War in the Protectorate, and the attitude before that time was that the cost of exploiting natural resources should largely be borne by private enterprise, without much assistance from the state. This can be contrasted with the willingness of the government in the 1950's to finance the railway connecting the cement plant with the Mombasa docks at Bamburi.

99. M.F. Hill, op.cit., p. 20.

b) Interwar Years; Competition:

Production at Magadi, despite the efforts of the parent company, ground to a halt during the First World War, partly due to technical difficulties experienced at the new plant and partly due to the difficulties associated with shipping the commodity from Kenya to its markets.

By the end of 1918 the existing company was facing severe financial difficulties: the railway had cost £1,124,000, way above the estimate, and the company's working capital was exhausted. Thus it was imperative either to raise more capital or close down the plant and wind up the London Magadi Company. By 1922 the company was on the verge of collapse; in 1920 the debit on Profit and Loss was £96,832. Currency conversion in East Africa meant that the company's costs in Kenya were arbitrarily inflated, which was a blow to a company so dependent on exports.[100] During the year 1920 the output was only 12,000 tons, and further losses seemed inevitable.

From 1920 onwards the export trade in Soda ash[101] showed a marked increase due mainly to rapid expansion of sales to Japan. Magadi Soda, however met with severe competition from alkalis of European manufacture, and particularly with the products of Brunner Mond. Roscoe Brunner, the chairman of Brunner Mond, had been approached several times by the Magadi Soda Company to reach some agreement whereby this cut-throt competition could be controlled, but he had rejected any such arrangement. However Brunner Mond were by this time in a position where their Far Eastern markets faced the possibility of being lost to Magadi Soda. In 1921 the Magadi Soda Company's selling agents in Japan had formed a subsidiary company to deal with the increased volume of trade in Magadi Soda, called "Sun-Soda Co", which reported that Magadi ash was very well received on the Japanese market. The Annual Report of Magadi however, in 1922 encapsulated their dilemma: '... It is necessary that we should have sufficient production to enable us to sell to the largest markets, where prices are high, and by this means force our competitors to reduce their price in the home market for the benefit of the consumer and British industry. For this reason we shall have to raise further capital'.[102] Despite the bright prospects for Magadi Soda production on the world market, the company was unable to raise the capital required to finance

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100. For further details on the significance and effects of currency conversion See, Macgregor Ross, op.cit, chapters one and two.

101. In 1918, Lever Brothers were buying raw soda @ £5 per ton at Kilindini, Mombasa. Lever Brothers were closely associated through shareholding, with Brunner Mond.

102. M.F. Hill, op.cit., p. 79.

any expansions of the plant, and in February 1923, the directors gave notice to their bankers that it was impractical to carry on business.[103]

In the meantime a scheme was mounted for the reconstruction of the company, and an agreement was reached between two directors of the former company to take steps to carry through this proposed scheme. However, Magadi's chief competitor for the world soda market, Brunner Mond, expressed a strong interest in controlling the company and they were thereupon granted facilities to investigate the company's annual accounts. This move was opposed and the Secretary of State for the Colonies, J.H. Thomas, blocked these moves by Brunner Mond to gain control of the equity of Magadi Soda Company. The bureaucracy was opposed to the formation of a cartel whereby Brunner Mond would secure a virtual monopoly of the soda ash trade in the Far East, and they were also concerned that the company once it gained control of the Kenyan soda deposits, would fail to develop them to their full capacity. The Colonial Office, for once acting in response to the colonial administrators in Kenya, refused to accept a plan for Brunner Mond to meet the Magadi Soda Company's liabilities.

This initial failure to gain control of the Magadi Soda Company did not deter the Brunner Mond Company. In July 1924, they sent a technical mission to the Magadi site to examine and report on every aspect of production; this committee undertook a fair amount of informal lobbying of the Kenyan colonial administration and reported on return that the Governor seemed well disposed towards the new company and anxious to help in any way. The colonial administration had by this time reached the conclusion that it was better to accept the terms of a monopoly producer than risk the complete non-development of the soda deposit, which was providing some revenue through royalty payments. After much bargaining and negotiation on behalf of the Brunner Mond concern and the Colonial Office, the company was given permission to buy out the share capital of the former Magadi Soda Company at the beginning of 1925, and yet another Magadi Soda Company was constituted in London in December 1924.

c) Monopoly Production and Amalgamation of Chemical Firms:

From 1925, Brunner Mond were able to reinforce the ailing enterprise in Magadi with their technical and commercial knowledge of the soda business. Brunner Mond had finally achieved its objective of absorbing its chief competitor in the soda ash trade, and now Magadi soda was marketed in co-operation with Brunner Monds own ammonium soda products.

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103. Ibid., pp. 79-87.

Steps were taken to fully integrate Magadi production into the overall pattern of the Brunner Mond organisation; and all overseas selling agencies were cancelled (which the company's own marketing structure assimilated), except for that of the Mitchell Cotts Company which continued to sell for the company in South Africa. Brunner Mond proceeded to instigate a programme of capital expenditure for the Magadi plant.

Having traced the absorption of Magadi production into one of the world's largest soda manufacturers, we will now briefly explore the conditions in the chemical industry as a whole which gave rise to further amalgamation and concentration of production. In 1914 Britain had been dependant on Germany for many fine chemicals, dyes and dyestuffs, and the war encouraged British chemical firms to remedy the imbalance. It was therefore, in response to competition from the two great chemical combinations: I.G. Farbenindustrie A.G. in Germany, and Allied Chemicals du Pont in America, that the British chemical firms were compelled to unite. In 1926, after six months of negotiation between them, this led to the amalgamation of the four great British chemical enterprises: Brunner Mond & Co, Nobel Industries Ltd, the United Alkali Co. and British Dyestuffs Corporation, into the Imperial Chemical Industries Ltd., (ICI).

Brunner Mond had begun in 1914 to manufacture synthetic nitrates and built up a market for manufactured soda products. Nobel Industries was predominantly a dye manufacturing concern. The United Alkali Co had been formed in 1890 as a result of a merger of no less than 41 chemical concerns around Widnes, and was engaged in making sodium carbonate by the Le Blanc Soda Process. The British Dyestuffs Corporation on the other hand represented the rebirth of the dyestuffs industry in Britain under the pressure of war-time needs and it had been subsidized heavily by the state. In December 1926 therefore the chemical giant I.C.I. was registered with an issued capital of £57,000,000. Sir A. Mond (the chairman of Brunner Mond) was chairman of the new company. Thus the Magadi Soda Company became an offshoot of a large industrial combine that was to become one of Britain's largest manufacturing concerns.

d) Magadi under control of I.C.I.

From 1925, therefore the Magadi Soda Company was controlled by a chemical combine, which had at its disposal a high level of technology. Much effort was put into overhauling Magadi's sales system, which was completely re-organized in order to fit in with the global requirements of the large corporation. A strong sales promotion was undertaken by ICI for

Magadi ash, for its high quality at this time meant that the outlets were limited.[104] During the 1920's Japan took the largest proportion of Magadi soda.

Table 19: National Shares of Soda Exports from Kenya Colony:

Year	Destination	Quantity (Tons)	% of total	Exports of Soda Ash (Tons)
1923	Britain	3,932	12%	n.a.
1923	Japan	15,619	49%	31,762
1925	"	38,126	79%	48,306
1927	"	44,500	79%	56,421
1936		22,400	48%	46,549

(Source: Colonial Trade Accounts, 1923-1936).

However in 1929 the Secretary of ICI came to a depressing conclusion; "... an indefinite prolongation of present methods of soda ash production would yield very little, if any, regular profit .... Magadi is approaching a serious turning point, there will almost certainly be a very much reduced carry forward into 1930, and it will be necessary from then on, until a new process is accomplished, to employ every means to prevent accumulation of arrears".[105] The years of depression hit the company hard. In 1930 Kenya's domestic exports were valued at £3,422,571, and by 1934 they had fallen to £1,909,876. By 1930 output had fallen to 44,479 tons which was less than the 1927 figure, (see table). ICI had considered the methods of production at Magadi to be unsatisfactory and had since 1925 been experimenting with a new method of purifying Magadi ash. The bicarbonation process proposed in 1925 was revived in 1927 and 1930. This new process would involve a capital expenditure of between £150,000 and £400,000, and would result in an increase in costs from ten Shs. to fifteen Shs. per ton.

