

Of plantations and privatizations…

The privatization of plantations is now being done under new conditions which will ensure that those who take over the majority stake will have the ability both in finance, expertise and other resources to manage these plantations. Plantation shares are already doing well in the Stock Exchange, and could be expected to improve further. The entry of the plantation shares could help boost both the stock exchange and the economy, and hopefully, get more people out of the metro and urban areas interested in the stock exchange. These are the views of the Chairman of the Public Enterprises Reform Commission of Sri Lanka (PERC), Rajan Asirwatham, who was interviewed by a Special Correspondent for Business Today.

BT: The privatization of the plantation sector is a subject which has generated considerable feeling both for and against. There are even members within the government opposed to the privatization of plantations. What is the need for the government to go ahead with it, and also change the policy of privatization of plantations followed by the previous government?

A principal reason for the privatization of the plantations is that they comprise a very valuable national asset, which cannot be run down. They must be maintained under best possible conditions. In fact, what happened during the previous government was not the privatization of plantations, so to that extent there is no change. This government has initiated the genuine restructuring and privatization of this asset for better results.

In 1992, the then government decided to form 23 companies and hand over the management of plantations, for a period of five years, to these companies. These management companies had problems because the period of lease was only five years, and they did not have a bankable asset. So, to raise money they had to either mortgage their private properties or use other assets; in the process, they did not spend any money on the development of the plantations under their management. Some even took the best out of the plantations and put nothing back. Things became so bad that the government had to spend at least Rs 12 billion, to subsidize these plantation management ventures. That is why in February 1995 the decision was taken to privatize the plantations in such a manner as to ensure that whoever purchases 51 percent of the shares would have a fifty-year lease in respect of each
plantation company.



BT: You say that under the policy of the previous government there were insufficient assets given to the companies that took over the management of these plantations. But, with whatever available assets and facilities they had, how were the plantations managed?

This is where both the government and the management companies had valid reason to be unhappy with the situation. Because, the management companies were
either falling back on their own. resources or not indulging in expenditure for the development of the plantations, even for essentials like manuring, replanting, weeding etc. The situation had reached the stage when the government was funding these companies even for the payment of salaries. This is clearly a situation which could not continue. So the government had to take the necessary steps for a proper privatization process, in order to save this asset, and also make it productive and make a genuine contribution to the national economy.

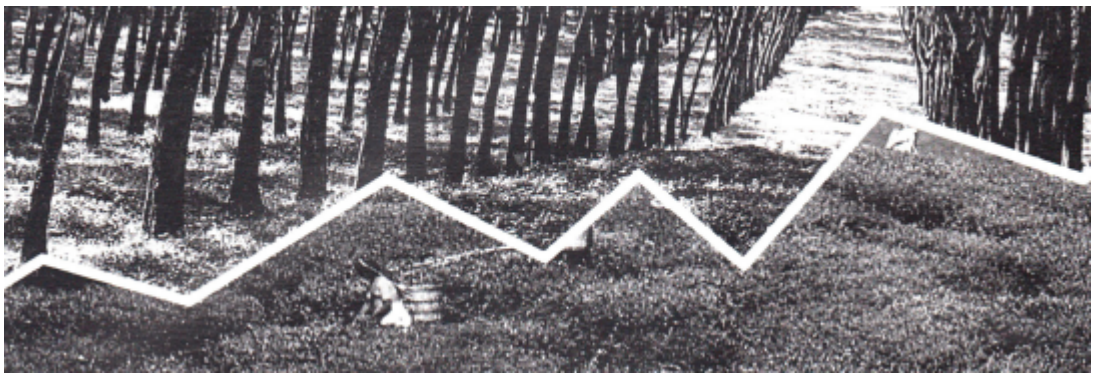
BT: What about the frequent accusation made by many that we are selling off the most valuable. national asset, all those vast acres of developed

plantation lands. After all, the previous government only gave management contracts?

There is no issue at all of selling off any national asset. There is no sale involved in the privatization of the plantations. What is being done is to give a fifty-year lease-hold on 51 percent of the shares of these. plantations. The land belongs to the government. And it is also made very clear that those who obtain the 51 per cent can only use it for the purpose of plantation development.

