

## **Presidential committee highlights burning issues of RPCs**

*by Devan Daniel*

A Presidential Committee appointed by the President in March 2008 to make recommendations on development and management of estates leased out to the private sector (Regional Plantation Companies or RPCs) presented its report last week to Minister of Plantation Industries.

The committee was appointed to look into several issues including land ownership, compensation of land acquisition, replanting, lease rentals and management fees, subleasing, productivity, environmental issues and gemming

What follows is an overview of the report presented by Prof. A. D. V. de S. Indraratna, a member of the committee which was headed by Neville Piyadigama (Chairman, National Police Commission) at the handing over ceremony.

**"There had been confusion over the ownership of RPC lands with various organizations such as the Janatha Estate Development Board (JEDB) and State Plantation Company (SPC) claiming ownership at various stages and the committee was able to settle this issue once and for all," Prof. Indraratna said.**

The ownership of RPC lands clearly belonged to the state through the Land Reforms Commission and therefore held in public trust and the committee makes a strong case for this.

In 1972 and 1975 the state acquired plantation lands under British Companies and other private lands, to be alienated for agricultural purposes, through the Land Reform Laws which were vested with the Land Reform Commission. These lands were later vested with the JEDB and SPC who in turn leased them to the RPCs.

Over the years several land related issues had cropped up causing much confusion as to their ownership with lands being leased, sold or disposed, while licenses to occupy the lands or extract material from it were issued at various stages.

**Privately owned lands that had been leased out to British plantation companies prior to 1975 had also been vested with the JEDB and SPC through the LRC.**

"This was done through an oversight. While some owners were compensated many are still to receive redress. The committee recommends that the government look into the merits of each of the privately owned lands," Prof Indraratna said.

**Furthermore, land leased out to RPCs had been reclaimed at various stages for other development work. The Committee recommends that if these lands are not utilized for their intended purposes that they should be returned back to the RPCs.**

The report noted that sacred shrines on RPC lands had to be paid lease rentals by the RPCs, as these plots of land belonged to the respective Viharas and Devalas.

The committee had discovered that some RPCs had subleased their lands to entities for a larger consideration than what the RPCs were paying the Treasury. Some transactions had taken place without the prior approval of the Treasury.

**The recommendations on this regards is that cabinet approval must be sought for subleasing lands in excess of 5 acres, while a royalty mechanism be introduced for sub-leased estate lands.**

The committee made another important recommendation with regard to the lease period. Current lease agreements are due to expire in 2045 after the 53 year lease agreement period comes to an end.

**However, the private sector argues that this period is not enough to make long term investments an attractive endeavour. The Committee recommends an extension from 53 years to up to 66 years.**

"This will give PRCs at least two more crop cycles, so that RPCs can now engage in replanting which is necessary for the long term sustainability of the plantations industry," Prof. Indraratna said.

**The committee found out that the privately managed RPCs had not paid the Treasury lease rentals for a number of years. As at March 31, 2008 outstanding lease rentals amounted to Rs. 230 million.**

This was after the government revised the lease structure in 2002 which cost the state Rs. 985 million on the understanding that the savings be reinvested in the estates.

**The report said some RPCs had failed to make satisfactory reinvestments of the reduced lease rentals.**

Outstanding dues as at September 19, 2002 was Rs. 251 million and RPCs were going through tough times hence the government's decision to revise the lease structure.

"Despite the relief and lower lease rentals most RPCs that enjoyed the benefits continued to accrue unpaid lease rentals which were violation of the lease agreements that could have resulted in the cancellation of the agreements and incurred a penalty greater than the sum owed to the state," Prof. Indraratna said.

He said the Plantation Management Monitoring Division (PMMD) had not exerted enough pressure on RPCs to pay up.

"However, once the committee began its sittings in March 2008, the outstanding amount has been reduced to Rs. 179 million as at August 31, 2008," he said.