Thus ICI, in the face of the conditions of world production were faced with three alternatives: either they could install this purification process which would mean that the company would lose an additional £32,000 per annum over and above the prevailing loss of £48,000 (although it might pay off in the future), or they could manufacture caustic soda in Japan, which would involve a capital investment of £600,000 and entail a serious risk of failure.[106] The final option was to close down the Magadi plant.

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104. Magadi soda ash was a particularly high quality, which meant that it had a limited number of specific industrial uses, which were able to be more fully utilized after the Second World War.

105. Annual General Meeting Report, 1929.

106. The new process was essential to increase the output of the Magadi plant. The calcination costs of the raw soda had been very high before the advent of the new method.

This would entail abandoning the lease on the plant, but it would also run the risk of competition gaining control of Magadi. It was finally decided by the shareholders in London that the company should carry on. The company incurred yearly losses between 1930 and 1937, which were due in part to the contraction of overseas markets on which Magadi relied for its exports. The company then embarked on a campaign to cut the costs of production. In 1933, a gas producer plant was proposed in place of oil fuel, and after the installation of this new plant the soda ash plant worked well. This saved considerably on calcinating costs, although it involved the use of more labour. An indication of the saving involved can be seen in the raw cost of soda ash at Magadi which fell from forty one point five Shs. per ton in 1930 to twenty three point six Shs. per ton in 1936. In 1933, £5,000 had been allocated for the salt plant to produce rough salt for the domestic market, although the project was kept at a low level as the parent company did not wish to involve too much capital in a project that did not hold much potential in terms of sales. By 1938 the output of salt at Magadi was only 4,570 tons.[107] In 1939, a Board statement expressed the parent company's grim prospects for Magadi plant, '.... we have been brought to the conclusion that the Magadi enterprise, while still possessing a restricted value, can no longer be regarded as capable of providing an adequate reward for the capital which has proved to have been necessary for its development.....'[108]

However, despite gloomy predictions on the future of the Magadi Soda plant, world market forces were to boost its fortunes during the Second World War. Because of its geographical position, with supplies cut off from Europe, the company was able to expand its exports to India, South Africa, Australia and South America. The trade built up during these years since the war has not altered to this day, (except when exports to South Africa became impossible in 1963).

From 1941 onwards production at Magadi increased rapidly to meet the expanding demand; and by 1945 over 6,000 tons of soda ash and 15,000 tons of salt were produced. From this point onwards the demand for soda for industrial processes has never faltered, and sales have been restricted not by the incapacity of Magadi to produce enough soda to meet the demand, but rather because of the inability of the railways to cope with transporting

107. Magadi at present still supplies all the domestic demand for rough grades of salt used for cooking, cattle licks, and also exports a small amount, mainly to neighbouring African countries.

108. Magadi Soda Company, AGM, 1939.

the bulky commodity to the port at Mombasa. Between 1939 and 1961 shipments from Magadi totalled more than 2,000,000 tons and the exports by 1961 exceeded 150,000 tons per annum representing five percent of Kenyan total domestic exports.[109] Between 1929-1960 capital expenditure at Magadi amounted to £2,116,601, and of this £1,989,067 (94%) was spent after the Second World War between 1945 and 1960. Not only did these years witness a marked improvement of technique, but by the 1960's, the plant had concentrated production and only one single grade was being produced (90% Na_2CO_3). The lower grades, previously marketed in countries such as India, were discontinued. A summary of the company's balance sheets since 1926 shows the rapid growth after the Second World War.

Table 20: Annual Returns for Magadi Soda Company 1926-1970

Year	Issued Capital	Net Assets	Net Profit (post tax)
1926	597,141	1,108,102	(35,497)
1930	597,141	1,131,701	(17,249)
1940	737,095	1,084,728	17,203
1950	796,260	1,379,459	186,540
1960	977,754	1,514,028	366,558
1970	2,727,933	3,289,341	410,957

(Source: Annual returns, Companies Registry).

Only a large corporation with its concentrated resources was able to take advantage of the demand for this particular commodity after such a long period of market instability. This discussion has shown how the international corporation is able to keep sources of raw material under its control, even when the market forces are not particularly favourable to the commodity.

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109. Annual Reports of the Magadi Soda Company, (Companies' Registry).

PART V(c): THE TEA INDUSTRY AND BROOKE BOND IN KENYA.

Introduction

In the final detailed case study we will be concerned to show the way in which one particular firm, Brooke Bond was able to establish itself over a period of thirteen years from 1925 to 1938 as one of the two largest tea growers in Kenya, as well as the controller of the internal market. The attainment of this position is discussed and the international control mechanisms in the industry are analysed through the workings of the International Tea Committee (ITC).

The Drive to Oligopoly: the Tea Industry

a) The Entry of International Firms:

In 1922 tea drinking was a 'luxury' confined to a small European and Asian population of East Africa. During 1925 and 1926, 99.6% of tea imports into East Africa came from India and Ceylon (see table 27). On top of the freight charges, an import duty of forty-five cts. per lb was imposed. The tea trade in East Africa before 1925 was therefore relatively small, and unless there was a prospect of initiating the majority African population into the habit of tea drinking, it would remain that way.

There were several agents of the large metropolitan companies competing with each other to sell their respective teas in East Africa in the early 1920's. The two largest of these were Brooke Bonds and Liptons, although other smaller agencies existed such as that of the Twinings Tea Company. In 1916 Arthur Hirst of Nairobi was appointed from Calcutta as sole agent in East Africa for the sale and distribution of Brooke Bond teas. The idea was to open a branch of Brooke Bonds, for the parent company in Britain saw the possibility of extending their East African market by conducting vigorous sales campaigns to break the virtual monopoly held by Liptons. It was in response to these needs that a Brooke Bond branch was formally constituted in East Africa in 1922.[110]

The tea at this time was marketed in two different forms, one in 'bulk' via Asian wholesalers and the other in 'packets'. The former was aimed chiefly at the African market which existed mainly in Zanzibar and the coast regions of Kenya and Tanganyika, but only a small proportion was

110. Article, G.B. Pollard, (an employee of Brooke Bond in the 1930's). A Brief History of the East African Branch of Brooke Bond & Company (India) ltd, (from Brooke Bond Company files at Kericho).

finding its way to up-country markets in these two territories. However, the two importing companies, Brooke Bonds and Liptons dealt mainly with the packeted teas, which came directly from Ceylon and India and held only a small share in the bulk trade. The latter bulk teas were largely in the hands of Indian wholesalers importing from the country of origin, Java teas being particularly popular in the Zanzibar market. In the meantime Twinings had also entered the market and in 1922 made a shortlived attempt to challenge the Brooke Bond and Liptons hold over the import trade in tea to East Africa. It must be borne in mind that the actual size of the tea trade was small in the early 1920's, so there was strong competition for a share in a small cake. For instance, during the twelve months to 30/6/24 Brooke Bond sales in East Africa were between 450,000 and 500,000 lbs and the total tea imports into the East African territories and Zanzibar was still under one million lbs. The closing sales of the Brooke Bond branch in 1925 were approximately 650,000 lbs, which represented about 60% of the total imports of tea, with a ratio of 70% in packets and 30% in bulk.[111] (see table 27).

b) Tea Production in East Africa:

Brooke Bond had only recently become a tea producing company as opposed to simply a tea dealer through the London auctions. Between 1900-1914 Brooke Bond had set up branches for blending tea in India and Ceylon in order to be freed from dependence on the London market. The company extended into production in 1919 when the first Brooke Bond tea estate was purchased in Assam, and several more were bought in that year. A large distribution network was established in India just after the war, and a large number of already developed tea estates were absorbed.[112]

The market for tea in East Africa was small, and those engaged in the trade experienced strong competition from other distributors. From Brooke Bond's point of view this state of affairs coincided with the desire to diversify sources of production as the political climate in India was perceived by the company as being unreliable in the early 1920's. Although an important motive for producing in East Africa was to go behind the tariff wall and attempt to control compeition from other sources, the future export potential was another major consideration. For tea is primarily an export crop and the planting programmes of all the main producers were based

111. Pollard, Ibid.

112. D. Wainwright, Brooke Bond, a Hundred Years, (a book published by the company in 1969), pp. 29-31.

on the assumption of finding a profitable market on the London auctions. These were the two main motives for the move of the two largest producing companies, James Finlay and Brooke Bond, into Kenya: to capture the local market and develop alternative producing areas. Both of these objectives were to be realised by Brooke Bond by 1938.