BT: So the government, through PERC, changed the process and then there was the first privatization under the new scheme, of the Kotagala Plantations. This led to a great deal of controversy with many allegations of improper transactions and bad faith being made. What do you as Chairman of PERC have to say about this, and how did this situation come about?

Here I must explain that the Public Enterprise Reform Commission was appointed as a division of the Treasury, as a Task Force, on March 1, 1995. It is from 1996 that we became a separate entity. The Cabinet decision regarding the privatization of plantations was taken in February 1995. PERC had no say in the decision on the manner of implementation, it was only asked to implement what had already been decided



by the Government. What had happened was that a committee had been appointed which had entered into negotiations with the plantation management companies. I must say in defense of this committee that they were under tremendous pressure because the plantation companies took up the position that they still had a valid lease for five years, which is till 1997. It was their view that if the shares in these plantation companies were to be sold at this stage, it should be offered to them

first. They insisted on the right of first refusal. The Committee however felt that there should be a larger clientele and that others also be brought in. The compromise reached between the Committee and the Plantation Management Association was that those plantations which ran at a profit for 1994, were to be given the first choice to purchase 51 percent of the shares at a price to be determined by the Colombo Stock Exchange. What they called a “strike price”. In the case of the others, 51 percent was to be offered on an “all or nothing” basis on the stock exchange, to any bidder.

Now, the problem in this was that some of those who made profits. did not have to do much work because they were fortunate in having rubber or coconut properties, and it may be that they had made higher profits and the profits had come down. But in any event they were in the black in 1994. Others had spent on development or had cut their losses, but they were shot out. When PERC was given the task of listing these companies, to avoid any controversy, we asked for a list from the ministry of plantation industry of the quantum of profits made, and decided to list the companies for privatization in that order. That is why Kotagala was among the first two to be listed. The managing agents at that time apparently did not have the money, and instead of foregoing their right they entered into a transaction with another person, a foreign buyer, who paid them and took over the shares. From that day onwards there has been a controversy regarding this.

BT: You mention a controversy. How soon could there be some finality reached or what kind of controversy is still going on?

It became a big issue when another company which also manages plantations complained about the sale of the majority stake of Kotagala, and called it a transaction which lacked transparency. Those who made the complaint brought pressure on the ministry of plantations and we were ordered to have an investigation by the Minister himself. Therefore, it was nothing but right that the matter has to be looked into by PERC as to whether as stated, there has been a lack of ‘transparency’, definitely within inverted commas. We consulted the President’s Counsel, and as you know one cannot go direct to a President’s Counsel, so we had to hire a firm of attorneys-at-law who arranged to meet the President’s Counsel who gave them much advice on what had to be done. But unfortunately, there was no speedy follow-up. And even more unfortunately, and much to our horror, we later came to understand that the company that had made the original complaint had negotiated with the foreign buyer and purchased the shares themselves. It now appears that the Attorney General has ruled that there has been a violation of some

of the laws of the land, and action is now being taken. Therefore, since the matter may be considered sub judice 1 think it would not be proper to make any further comment on the matter.

BT: Recently, there was an advertisement by PERC announcing that five Regional Plantation Companies are being put up for the purchase of 51 percent of the stake holding by interested buyers. In the light of the Kotagala controversy and other experiences so far, have you made any changes in the conditions and manner in which these plantations are being put up for privatization?

The President had a new Cabinet paper approved recently in which there is no fundamental change in the basis of privatization. What it will ensure is that these five balance companies, or loss-making companies as they are called, would be sold through the Stock Exchange on the same 51 percent basis, but they will be sold only to pre-selected bidders, who will be allowed through a broker to make their bids to the Colombo Stock Exchange. Her Excellency had a very good reason for this, because there were so many allegations and counter allegations about sources of funds, as to whether people were only lending their names and whether there were others behind the transacsons, and also whether they had the resources and wherewithal necessary to manage the plantations. The advertisement has called for fall details of the financial resources of the bidders, as well as the personnel and experience they have in managing plantations. Up to today, we have 20 such applications made; within a few days there will be more, and when a proper assessment is made, those who are found suitable will be told that they could bid through the Colombo Stock Exchange.

BT: Are you are saying here that these new provisions are a method to ensure that what happened in the Kotagala transaction would not happen again?

Yes. That is right.

