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PETITION FROM MR. CHARLES SMITH CONCERNING
NEW GUINEA (T/PET.8/12)

Observations of the Australian Government as Administering Authority

Mr. Charles Smith, whose petition of 3 July 1957 was lodged with the General Secretary, Trusteeship Council, United Nations Organization, New York, was employed by the Administration of Papua and New Guinea from 12 September 1956 to 28 December 1956 as Accounts Clerk for the Tolai Cocoa Project.

Introduction

2. By way of introduction, an outline of the Tolai Cocoa Project is given in paragraphs 3 to 9 hereunder.
3. The Tolai Cocoa Project is a scheme organized and administered by the Administration of Papua and New Guinea to assist the natives of the Tolai group in the Gazelle Peninsula of New Britain in the establishment of fermentaries for the fermenting and drying of cocoa beans for market.
4. The project was conceived in 1952. At that time under the stimulus of agricultural extension work, natives of the Tolai group were taking great interest in cocoa bean production as a cash crop. Tree plantings were proceeding rapidly but although actual marketing of beans produced by natives had not reached any substantial proportion, there was already evidence that processing of the beans was haphazard and standards generally were low. Production was distributed amongst numerous growers on small holdings acting independently and in consequence there was no strength in the marketing procedure from the producers' end. Complaints were being received from the consumers with regard to the quality of small parcels of beans marketed by individual growers.
5. The assessment of Administration officers was that unless steps were taken to organize the native industry so that it had available to it efficient processing and marketing procedures the industry would become chaotic with ultimate adverse effects on the development of the local native economy and the cocoa industry as a whole.

6. The purpose of the project was to give whatever assistance was necessary by way of agricultural extension facilities and to organize through properly equipped central fermentaries the processing and ultimate marketing of cocoa beans grown by natives in surrounding areas. Advance payments are made monthly to growers for wet beans delivered. The expenses of processing and marketing are deducted from final proceeds, the remainder being distributed to growers.

7. A project of this nature was entirely new to the native mind and the natives had no previous experience of organizing or financing such a venture. To establish their confidence and co-operation and to ensure the close administration control needed for the initial stages, it was decided that it would be preferable for the project to be established by the Native Local Government Councils and for managerial and advisory assistance from administration officers to be provided. The growers agreed with the proposals put to them at growers' meetings.

8. The project was financed in its early stages by loans from the Native Local Government Councils (for operations within their respective areas) and from loans by the Administration. Later on, as production increased and there were heavier demands for capital, loans to the councils for the purchase of capital equipment necessary for the establishment of fermentaries were provided by the Bank of New South Wales under guarantee given by the Administration.

9. Fourteen fermentaries owned by five Native Local Government Councils in the area are now in operation.

10. Observations are given hereunder paragraph by paragraph on the statements made by Mr. C. Smith.

Paragraph 1

Mr. Smith has not named the representatives on whose request he promises to continue his efforts "to obtain some semblance of protection and justice for them" and it is therefore not possible to confirm or deny his statement. Intensive investigations made by Administration officers in Rabaul have failed to disclose that any of the Tolai people made such a request.

Paragraphs 2 and 3

Whilst growers were producing, processing and marketing beans with a degree of success at December 1955, there was, at that time, a need for better capital equipment to improve the quality of the product. In his report for the quarter

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ended 31 March 1956, the Field Manager stated that quality was still variable, fermenting was not satisfactory and temporary ferment sheds were found to be cold and draughty.

The need for improved equipment and additional equipment (necessary by reason of increased production) gave rise to the loan of £80,000 to the native local government councils by the Bank of New South Wales under guarantee by the Administration. At 31 December 1956, £53,941 of this loan had been drawn. (Drawings against the agreed limit for the loan are made only as cash is required.)

An analysis of the consolidated balance sheet of the project at 31 December 1956 (prepared by Mr. R.H. Jennings, Public Accountant, Rabaul) shows:

<u>Assets</u>	Fixed	£65,423	
	Bank Accounts	£2,416	
	Less overdraft balances	<u>1,015</u>	1,401
	<u>Total Assets</u>		£66,824
<u>Liabilities</u>	Net on loan from Bank of New South Wales	£53,941	
	Net on loan from Administration	<u>1,544</u>	
	<u>Total Liabilities</u>		£55,285
<u>Excess of Assets over Liabilities at 31/12/56</u>			<u>£11,539</u>

Mr. Smith's statement that growers "had been deprived of all their assets and were heavily in debt" at 31 December 1956 is therefore not correct and as indicated they had net credits at the bank of £1,401.