These motives led to the acquisition of 1,000 acres at Limuru in 1924 by the Brooke Bond company.[113] At the same time the company made an arrangement with a number of farmers, who had been cultivating tea in the district on a smallholder basis, to buy their tea and process it in a central Brooke Bond factory at Mabroukie. Farmers in Kericho had similary been experimenting with tea growing since 1910. An agent of one of the James Finlay companies arrived in Kenya in 1925 at the same time as the Brooke Bond representative to discover that 25,000 acres of BEADOC (British East Africa Disabled Officers Corporation) land in Kericho was for sale, as the Scheme had been a failure.[114] Although the general manager was cautious from the point of view of the risk involved, 20,000 acres was purchased by the James Finlay Group (the largest tea growers in the world both in 1924 and at the present). The land was purchased from the Government for a paltry Shs.1193/- and a yearly rental on a 999 year lease of Shs.4000/-, and the James Finlay Company formed a private company registered in the United Kingdom, known as African Highlands Broduce Company Ltd.[115] Brooke Bond purchased the remaining portion (5,000 acres) and formed a private company known as the Kenya Tea Company Ltd. Brooke Bond gradually advanced its acreage by absorbing small planters' plots. Thus by 1926 tea development in Kenya was dominated by two large foreign companies, two locally owned public companies, Buret and Jamji and ten small private planters. By the outbreak of the war, the latter had been reduced to five from ten, and the total acreage under tea cultivation in Kenya had risen from 382 in 1924 to 12,662 in 1934. Between the same years tea production in Kenya rose from 1,341 lbs to 4,024,722 lbs, and exports from nil to 2,476,900 lbs in 1934, (See Table 27 and 30). Brooke Bond and African Highlands Produce Company, therefore, held the largest proportion of mature tea acreage before and after the Second World War. Unfortunately I do not have the precise acreage for Brooke Bond in the

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113. This information on land acquisition by Brooke Bond and African Highlands was acquired from the Lands Registry (Nairobi) as part of an examination of European estates which sold to foreign tea companies before 1960.

114. The BEADOC organisition had been set up after the First World War in order to assist the settlement of ex-officers. The scheme was a total failure and having unsuccessfully attempted the cultivation of both flax and coffee the Corporation had to sell the land in order to pay off their debts. See also MacGregor Ross op. cit.

115. Lands Registry, op. cit.

1930's, although in 1934 African Highlands held 5,032 acres[116] of tea in Kenya and the total area under tea ror that year was 12,662. I would estimate from the Land's Registry accounts that Brooke Bond at this time had approximately the same acreage as African Highlands with around 5,000 acres; the balance of 2,662 acres or so being held by another foreign company, the Nandi Tea estates and the two local public firms, Buret and Jamji. By 1943 the local firms had slightly increased their share of Kenyan tea acreage and a memo from the Department of Agriculture to the International Tea Committee, in November 1943, stated that the proportion of tea acreage held by 1) non residents and 2) residents in the Colony was 70% and 30% respectively.[117] As Brooke Bond and African Highlands dominated the non-resident group it is justified to estimate that their percentage of total tea acreage in Kenya (which was 15,656 acres), just before the end of the Second War was somewhere between 65% and 70%, which would leave these two foreign companies with approximately 10,959 acres between them in that year.

By 1955 there were seventy-five licenced tea holders in Kenya, fifty-four in Uganda and twenty-five estates in Tanganyika. The size of holdings ranged from 10,000 acres to less than 500 acres.[118] By 1958, Brooke Bond[119] had 3,000 hectares of mature tea at Kericho having absorbed Jamji estate after the War, in 1946. Brooke Bond's consolidation of tea lands in the Kericho district was completed in 1971, with the acquisition of the only remaining large, locally owned tea estate, the Buret Tea Company for which Brooke Bond paid £1,000,000.[120]

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116. Information on acreage and production for the African Highlands Company was obtained from their office at Kericho. The Brooke Bond Company, unfortunately did not have similar figures reaching back before the Second World War.

117. Kenya National Archives (KNA), 11/43.

118. M.D. MacWilliam, The East African Tea Industry, 1920-1956, (M.Phil thesis, Nuffield College, Oxford, 1958), pp. 18-20.

119. By 1955, Brooke Bond had invested a total of £6,000,000 in the tea industry in East Africa, (information from Head Office, Kericho).

120. Interview with Brooke Bond in Nairobi, (February, 1974).

Of all the tea companies in East Africa after 1924 Brooke Bond was the only one with an established distributing organisation in Kenya.[121] Brooke Bond's policy in the years after 1924 was to make the local market its primary concern. Unfortunately for all the tea producers in East Africa, their production had begun to come on the market just at the onset of the Depression, when the London auction prices fell below those obtained on the local market. Therefore the larger estates, such as African Highlands and Brooke Bond, who would normally have exported their tea, turned to the local market as the most profitable outlet, and in 1928 a period of intense competition began in response to these conditions. In June 1930 African Highlands sold tea for one Shilling per lb, ex-factory; however by 1931, both Brooke Bonds and Buret had dropped their prices of tea to 90 cts per lb, and African Highlands was compelled to follow suit. This cut-throat competition was having the effect of cutting the East African price level down to the London auction equivalent, which caused concern amongst the directors of the parent companies in Britain. In 1931, the government unexpectedly imposed a tea excise duty of ten cts per lb, but competition was so hot that none dared to pass on the increase to the consumer in East Africa! Therefore the thoughts of the large companies turned to devising a more durable form of sales cooperation on the local market.

In 1933, with the onset of the International Tea Restriction Scheme, Brooke Bond took the opportunity to exercise a determined bid for oligopolistic price leadership and gradually raised their prices from eighty-five cts to One Sh. per lb. The other producers followed suit. Brooke Bond's share of the market never fell below 50%. However, by 1935, the prices on the world tea market had improved, as London auction prices had risen considerably, thus relieving the pressure on the large tea companies to unload on the local market.[122]

Kenya had not been included in the first Tea Restriction Scheme from 1934-1938, but when the scheme came up for renewal, it was expected that East Africa would be included as it was anticipated that production would have increased faster than local consumption, and producers would be increasingly forced to export. It became imperative, therefore, to work out some kind of sales agreement before that time. The general form that such a scheme would take was clear: a quota share of the local market for each

121. Pollard, op. cit.

122. MacWilliam, op. cit., pp. 84-88.

producer, based on production and acreage, with an administrative body to run the scheme. However the conflict of interests between the producers was to delay the conclusion of the agreement for three years.

The negotiations during these years were almost exclusively between the two largest tea producers, both subsidiaries of British based companies. Brooke Bond wanted to become agents for the cooperative marketing organisation, retaining full control over detailed sales policy; for any proportionate share out of marketing in the internal market on a basis of production shares would mean this company sacrificing about 40% of its share of the market. Brooke Bond could probably have defended its hold on the internal market by pushing out the smaller producers, as the company had such a superior sales organisation, but it would not be so easy to dislodge the African Highlands Company, with its strong overseas backing. The affect of restriction would be to force tea on to the local market once again and without cooperation all other producers could combine against Brooke Bond. Therefore Brooke Bond had strong reasons for either going into a suitable joint selling agreement or to forsake restrictions on exports. Their global activities required international restriction of sales so the pressures for a local agreement were overwhelming.