**The committee discovered that some private management of RPCs continued to charge excessive management fees and dividends without accounting for them in their annual reports and recommends the government to call for explanations.**

"The committee recommends that management fees be calculated on net profits with a certain percentage to be ploughed back for estate development activities," Prof. Indraratna said.

Dr. Saman Kelegama, Executive Director of the Institute of Policy Studies, who is a member of the committee, gave an overview of the productivity aspect of the report.

He said the plantation sector would soon revive after the world financial crisis saw prices slump during the last few months but productivity issues, particularly in the Regional Plantation Companies, could threaten the long term sustainability of the industry.

"There are several issues impeding productivity gains that need addressing at domestic level if the plantation sector is to be sustained in the long run," Dr. Kelegama said.

While Sri Lanka's teas generally fetch premium prices, its productivity is well below its competitors, namely, India, Kenya and China.

**Dr. Kelegama warns that, as a result of the sectors low productivity levels, Sri Lanka's position as a leading producer and exporter of quality teas is being threatened by competitors such as Kenya.**

Sri Lanka's national average productivity remained at 1520kg/ha in 2007, compared to Kenya's 2350kg/ha.

The average yield per plucker in Sri Lanka is about 18kg, where as in India and Kenya the yield is 27kg and 46kg, respectively.

**Inadequate replanting, poor soil fertility, wage increments and labour shortages are some of the issues effecting productivity of estates.**

According to the Tea Research Institute RPCs should replant 3 percent of their crop per annum in order to sustain viable levels of production in the long run.

Of 15 RPCs for which data was available, 3 RPCs had replanted in excess of 2 percent per annum. About nine percent of the RPCs tea bushes are less than sixty years of age.

However, RPCs have sighted funding constraints as the reason for not being able to replant their estates with finance adequate to just about sustain existing extents. This position is not totally acceptable due to a number of reasons such as high management fees according to Dr. Kelegama

**Due to mono-cropping for a long period of time, nutrients in the soil have degenerated considerably.**

"It is estimated that the yield can be increased by 25 percent by improving the carbon level of the soil by 1 percent through prescribed methods which have failed to be implemented," Dr. Kelegama said.

He said the recent wage increments that had been carried out in the plantation sector were politically motivated and had no bearing on productivity, which has hurt the financial positions of plantations. He also said that the definition of the "year" in the Gratuity Act should be amended as "a year shall mean a completed period of 12 consecutive months during which workman has worked not less that 180 days" if we are serious about increasing productivity.

**Another issue that could threaten the very existence of the plantations industry is the shortage of labour with the younger generations opting to move into urban areas in search of more 'white-collar' jobs.**

"It is paramount that workers in the plantations sector are given adequate housing facilities and a decent work environment. The industry has to come up with a wage structure and incentive schemes tied to productivity which will enable workers to lead decent, fairly comfortable lives," Dr. Kelegama said.

Building dignity of labour is important to attract youth into the sector and retain their services. How this is tackled will determine the existence of the plantation sector's future in Sri Lanka.

Nearly 90 percent of the country's foreign exchange earnings came from this sector in 1948. In 2007 it accounted for 34.1 percent.

Twenty three RPCs are leased by the state to the private sector for 53 years which is due to expire in 2045. The fate of the RPCs after 2045 was not known. According to Prof. Indraratna, the Committee recommends an extension till 2061. The private sector, charging hefty management fees, are reluctant to invest funds in operations such as replanting as the ownership status could change after 2045.

A Presidential Committee to look into the issues of the RPCs last week presented their report to the Minister of Plantation Industries. The Committee was headed by Neville Piyadigama and consisted of Prof. ADV de S Indraratna, Dr. Saman Kelegama, K.A.S. Gunasekera, V.K. Nanayakkara, W.A. Wijewardena, RHS Samarasinghe, Renuka Jayathilleke, Chris Dharmakirti and Rohantha Athukorala.

Other areas of concern the committee highlighted are gemming, soil erosion and depleting forest covers.

The report is to be handed over to the President soon.