The liability of £9,021/12.0 referred to is an issue of debentures made to the growers when undistributed proceeds of sales of beans were used (prior to obtaining the bank loan) for the purchase of capital assets. Interest at 5 per cent was allowed on the issue and represented £429.12.0 of the £9,021.12.0 liability. The debentures have since been redeemed - payment, including interest, having been made to growers.

The increase in production from 272 tons in 1955/56 to 581 tons in 1956/57, to an estimated production of 891 tons in 1957/58 made necessary a continual build up of capital equipment in order to process cocoa beans delivered to the various

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fermentaries. Processing equipment must be provided at the fermentaries to cope with the intake of beans in the flush season which in Papua and New Guinea covers a period of approximately six to eight weeks during April to June.

Whilst fermenting capacity at the several fermentaries was generally sufficient to cope with the intake during the flush period of 1957, drying capacity was below requirements at some of the fermentaries. Four tons and two tons of beans were lost at the Vunadawai and Ngatur fermentaries respectively in May and June 1957, because drying capacity was insufficient to cope with the intake. Capital equipment for drying, i.e., in the provision of moving roof, sliding tray and mechanical hot air driers is more costly than vats for the fermenting operation. Therefore a margin of fermenting capacity over intake does not necessarily mean a heavy outlay of capital expenditure. In any case, with expanding production the necessary equipment must be provided in advance.

Experience during the April/June flush season of 1957 showed that the project is not over capitalized. Mr. Smith's statement that on the most optimistic prediction of future production additional buildings, plant and equipment cannot be required for at least four years, does not agree with recent experience and the expected expansion in production during 1958.

Paragraph 4

Fermentaries are not "co-operatives". They are public utilities which give processing and marketing services for beans brought in by native growers.

Paragraph 5

The reports submitted by Mr. Smith have been carefully considered by the Administrator, Territory of Papua and New Guinea and the Minister of State for Territories but the changes suggested have not been acceptable. The project has developed along carefully planned lines and the present method of operation is considered to serve best the interests of the Tolai people and encourage them to work for and ultimately take over an economic enterprise of their own. The undertaking is well organized and economically sound. The officers responsible for administering the project are experienced and competent men. They are not ignorant of routine commercial practices.

Paragraph 6

In the operation of their enterprise considerable technical and administrative assistance has been available to the Tolais by Administration officers. Technical

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assistance has been given by qualified officers (located in the area) of the Department of Agriculture, Stock and Fisheries, Papua and New Guinea Administration, both on growers' plantations and at fermentaries. Administrative assistance has been given by officers of the Department of Native Affairs, Papua and New Guinea Administration, and an accounts clerk is employed full time by the Administration to maintain accounting records and to train and supervise accounting done by Tolai clerks at the fermentaries. The project has not been charged with the salaries of the Administration officers.

Both technically and administratively emphasis is placed on training the native people to improve and expand their production and to understand processing operations at fermentaries. Native managers are employed at fermentaries by the Councils and as stated above native clerks are also engaged on accounting and administrative duties. There has been no debacle in the industry. The native cocoa industry in the Gazelle Peninsula is prosperous.

Paragraph 7

Mr. Smith was engaged as Accounts Clerk on the Tolai Cocoa Project at a salary of £1263-1443 plus prescribed allowances. His actual salary was £1418 p.a.

Paragraph 8

No observations are made.

Paragraphs 9 to 13

When the project was first being considered by Administration officers, various methods of organizing it were studied and the advantages and disadvantages of each method were discussed. One method examined was that the project be organized as a co-operative society or as a series of co-operative societies. The considered decision was that the project should be organized so that the fermentaries would be owned by the Native Local Government Councils and operated as public utilities.

European cocoa producers may (and some do) deliver beans to fermentaries. The Tolai cocoa fermentaries were never appropriated. The vesting of them in the Native Local Government Councils was with the full authority and approval of the Tolai people.

It is a fact that those Tolai people living in the town of Rabaul treat co-operatives with suspicion. Their mistrust is directed, not against the Administration co-operative officers but against certain of their own representatives

who through dishonesty and inefficiency caused seven co-operative societies to go into liquidation. This did not result in the people suffering severe monetary losses, as Mr. Smith maintains, because the amount of money subscribed by most was £5 and goods to this value were taken out by the individual before the societies went into liquidation.

Paragraph 14

The ultimate objective of the project is that full control will pass to the native people. Meanwhile the Administration is endeavouring to train the Tolais in the technical aspects of production, processing, marketing and business management. It is still in the training phase.

It is not intended at present to employ any person or persons outside the staff of the Administration other than native people on the management of the project.

Paragraph 15

No observation is made.

Paragraph 16

The Tolai Cocoa Project is an excellent scheme. It is properly organized and is well on the way to success.