However, the James Finlay Company wanted a fully owned producers' organisation and they fought for two years with Brooke Bond to achieve this, for this arrangement would mean Brooke Bond relinquishing its predominant hold over tea sales on the local market. Brooke Bond's emphasis has always been on the distribution rather than the growing of tea (the opposite of Finlay's), so the principle of apportioning sales in proportion to production was damaging. James Finlay also wanted revisions in Brooke Bond's original proposals to make provisions for a selling organisation to have a neutral trade mark. This would again amount to the fact that Brooke Bond if it accepted the arrangement, would have to give up their dominant distributing interests in East Africa, which they considered was too high a price to pay for cooperation.

Finally, after discussions in London in October 1937, James Finlay Company prepared a memo outlining the scheme for the cooperative selling of tea accepting all the fundamental points that Brooke Bond had pressed for originally. This move had been instigated by changing world conditions of tea production. Previously, the main incentive for considering a joint selling scheme had been that under full participation in the Restriction Scheme, East Africa would have reduced its exports considerably so that a large proportion of local production would have to be sold in the

East African market. However, when East Africa was accorded favourable terms for export restriction, the situation changed to such an extent that if the full export quota were taken up there might even be a shortage on the local market and export prices were higher than local prices. In other words producers might be more interested in a minimum rather than maximum quota for the local market. Therefore, from the point of view of Finlays, who administered the sales to the local market it was no longer so important. An amendment to the Finlay's memorandum was passed at an Annual General Meeting of the Kenya Tea Growers' Association in April 1938, and a limitation of members' contributions to 30% of their production was passed.[123] Finally, in June 1938 approval was given to the scheme, which came into operation in September. In effect Brooke Bond became the East African Tea Growers Association (EATGA) representatives, and the main features of this controversial scheme were as follows:

1) Producers were to pay the transport costs of tea from their factory to the packing factory of the distributors.

2) The distributors (Brooke Bond) for their part undertook to supply all the necessary financial and sales organisation and use their goodwill, trade marks, and trade patents, although the tea packets would also indicate that the tea was from the 'EATGA'. In return for their services the distributors were to receive a commission of seven and a half percent from the gross selling proceeds of the tea which they handled. They were also entitled to deduct from gross selling proceeds some direct charges:- sub-agents commission, all transport charges, all packing costs (including labour); materials and general upkeep. The scheme also provided for an advisory committee of producers in the three East African territories, to decide on the quantity of tea in individual quotas and settle any disputes that might arise.

At the beginning of 1938 there were eight producers within the East African Customs Union marketing branded tea. In addition there were several brands in existence for a very localised distribution, packed either by small growers or bazaar firms that bought teas. All these were to be absorbed under the pool agreement in Kenya.[124] Ambangulu Estate in Tanganyi joined the pool from the start, and the Ugandan estates were to join later. The proportionate share in this tea trade was as follows:-

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123. Ibid, p. 89.

124. This marketing arrangement meant that Brooke Bond could 'pool' most East African teas, thereby controlling the profits from the marketing of such tea internally.

Table 21: Total Tea Sales in 1937 in East Africa

Divided amongst:	Kenya Teas	LBS	
	Brooke Bond	1,250,000	56%
	Buret	300,000	13%
	African Highlands	250,000	11%
	Jamji Kapkorech)	50,000	2%
		1,850,000	82%
Uganda Teas	Buchanans	150,000	7%
	Uganda Co	75,000	3 %
	Miscellaneous	25,000	1%
		250,000	11%
Tang Teas	Ambangulu	125,000	5%
	Miscellaneous	25,000	
		150,000	7% = 100%
	TOTAL	2,250,000 lbs.	

(Source: Brooke Bond Memo, 1937).

The advent of the pool reduced the main brands to four, covering 80% of the tea trade in East Africa. This meant that within sixteen years of establishing its trading organisation in East Africa, Brooke Bond had managed to manoeuvre itself into a dominant position, both as far as the growing and marketing of tea was concerned. Most of the profit that Brooke Bond was to make in subsequent years was derived from its position of control over the internal marketing of tea in Kenya, a position which the company retains to this day.

d) The International Tea Committee and the International Corporation:

It is now necessary to show how the international aspects of tea production determined the policy of the big tea companies such as James Finlay and Brooke Bond towards the tea industry in East Africa. We will concentrate on the methods used by local and foreign capital to pursue their respective goals.

Large companies are not merely concerned to 'carve an enclave' out of a particular production area, but are rather concerned to regulate and control conditions of production of that commodity worldwide, which is part of the mechanism of concentration of capital.

The James Finlay group, based in Scotland since the 1760's, built its empire on textile manufacture and trading, and in the nineteenth century they acquired large tea estates in India, Ceylon and Java.[125] By the 1920's this group was the largest single grower of tea in the world. Brooke Bond and Company on the other hand were largely concerned with tea trading in the 19th century, which involved buying up tea in India and Ceylon and selling it on the London auction, as well as distributing bought teas under their famous brand name. Even after they had invested in estates in India in the early 1900's, their main interest remained in the sphere of tea marketing and distribution.

The idea of restricting tea production and acreage was first mooted in 1920, as it was felt by the world's largest tea producers that if tea production was not regulated then the industry might face serious over-production in the years to come. It was after two abortive attempts at tea restriction in 1920 and 1930 that the first International Tea Agreement came into force in February 1933, when it was signed by the representatives of the tea industry in India, Ceylon, and Indonesia. Unlike the earlier attempts at restriction, the International Tea Agreement (ITA) was binding on all tea producers and backed by legislation of the respective government: The combination of over-supply of tea world wide and the Depression had reduced prices well below the previous averages for producers in these countries. This gave cause for concern to the largest producers of tea who laid out the conditions of the Tea Restriction Scheme as follows:-

1) Tea exports should be regulated in order to restore the equilibrium between supply and demand;
2) That governments of the producing areas should undertake to prohibit exports in excess of the agreed quotas;
3) That the basis for regulation should be maximum exports reached by each country between the years 1929 and 1931;
4) No new planting should take place and seed exports to non participating countries be prohibited.[126]

It was an important feature of the Tea Restriction Scheme that, although other governments of tea producing areas such as East Africa were not signatories to the agreement, its successful implementation depended on their active participation. New entrants were to be prevented, for the restriction scheme was designed to rescue the existing plantations in the old established tea producing areas. The purpose of the ITC's policy

125. James Finlay & Company, 1760-1960, (a book prepared by the compar in 1963).

126. International Tea Committee Reports, 1945, (KNA 12/MAWR).

towards East Africa was to keep the industry as insignificant as possible. It was thought particularly important that the new tea growing areas of the British Empire should join since the 'well-being of the whole industry' was at stake.

Initially, the Kenya government meekly referred the ITC scheme to the Kenya tea Growers' Association (KTGA) for its opinion, and since this body was dominated by the two companies with large interests in Ceylon and India it world be expected to take a favourable attitude towards restriction. The dominance of large producers in the ITC was epitomised by the top personnel in the organisation: the chairman of the ITC which was set up to administer the scheme, was also the chairman of the James Finlay holding company of African Highlands Produce in Kericho. It was hardly surprising therefore that the two large companies which dominated the KTGA were to accept the terms of the scheme on behalf of the other growers, (although some important modifications were suggested for its application to East Africa). There was to be no restriction on exports from East Africa but Kenya growers would cease all development, providing that those growers who had just started development were allowed to complete economic units. The following formula was suggested: that planters who had one hundred acres or more of tea and who had the means of disposing of their leaf to larger factories should be allowed to extend to a minimum economic area of 500 acres, including a fully equipped factory. Also that small estates and individual growers send their leaf to a central factory and could enlarge their areas to a maximum of one hundred acres each. This would ensure that many small growers would not go out of business; but more important it was because the large companies at this stage were quite dependent on small European growers' tea for throughput for their factories. Regulation based on standard exports was clearly impractical for East Africa, for the immaturity of the tea left no proper basis for calculation.