BT: When the Uda Pussellawa Plantations came up for privatization, we saw a new development, where almost a conglomerate of State organizations combined to form a company and succeeded in obtaining the majority stake holding in that. There has been criticism made by journalists, some economists and other commentators, that this is a contradiction, in that the State seems to be paying money to itself to buy

up its own assets, and that this goes against the entire principle of privatization. What have you to say of this?

Uda Pussellawa was the second plantation company bought by this company, Plantation Investment Management Company Ltd. They earlier purchased Hapugastenne at Rs 23.25. This company has been set up with an initial contribution of Rs 10 million from the Merchant Bank, and the balance has come from the Insurance Corporation of Sri Lanka and the Employees Trust Fund. You will find that the directors of this company are Clifford Ratwatte, Chairman of the Tea Board, Karu Jayasuriya, Changa Samaraweera, Denzil Gooneratne, Jagath Wickremasinghe and Naizer Cader, all well-known, eminent businessmen. Their intention is to make this company public before the end of the year, so that the public of Sri Lanka can participate in these privatization transactions. They are prepared to sell the shares at par value. This company has been set up to ensure that these plantations are not control led by one or two people. You will find that the biggest investors are the Insurance Corporation and the ETF. Many journalists and business people were critical of these institutions about their not entering the share market. Well, here they are entering the share market, and they should be lauded for doing so because this will help to boost stock prices.



BT: Did this venture in any way assist in putting up the bid value for their acquisition of the Uda Pussellawa Plantations?

After this venture was set up, they bid for Agrapatna and lost. out. They were able to buy Hapugastenne at a fairly low price of Rs 23.25. Regarding Uda Pussellawa

there was another party bidding through John Keells Stock Brokers, who went up to Rs 65/-. This company paid Rs 65.25. So, it is not that they have suddenly doubled or made the price higher. Bidding went on at 25 cents each. There were three bidders, and as I said earlier, the party represented by John Keells went up to Rs 65/-, so that these people could not have artificially raised the price.



BT: How do you think plantation shares are faring in the stock exchange today. Do you think that the entry of a large number of plantation shares into the stock exchange would in any way help to improve our stock market?

I have no doubt on that. We find that among some of the plantation shares which were sold at the 20 percent stake at Rs 10 to the two underwriters, that is NDB and Merchant Bank, most of them have more than doubled in value and both institutions have made or are able to make much money on this. So, the true value of plantation stocks is seen very clearly. We must remember that in the old days, before nationalization, plantation stocks formed a great chunk of our stock market transactions. I have no doubt that people in the areas where these plantations are, will have an interest in purchasing shares in plantations in their own region. Because we must move away from Colombo, where the stock market is restricted to those who live in and around the metropolis. People in Agrapatna, Udal Pussellawa and such areas should be interested in plantations in their areas, and I have no doubt that listing these in the stock market will give them an opportunity of participating, and this would in no small way help to boost the prices to realistic levels.

BT: What kind of mechanism do you think could be used to get those who are out of the metropolis and in the rural and plantation areas interested in the stock market, and especially shares in the plantation sector?

Personally I think that co-operative societies and welfare associations can play a major role in this, because we have a history of a very successful co-operative movement in this country, and there is no reason why they should not invest in the stock market and
help boost the fortunes of their members. This is widespread throughout the country, and this is one way in which the message of the stock market and share trading could be taken into all parts of our country.

BT: What do you think will be the future of plantations under privatization, if managed properly as expected, and the general future of the process of privatization, not only of the plantations but of other sectors as well?

I think the future of plantations is very bright. Tea prices have at last taken off. We may not be getting as much as we should in the world market yet. But if marketed properly, prices realized on tea, rubber and other products would not only boost the plantation companies, but also the economy of our country, and if the estates are run properly like in the old days – manured, weeded, pruned, re- planted on a systematic basis – it should really help everyone concerned.

Regarding the future of privatization, many a time I have been asked whether the target of Rs 21 billion could be reached. Being an incurable optimist, I am certain that it will be done.

BT: It is not very clear whether in the privatizations carried out in the plantation sector, the workers would also benefit by way of a stake holding. Does it happen?

Of course it does happen, because the workers in the plantations should in no way be worse off than workers in any other privatized industries. They are entitled and they should be given the 10 percent free share, and it is done like in all other cases, based on seniority of service, and not on the position held, and these will be allocated to them very soon.