Paragraph 17

No observation is made.

Paragraph 18

The Accounts Officer (Mr. MacSkimming - not McSchmelling as stated in Mr. Smith's petition) from whom Mr. Smith took over, stayed in Rabaul for a short time after Mr. Smith arrived to offer assistance and explanations.

An audit of the books was sought following the request by Mr. Smith but was not undertaken immediately. However, the District Sub-Accountant, Department of the Treasury, Rabaul, Papua and New Guinea Administration, was called in to examine the system of accounting in operation. He advised that there appeared to be no irregular accounting involved and discussed with the Project Manager, Mr. Smith, and the previous accounts clerk the over-all system of accounting, including the debenture issue (referred to by Mr. Smith in his petition as "a debt of £9,021.12.0"). Mr. Smith was reluctant to accept the view that the system of accounting was satisfactory.

Paragraph 19

It is correct that no attempt was made to organize the Tolais into any sort of Association. The purpose of the project is to provide the native growers of cocoa with fermentaries at which their wet cocoa beans can be processed efficiently, and to provide them with facilities for marketing the processed beans. Production of processed beans has increased considerably as the figures mentioned in the observations on paragraphs 2 and 3 above show.

The observations made on paragraph 6 shows what the growers are being taught.

Paragraph 20

No property of the Tolais was appropriated. The scheme is well organized and controlled. Administration officers administering the Tolai Project are energetic and are keen to see that the Tolais interests are at all times protected and that full disclosure and explanations of all facts associated with the scheme are made to them.

Paragraph 21

A record of assets was maintained by the previous Accounts Clerk which enabled him to prepare Revenue Accounts and Balance Sheets for each fermentary. It seems that Mr. Smith was either unaware of this record or neglected to keep it up to date after he took over.

With regard to the "Trading Statements" prepared by Mr. Smith an examination has disclosed that:

- (a) they were wrongly titled - they are, in fact, only "Receipts and Disbursement Statements";
- (b) the balance of each was referred to as a "profit" or "loss" available for distribution to growers.

Concerning (b), the project is not a profit-making concern, as all proceeds net of operation expenses and capital charges are returned to growers. Advance payments are made to growers each month at so much per pound on wet beans delivered by them. At six monthly intervals statements are prepared offsetting expenses against proceeds, the balance being distributed to growers on the basis of deliveries made by them during the accounting period.

The "losses" referred to by Mr. Smith were determined by him after including as operation expenses advance payments to growers for wet bean deliveries. Such payments are not expenses - they are a distribution in anticipation of proceeds. (To facilitate the making of advances to growers on wet bean deliveries buying agents have co-operated by making advance payments on processed beans delivered to them each month.)

Paragraph 22

Some of the "improvements" in bookkeeping methods instituted by Mr. Smith have since been recommended for discontinuance. Among them was a Control Ledger which he obtained at a cost of approximately £30.

There is a duplication of certain records in the accounting system, e.g., whereas, from an accounting point of view, the project could be run with one bank account, it has twenty: one for each of the fourteen fermentaries, one for each of the five Native Local Government Councils and one general account. These are considered necessary to give the Tolais as much independence, control and interest in the business side as possible. Each fermentary has its own cheque and cash book which help to build up trust and understanding among the Tolais who through their native clerks and managers have direct access to them. The system serves also to teach the clerks and managers the commercial use of these books.

The observations made above on paragraphs 2 and 3 indicate that unnecessary expenditure on buildings, plant and equipment did not occur.

Average processing costs per ton for the project for the year ended 31 March 1957, compared more than favourably with the costs of one efficiently operated European plantation for the year. It was not possible to obtain costs from other European growers.

As stated in the observations on paragraph 21 the project is not a "profit-making concern".

Paragraphs 23 to 25

Please see the observations on paragraph 5.

Paragraph 26

Please see the observations on paragraph 1.

Paragraph 27

The project is more than a business venture - it involves the welfare and the agricultural and economic development of the Tolai native people. In the short time Mr. Smith was employed by the Administration of Papua and New Guinea he did not appreciate fully the importance of these objects, hence the advice to him in the terms which he quotes.

Paragraph 28

The Commonwealth Bank of Australia did not refuse to make a loan to the Tolais as claimed by Mr. Smith. It offered the full amount of the loan but as its terms were not as favourable as those of the Bank of New South Wales the loan was negotiated with the latter bank. Security of the loan rests solely on the Administration's guarantee and not on any charge over the fermentaries and land of the Tolai people.

The Tolais have been set up in a prosperous industry and are an example to natives in other parts of the Territory of what they also can achieve. There is no question of their "being pauperized for years to come".