The governors of Tanganyika and Uganda held different views from those of the KTGA. Indeed the administrations of all three territories faced a dilemma-acceptance of ITC regulations meant sacrificing the 'economic development' of the colony. As we have pointed out, the local administration in the territories usually took the side of the settlers in that they wished to develop industries in those countries, thus taking an 'economic nationalist' position. Indeed, this position was articulated in the Governors' Conference held in October 1933 where it was resolved:

"The East African Governments feel bound to develop such East African industries as are possible within their territories but recognise that it is undesirable for increased production in East Africa to militate against the policy of tea export regulations adopted by Ceylon, India, and the Dutch East Indies".[127]

The conditions of this first ITC Agreement were finally accepted and the governments' attitude here can be seen as that of resignation; however their opposition to the ITC regulations was to harden considerably, in direct response to political pressure from the settlers who represented the 'small' local tea growers.

Under existing plans (without restriction), planned increases in acreage were:

Table 22: Tea Acreages Under ITA Scheme

	Uganda	Tanganyika	Kenya	Total
Existing acreages in 1933:	740	2500	12300-15,000	15,540-18,240
Maximum increases until 1939 (without restriction):	1260	2500	4000	7,760

Whereas the Kenya Government, taking its cue from the K GA at this point, were prepared to limit their expansion between 1933 and 1939 to 1,000 acres, the other two governments, who reflected the interests of the smaller producers, were not prepared to accept such a severe limitation. Meanwhile, in London, the ITC and large tea producing interests were lobbying the Secretary of State and in a memorandum urged speedy accession of East Africa

...."We are already seeing increasing quantities of tea coming into world markets from these dependencies, and do not see why the producers of East Africa should ride on our backs to take advantage of a situation which is created by a scheme such as this; in fact we are definitely of the opinion that only controlled production can save us from falling into a worse position than we have already been in, and we consider that we have a claim on British connections to assist us in this matter".[128]

After three weeks the ITC accepted the KTGA amendment of freedom from export control, but at the same time took the view that the actual expansion of planting desired by the East African growers was 'extravagant' and contrasted the 33% exports proposed by East Africa with one half percent

127. East African Governors' Conference, (cable to Colonial Office 10/10/53, KNA).

128. Macwilliam, op. cit., p. 90.

permitted by each of the regulating countries. The comparison was hardly meaningful since the figures involved for East Africa were so small and the area was fighting for the right to establish economic acreages. The Kenya Government who were at this point supporting the interests of the large companies, managed to persuade Uganda and Tanganyika to accept the economic acreage formula. As a result, Tanganyika had to abandon development plant in the Usambaras and come down to 2,900 aces from 8,640, Uganda was brought down from 2,900 to 2,000 acres, and Kenya remained at 1,000 until 1939.[129]

e) The Second Agreement, 1938-43:

It was decided in 1938 that the Restriction Scheme should be renewed for a further five years between 1938 and 1943.[130] The agreement of main participants was secured, and the attention of the large producers then turned to East Africa, the formal approach being made through the African Tea Association in 1936. When the question of renewal was discussed by KTGA, the chairman of African Highlands Produce (the James Finlay company) predictably took the line of the parent company and proposed unqualified acceptance of the scheme, on the grounds that African tea growers had benefitted very materially from the higher tea prices realised as a direct result of the ITA scheme under which the regulating companies were bearing a 'heavy burden'. In other words, the larger producers, notably Brooke Bond and James Finlay, who dominated the ITC, wanted to restrict exports from the new tea areas such as East Africa and encourage the growers to sell an increasing percentage of tea on the local market in order to keep prices up on the international market, a strategy which would serve their global interests in the long run. This plan of the large tea producers led to a revolt from the smaller tea growers in Kenya: those who had no interests outside East Africa and who were dependent on expanding their acreages and exported tea from East Africa alone. This group were tired of being coerced into accepting measures detrimental to their own interests by the large producing companies and they proposed a contrary resolution on the Second Tea Agreement at the KTGA Meeting:

".... This Association, having already agreed voluntarily to complete restriction as regards the opening up of new areas, conditional on a like cessation of planting being observed throughout the African territories, is not prepared to undertake further participation in the new scheme in respect of regulation of exports."[131]

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129. ITC Report, 1945, op.cit.
130. Ibid.
131. KTGA Annual Reports, 11/36, (Kericho).

It was claimed by the smaller producers that the young industry in East Africa had already made considerable sacrifices both as regards its own interests and those of the Colony. The industry, they claimed, was only just beginning to pay its way and had borne considerable costs in developing the internal market to lessen dependence on exports. This resolution was strongly carried by the KTGA members (who voted individually and not according to size of holding). The small producers, who were entirely reliant on their East African holdings, had asserted their disapproval of foreign capital dictating the 'rules of the game' to them, in so far as tea production in East Africa was concerned. In response to this pressure, the ITC suggested restricting exports to 90% (instead of 80%) of potential tea yields each year; but even this was considered unfair by the small producers. The ITC 'cartel' of big producers presented this to the KTGA as the only possible alternative, and the KTGA were pressured to accept the clause. However the Uganda and Tanganyika governments (representing producers outside the 'cartel'), refused point blank to accept the kind of export regulation imposed by the ITC on the KTGA, and when negotiations were re-opened with the ITC over the issue, the Kenya government also took a more positive stand in support of the smaller Kenyan tea growers.

The Kenya government, therefore, having joined in the re-negotiation of the terms of the Second Agreement, took a 'nationalist' position in defence of the small Kenyan tea growers and began by attacking the KTGA's failure even to apply for the allotment for new planting to which Kenya had been entitled under the last agreement, a move which had been at the expense of the small tea growers. The Acting Colonial Secretary (Kenya) sent the following memo to the Governors' Conference in November 1937, which encapsulated their position:

"... There is the separate question of the development of the colony as a whole in the interests of its inhabitants, as distinct from the development of an industry by companies whose major activities lie <u>outside</u> the colony, and on whose interests a small extension of areas of planting in Kenya will have little or no effect ....Tea is now known to have been an economic crop in certain areas where it had not proved itself in 1934, whereas other crops have proved a failure in places where there is good reason to expect that tea would afford certain planters a living which they can gain from no other branch of agriculture. Several applications have been made recently by persons who desire to plant tea in suitable areas which have failed to respond to development under other crops (e.g. Nandi

and Kaimosi districts) and the government desires in the interests of the colony to support these applications".[132]

It may seem surprising that the Kenya Government should so suddenly involve itself so actively in the ITC regulations and their affect on Kenya, after such a passive acceptance of the first Agreement. This action was largely in response to pressure from the farmers of the Colony, who dominated the Legislative Assembly, and in many cases dictated policy to the local administration. Many small farmers during the 1930's had experienced a series of crop failures, leaving them with only one alternative in certain areas: to go into tea production. By the late 1930's, therefore, the Colonial Government in Kenya had received a large number of petitions from planters' associations requesting that they should be allowed to switch from unprofitable coffee to tea planting.[133] The Kaimosi soldier settlers, for instance, had been allocated their farms after the First World War specifically for coffee growing, but the district proved unsuitable for both coffee and flax. The North Sotik farmers also asked for 1000 acres, the Nandi Planters Association for 3000 acres, and altogether these associations applied for 8,290 acres for new tea planting. After examining these claims, the Kenya government resolved to apply for 2,220 acres for allotment to new entrants, but they had no hope of support from the KTGA, where the interests of the large companies was paramount. Kenya, along with Tanganyika and Uganda, now refused to sign the agreement for East Africa, and the ITC had to consider granting some minor concessions by allowing extentions of tea acreages within the following limits:

Table 23: Acreages Under Second ITA:

	Uganda	Tanganyika	Kenya	Nyasaland	Total
Original Proposal:	500	1400	500	100	2,700
After Negotiations:	1000	1400	1300	100	3,800

(Source: ITC Report 1945).

However, these acreages applied only to extensions of existing tea and not new planting for which the East African governments had been pressing. The farming group in Kenya, however, had a powerful influence over internal policy-making in the colony. In a debate in the Legislative Assembly (LEGCO) in December 1937, this class made its position clear: they would strongly oppose the renewal of the Tea Ordinance unless those farmers in unsuccessful coffee areas were permitted to turn to tea growing.[134]

132. Department of Agriculture to the Hon. Chief Secretary, Nairobi, (KNA, AGR 10/39, Volume 2).

133. Memo from Dept. of Agriculture to the ITC, (11/43, KNA).

134. Among the settler, tea growing lobby in LEGCO was Lord Francis Scott who had extensive tea interests in Tanganyika.

The ITC, who were becoming irritated by the delaying tactics of the East African governments and their constitutents, finally agreed to grant an additional increment of 1,300 acres for new planting in East Africa as a whole. Under the terms of the new agreement new planting was to be spread over five years and allocations had to be made in economic units for factory organisation. In return for this concession, however, the ITC felt justified in exacting a quid pro quo in the form of an propaganda cess (the proportion established being two Shs. per lb of made tea). Of course the main beneficiaries of this cess would be those large companies, notably Brooke Bond, who controlled the international tea marketing. In East Africa,, for instance, this cess was used to encourage local consumption of tea, as the large companies wanted not only to see the expansion of the local market but also to keep tea away from the international market while prices were low.

f) Wartime Conditions and Renewal of ITA:

One might have assumed that the transformed wartime situation, with the loss of several Far Eastern tea producers such as Indonesia, Burma and Japan, would have automatically led to the abandonment of tea restriction. However, the ITC resolved to the contrary to recommend, 'to the governments and producers concerned that the existing agreement should be continued as it stands for the duration of the hostilities'.[135] Furthermore ITC's concern over the loss of continental markets led them to lower the export quota by five percent.

As we have seen, the last ITC agreement had provoked considerable opposition from the small producers within the KTGA. When the ITC directive on renewal of the restriction scheme was considered the following resolution was passed:-

'... That this association must decline to participate in any further renewal of the restriction scheme'.[136]

Concurrently, the local Kenya administration were launching an attack on the ITC scheme as it affected East Africa in their bid to defend the Kenyan industry as a whole.

'... Certain members of the KTGA feel that in view of the New Colonial Development Policy, the question of restricting planting of tea in this colony should be reconsidered'.[137]

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135. Letter from ITC to Secretary of State for the Colonies, 1/1/42, KNA, AGR 4/12, MAWR 3).

136. Minutes of KTGA, 13/7/43, (Kericho).

137. Ibid.

Furthermore, the Director of Agriculture (Kenya) in a memo to the Chief Secretary asserted in defence of the 'small' element of the KTGA:

"It may be advisable to record the reservation that this government feels: that the restriction scheme involves a disproportionate sacrifice on the part of the new and more productive areas such as East Africa, which would otherwise be in a position to exploit their comparative advantage. In this connection, though the scheme has doubtless done something to stabilised prices, it would be a fallacy to ascribe the improvements in the tea market wholly to restriction..."[138]

The Director of Agriculture, in commenting at the end of this memo, expressed the feeling of the Kenyan administration about its position on the ITC: ...."The powers of the East African votes on the ITC would appear to be limited".[139]

The position held by the local administration was that the interests of Ceylon and India had fostered the agreement, and subsequent renewals had been simply to maintain uneconomic estates in production at the expense of the East African producers, whose yields were two and three times higher than those of many Indian estates. A dialogue on the issue of renewal again developed between the Kenyan administration and the Colonial Office. The Kenyan administration asserted that although they valued some forms of commodity controls, it was not the government's opinion that the tea scheme should be retained as a model of post war development, a line which the Colonial Office were pursuing. The ITC thought in best to avoid the storm that was brewing with 'local' interests and they decided to offer East Africa new planting up to a maximum of twenty percent of the permitted acreage allowance,[140] and, after some argument, they also agreed to permit the unplanted balance from previous allocations to be carried over. After this skirmishing, the Kenya Government finally offered to extend the tea agreement for the duration of the war and six months after, providing an allowance of 1000 acres per year was granted for new planting, either for existing or new planters, at the government's discretion. This total amounted to:

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138. Memo from Acting Director of Agriculture to Member for Agriculture 18/10/46, (KNA, AGR 4/12, MAWR 3 AGR).

139. Ibid.

140. The advantage of new planting was that the estate would be permitted to expand its acreage and put in new jats, the rest of the acreage allowance was for infilling existing areas.

Table 24:

	Existing acres	Extensions granted
Kenya	16,162	3,232
Uganda	4,716	943
Tanganyika	7,450	4,040

(Source: ITC Report, in KNA AGR 4/12).

In Kenya, therefore, the government was still determined to encourage new entrants, (in response to the farming element in the LEGCO), in spite of opposition from the paramount chiefs of the KTGA.[141] The government further intervened in the interpretation of the ITC regulations and set up a committee to decide on the distribution of the allotment and ruled as follows:

Table 25: ITC Allotments

39% to go to	New Growers	1,270 Acres
30 " "	Small "	955
31 " "	Large Tea estates	1,007.
		3,242 acres.

(Source: Memo to ITC from Department of Agriculture 11/43)

The two large firms in Kenya, African Highlands (James Finlay) and Kenya Tea Company (Brooke Bond), protested to the Secretary of State at the neglect by the Kenya Government of the claims of established interests, but this was to fall on deaf ears, for the Kenya Government had an additional motive for wishing to expand the industry at this time, apart from that of defending the small tea growers. A number of tea interests in India and Ceylon wanted to transfer their interests to East Africa due to the political situation in those countries, and their general aim after the war was to diversify their areas of investment.

"During recent months a number of firms at present interested and connected with planting in India have sent representatives to the territories to investigate the possibilities of tea production in Kenya".[142]

Thus, taking up their nationalist positions once again, the governments of the three territories decided to defy the ITC and opt out of the agreement, and, at a meeting in January 1947 of the territorial governments, it was recommended "....That existing tea ordinances should be extended for another year, but that all acreage restrictions should be removed forthwith".[143] The ITC interpreted these actions as 'hostile' and assumed that East Africa had withdrawn from the ITC. Accordingly, the ITC banned all seed

141. KTGA Minutes, 13/7/43, op.cit.

142. Memo from Ag. Dir. Agr. to HCS (10/46), op. cit.

143. Conference of East African Governors, 1/47, (in MacWilliam, op.cit.), p. 20.

exports to East Africa, a fact that was not to concern Kenya unduly. Cavendish Bentinck (a prominent settler member of LEGCO), wrote in 1947:

> '.... as regards the refusal of India to supply tea seed. I do not think that the East African industry will be very worried about this as you will see from the letter of the Director of Agriculture ... that we shall be able to obtain supplies of seed elsewhere'.[144]

The ITC was after the war under pressure on both the metropolitan and the local front. The ITC by 1947 had ceased to have the support of the Colonial office, (there had been a change of government in Britain), which was concerned that the ITC was contrary to the United Nations Charter on Commodities. Therefore, the ITC met in November 1947 to consider its future. They decided that the International Tea Agreement should be extended for a further two years after March 1948, or until the new UN Charter for the International Trade Organisation came into force. The Committee also decided that the export regulation powers should be retained, although no quotas would be in force for that time; and that all restrictions on new planting should be removed in the participating countries. The justifications of the ITA 'benefitting the whole industry' were subdued, and these tempered regulations showed that it no longer suited the purpose of the major producers to restrict expansion in the newer tea growing areas. In fact, as we have said, the conditions of nationalism in Ceylon and India after the war encouraged the dominant producers of tea, such as Brooke Bond and James Finlay, to expand their existing areas of production in Kenya.

What had been the overall effects of the tea restriction scheme on different producing interests in East Africa? In November a question was asked in the House of Commons along these lines; whether tea planters in Kenya Colony are satisfied with existing opportunities for development and whether such development is affected by international control of the industry?".[145] To which the Colonial Secretary replied:

> "the development of the tea industry in Kenya has not been adversely affected by the existence of the ITA since Kenya was allotted under that agreement new acreage and export quotas, neither of which has been fully achieved during the period of the agreement".

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144. Letter from Cavendish Bentinck (LEGCO) to Sir C. Lockhart, Conference of East African Governors, 1946, (KNA, MAWR 3AGR 1/14).

145. Hansard, Vol.393, p. 573, in MacWilliam, op. cit., p. 26.

It was indeed true that there really was no question of export control being restrictive. Under wartime conditions official policy had been to maximise production and quota figures, and the tea growers in Kenya in fact never fulfilled the maximum planting quotas. However, as was noted earlier, during the first ITA period from 1933-38, the KTGA delegates had failed to apply for the full amount of acreage for planting to which Kenya was entitled, and this had been a deliberate ploy on the part of the two large companies to keep the Kenyan industry insignificant.

In the second Restriction Scheme the first two seasons were lost to many growers because of the seed restrictions. In addition, the war prevented many of the allotments being developed. For by the time the war was over for both large and small estates alike, land values and development costs had risen two or three times.[147] In the third period, the ITA did not restrict any of the licence holders, and much of the development which took place was on licences for the previous period. Only a very limited form of development took place during these years.

Thus even the large companies in Kenya had been prevented altogethe from developing their properties beyond the 1933 level, and they had to watch a number of new planters enter the industry while their own acreages had been frozen. For example African Highlands, the James Finlay Company in Kenya, had 5,032 acres of tea in 1934 and only 5,492 by 1950.[148] Certainl from the point of view of East Africa as a whole, the experience under the ITA conditions had not been favourable to the development of their national tea industries.

Despite the ultimate affect of the ITA scheme on the industry in East Africa, it is obvious that the Kenya government was able to wring piecemeal ooncessions from the ITC concerning acreage allocations, and as we have seen these provided East Africa with larger acreage quotas than had been originally envisaged. The ITC for its part had constantly accused the East African territories of trying to 'exploit' the advantages of the scheme without contributing to it or cooperating with the major producers. The chairman of the ITC, Sir Robert Graham, in reviewing the scheme, reflected the attitude of the large producing companies towards East Africa:

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146. Wartime conditions made not only finance for development a difficul conscription in East Africa for military service meant a shortage of adult male labour to service the estates.

147. Information obtained from Head Office Kericho.

148. African Highlands HQ at Kericho.

> "....in passing it may be mentioned that an element which British representatives have always found embarrassing in their relations with their Dutch colleagues is the fact that British tea interests outside India and Ceylon have always betrayed a desire to take advantage of the scheme, and in this some of them have been supported by their local governments .....the difficulties experienced in respect of the East African territories and Malaya were all the more disappointing because British interests in tea predominated. A more sympathetic attitude to the scheme would have been expected".[149]

Having detailed the conflicts between local and foreign capital in the attempts of the latter to control production, it is important to evaluate how the ITA was to affect the long term global interests of the large corporations. The ITC efforts to control production in the new tea producing areas would appear to have been successful, overall. India, Ceylon and Indonesia remained with a virtual monopoly of the black tea trade, and there was never any prospect of it being challenged, given immaturity of African tea.

Table 26. World Black Tea Exports 1927-32, (million lbs).

India, Ceylon and Indonesia	759.6
Rest of the World	29.5
Kenya	0.7

(Source: V.D. Wickizer, Tea,'Coffee and Cocoa', Stanford 1951).

Within East Africa it is true that the subsidiaries of the dominant tea producers, Brooke Bond and James Finlay, suffered adversely from the control on planting. However, from the point of view of the overall strategy of the parent companies it had been advantageous, as it prevented the expansion of new areas until prices of tea had risen to their previous levels, which they did soon after the war.

The immediate disadvantage that the Brooke Bond subsidiary in Kenya was to suffer during the restriction was soon compensated for by the expansion and consolidation of the Kenya company after the Second World War. The concentration of tea production in the large estates, notably Brooke Bonds', gained momentum in the 1950's and their acreage was expanded by means of take-overs of small existing tea estates. For instance, Jamji Estate, which was owned by Lord Egerton, sold out to Brooke Bond in 1946.[150] During the 1950's they built six new factories and there was a large extension in planting and investment in new techniques. In 1950 the total acreage under tea in Kenya was 18,883 and in 1955 25,072 acres, and of this Brooke Bond

149. Macwilliam, op.cit, p. 26.

150. Land Registry, op.cit.

accounted for 75-80%. With better methods of production from the late 1950's (the use of herbicides , trough withering and Crushing, Tearing and Cutting (CTC) manufacture) and other new techniques, the productivity of these tea areas rose. For instance, African Highlands Produce Company in 1945 were getting 859 lbs of made tea per acre and by 1965 this had risen to 1289 lbs per acre and Brooke Bond's production rates were similar.[151] Despite the stagnating effects of restriction, the natural economic advantages of production in East Africa did inevitably lead to the expansion of the industry in Kenya, a process which itself was dominated by the large producers.

The expansion of the dominant tea company in Kenya, Brooke Bond has only been curbed by the rise of African nationalism, and at the present time there is a complete embargo placed by the Treasury on the expansion of the company in terms of land expansion or company takeover. In 1964 estate tea production accounted for 60% of total production, and smallholder tea the other 40%. By 1974, the position had reversed exactly with smallholder production accounting for 60% of production,[152] and with the present expansion plans of the KTDA (Kenya Tea Development Authority) for another 20 factories[153] in the next 7 years one could predict the phasing out of estate production. It remains to be seen whether the powers of the state will be used by the nationalists to challenge not only the expansion of the dominant tea company, Brooke Bond, but also the control which this company has exerted over the internal marketing of tea in Kenya since 1938.

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151. African Highlands HQ, Kericho.

152. Tea Board of Kenya Reports (1974).

153. Interview with KTDA in 1974.

Table 27: Kenya Tea Imports and Exports

	Exports £	Exports Cwts	Imports £	Imports Cwts	Tea Duty
1926			61,127	6901	(1-)
1927	85	9	69,659	7273	.45
1928	736	91	91,087	9969	.45
1929	871	83	73,508	8094	.45
1930	8277	1433	34,798	3788	.40
1931	16925	3184	11,621	1341	.50
1932	29829	6369	1,832	204	.50
1933	78022	17731	1,539	172	.50
1934	113489	22362	1,639	170	.50
1935	218941	45446	2,097	231	.50
1936	339777	67835	2,382	243	.50
1937	474599	83197	2,739	291	.50
1938	508060	85440	3,186	338	.50
1944	512628	82480	2,177	289	.50
1945	532447	85052	1,697	248	.50
1946	534240	79920	37	1	1.0

(Source: Colonial Trade accounts 1926-1946)

Table 28: Internal consumption in Tea Producing Countries (million lbs)

Country	m.lbs Year	%	Year	%	Year	%	Year	%	Year	%
	1930	9.5	1933	%	1936		1939		1942	
India	37.4	9.5	55.3	14	82.5	21	97.6	21.5	125	22
Ceylon	n.a.		4.7	2	8.2	4	10.4	4	10.2	4
Kenya & Uganda	n.a.		.8	27	.8	9	.8	7	4.6	28
Tanganyika			.3	E	.4	E	.5	80	.5	38
Japan	65.4	7.0	67.7	70	69.9	66	75.0	59	n.a.	

E. Consumption exceeds production.

(Source: I.T.C. Pamphlet, 1946).

Table 29: Tea Acreage 1924-1954

	Kenya	Uganda	Tanganyika	Total
1924	382	118		
1925	1,689	159		
1926	3,156	188		
1927	4,809	194		
1928	5,593	297		
1929	8,331	342		
1930	10,052	360		
1931	11,258	639		
1932	12,034	721		
1933	12,471	1,267		
1934	12,662	1,691	2,739	17,092
1935	12,812	1,930	3,343	18,085
1936	13,176	2,629	4,403	20,208
1937	13,662	2,886	5,225	21,773
1938	13,681	2,966	5,265	21,912
1939	13,993	3,199	5,276	22,468
1940	14,413	3,524	5,681	22,618
1941	14,208	4,071	5,991	24,270
1942	15,313	4,423	6,302	26,038
1943	15,656	4,458	6,451	26,565
1944	15,712	4,528	6,819	27,059
1945	16,037	4,615	5,814	26,466
1946	16,239	4,525	6,808	27,572
1947	16,548	5,121	7,748	29,417
1948	17,100	5,656	8,313	31,069
1949	17,765	6,150	8,650	32,565
1950	18,883	6,630	9,022	34,535
1951	19,873	7,321	10,000	37,194
1952	21,021	7,798	10,493	39,312
1953	21,753	8,397	10,517	40,667
1954	23,406	9,323	10,860	43,589

(Sources: From 1938 onwards the figures are from the Agricultural Department and were supplied by the Tea Controller until 1950, and after that date by the Tea Board of Kenya.)

Table 30 Tea Production, 1924 - 1954:

lbs:	Kenya	Uganda	Tang	Total
1924	1300			
1925	3,200			
1926	8,700			
1927	33,400			
1928	152,800			
1929	577,800			
1930	930,200			
1931	1,500,200			
1932	2,421,100	73,000	45,000	2,539,100
1933	3,019,400	68,900	45,000	3,133,300
1934	4,024,700	123,700	45,000	4,193,400
1935	6,301,400	218,200	94,300	6,613,900
1936	8,611,100	262,100	155,500	9,028,700
1937	10,808,000	416,100	381,800	11,205,900
1938	10,840,500	490,400	522,000	11,852,900
1939	10,860,000	671,000	592,500	12,113,500
1940	11,912,000	1,020,000	835,100	13,767,100
1941	14,228,000	1,455,600	1,016,100	16,699,700
1942	16,250,000	1,928,600	1,416,900	19,595,500
1943	13,091,000	1,746,800	1,288,500	16,126,300
1944	13,789,000	2,400,300	1,149,000	17,338,300
1945	13,023,000	2,847,000	1,277,700	17,147,700
1946	12,277,000	2,648,800	1,480,900	16,406,700
1947	13,384,900	2,737,000	1,370,300	17,492,400
1948	10,026,000	3,831,000	1,491,400	15,348,400
1949	11,472,000	3,360,000	1,453,100	16,285,100
1950	14,938,400	3,677,400	1,748,700	20,364,500
1951	15,526,000	4,296,400	2,383,400	22,005,800
1952	14,788,700	3,835,400	2,462,600	21,086,700
1953	12,927,600	4,793,900	2,821,200	20,542,700
1954	17,389,600	6,625,100	3,583,700	27,238,400

(Sources: 1924-32 from the Agricultural Census. 1933-49 are from the records of the Tea Controller. After 1950, Kenya Tea Board).

Summary and Conclusion:

This study has sought to expand upon some aspects of capitalist development in Kenya colony before the Second World War. The role of the metropolitan state in the development of the East African territories before th war was limited to the provision of infrastructure for settlement. Metropolitan and local settler interests in the inter-war period were clearly divergent, with the former being concerned to utilise the colonial territory as a source of raw materials for its industries and also to prevent the emergence of any manufacturing in the colonies which would compete in metropolitan and colonial markets with British goods. The settler class, on the other hand backed by the local administration were intent upon the development of capitalist agriculture and secondary industries where a market existed. Therefore development in Kenya was assisted by some central government'grants in aid' although it is true to say that most infrastructural development was financed largely by the local administration through taxes which fell mainly on the non-European classes. This dichotomy between the different policies of the local and the central state have been stressed f the outset.

Part 11 has outlined the nature of company formation in the colony before 1945 in order to show the areas of domestic accumulation in Kenya. The first period of company formation, from 1907 to 1922 has illustrated the limited scope of the first local investments, which tended to be restricte to the areas of land and property. Companies formed after 1922 up to 1945 show characteristics of expanding capitalist development, with an increase in the numbers of firms as well as scope of investment. From the examination of companies formed in this period, the emergence of an Asian merchant class is evident, while any small scale manufacturing and engineering was undertaken by foreign firms. The local European firms, on the other hand were in some cases involved in primary processing but the basis for accumulation of this group was the land and agriculture. This analysis concludes by posing the the question of why European capital was too weak to survive competition from both Asian and foreign capital in the post-war period.

The next section comprises an analysis of Kenya Colony's tariff structures and trading patterns before 1945. From 1922 the tariff structure in the colony reflected the desire of the settler class to protect local primary processing and agricultural industries. Manufactured goods were also subject to quite a high level of duty in order to raise revenue for the

local state. The discussion of trading patterns in the colony shows the level of import and export trade between East Africa and the outside world. The significance of the trading patterns of the colony in the 1920's and 1930's lies in the fact that Britain was being adversely affected by competition from new trading partners, and particularly Japan. British manufactured goods in particular were suffering competition from Japanese equivalents. The logical conclusion to this state of affairs was for British trading firms to move directly into the production of a threatened commodity by going behind the tariff wall. This 'import substitution' mechanism was not to be fully realised until after 1945, although several examples of its operation before that time have been discussed, notably in the cases of tea and cement.

The advent of international capital in Kenya Colony has been considered in Part IV. Here the major foreign investments made in Kenya before 1945 are broken down into three activity groupings: Food, Beverage and Estates, Trading and Manufacturing and minerals. The areas and type of foreign investment have been shown in this way and the main concentration of foreign firms before the Second World War was in primary processing and trading. Three case studies have been developed from each of the activity groups. It has been possible through this longer case study to expound on the competitive nature of capitalist development, and how this relates to production in Kenya. The impetus behind the expansion of certain firms into the colony before the Second World War was the need to control the conditions of production in that commodity; in this case tea, coffee, cotton seed and soda ash. The aim here is to show the way in which monopolies are established locally as part of an overall drive at the global level. The case of the Brooke Bond company is the most extensive exposition of the three, of the methods used by international capital to control the production of a commodity with reference to that company's global needs.

This paper, therefore has endeavoured to examine the often antagonistic relationship between local and foreign capital and the role of the colonial state in capitalist development. These examinations of local accumulation and foreign investment have been examined largely from the perspective of company formation and the conclusion which emerges is that the scope of investment in manufacturing concerns before 1945 was fairly limited. This in itself was a reflection of the limited markets in East Africa at the time, and also the desire of British industrial capital at that time to discourage any manufacturing for export which would potentially threaten its own markets. These factors resulted in the accumulation of

merchant but not industrial capital in the colony before the Second War, although the pressure of competition on British firms before was making itself felt.

The Trading firms that entered the colony were to compete in limited although potentially expanding markets, and the response of individual firms was to move from trading in commodities in to direct production. Changes in worldwide economic conditions after the Second World War occasioned the transformation of metropolitan merchant capital into industrial capital. This was to cause Britain to totally change her policy regarding the colonial territories due to the altered needs of British industrial capital, which was to expand markets in the sterling area as quickly as possible. Thus after 1945 there emerged a 'development policy' towards the colonies which was designed not only to increase agricultural production but also to develop secondary industries.[154] This was clearly a radical departure from the inter-war period dealt with in this paper when the needs of British industrial capital were best served by extraction of raw materials but the curbing of any potential export industries.

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154. This was in order to reduce dollar deficits incurred by Britain during the war.