CHAPTER II.

THE ORGANIZATION OF THE INDUSTRY

A. The Firms:

The coconut oil milling industry in Penang consists of four large mills in the Island and a large number of smaller mills in the minor towns of the coconut growing districts of Province Wellesley.

These four mills control over 85% of the total output of oil in Penang and their organised body, The Oil Millers' Association, is a powerful organization which represents to Government the collective views of the millers and negotiates with copra and oil milling associations in Singapore and other countries.

The four large mills in Penang are:-

1. Sun Wu Loong Oil Mill Co. Ltd. This mill was established around 1911 and is the largest mill in North Malaya. The original mill that was established in the heart of the town is still in use but the main processing takes place at its post-war branch on the Sungei Pinang.

2. Ban Teik Bee Co. Ltd. This is the oldest mill in the island and is capable of producing about 45 tons of oil per day.

3. Ban Hin Lee Oil Mills Ltd. This firm is a manufacturer and shipper of coconut oil and refined oil. It comes under the same control as Ban Hin Lee Banks Ltd.

4. Hock Hin Brothers Ltd. This is a firm of rice and oil millers and ice manufacturers.

B. Location:

All the large oil mills in Malaya are situated at the principal ports and their location is governed by the entrepot trade of those places. Oil milling is more a processing industry than a manufacturing one and as the bulk and weight of the copra are large when compared to the value, handling costs play an important part in deciding the siting of the mills.

The four large mills are located on a river front on either bank of the mouth of the Sungei Pinang, the largest river in the Island. They are established here because it is convenient for the mills to get their copra direct from lighters which are loaded overside from coastal vessels lying on the roads of the harbour about a mile away from the mills. Failing direct intake, which would be possible if the mills were situated right on the water front on deep water sites, this is the cheapest method of transport.

The island of Penang also offers other advantages for industries: it is a free port* with easy facilities for exporting the oil, has an efficient road and transport service, a large local market, an adequate labour force and a good number of enterprising businessmen.

The mills in Province Wellesley are comparatively smaller. Their main advantage is that they have their supplies of copra close by and a market for the oil and copra cake is available in the neighbourhood. However, this restricted local market imposes a limit on the size of the mill and makes it uneconomic to run on a three shift system for the output, determined by local demand within an economic radius, can be achieved by working the mills during the daytime only. Often these mills trade on a reciprocal basis.* They purchase the copra from the farmers and in return sell the copra cake. Thus their advantage lies in minimising the transport and handling charges for the copra, oil, and copra-cake. The mill owners often give loans to small holders and have other business ties in their small towns. There is also a feeling of loyalty of country grocers to the mills and although salesmen from the large mills send their representatives to these towns, the local grocers prefer to trade with the local mills. As a result the large mills in Penang, after satisfying the local (Penang) demand for oil, export the bulk of the oil to oversea countries while the smaller mills in Province Wellesley cater for the needs of their area.

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*Interviewed mill owners of Bukit Mertajam and Bukit Tengah in Province Wellesley.

C. <u>Size of mills</u>:

The size of a mill is best expressed in terms of the output of oil per day and this represents more than half (about 55%) of the copra milled. The largest mill in Penang, when working at full capacity, produces 80 tons of oil per day while the other mills in the Island have an average productive capacity of 40 to 50 tons.[*]

It is difficult to estimate the size of the mills in Province Wellesley for they only work for a limited number of hours per day. Again the size of the individual firms varies and the largest mill produces about 7 tons of oil while some of the smaller units have an output of about 500 lbs. per day.

While considering the size of the Penang mills, it is interesting to compare these mills with those of the neighbouring countries. In Indonesia, the biggest oil factory, "Archa" (Uniliver firm with Dutch and British capital), has a productive capacity of 180 tons and the largest factory in the Phillippines, "The Philippine Refining Company", has a capacity of 275 tons per 24 hours.[**] Both these mills have been built in post war years and are of the Western type being highly mechanised and

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[*]Confidential figures supplied by the mills in Penang Island.

[**]Refer to ECAFE/I & T/Sub. 4/4.

capital intensive. But what may be the optimum size of a mill in those countries would be quite out of place in Penang where the growth, structure and control of the firms are entirely different. These Penang mills have been built up from small scale family businesses and still maintain the same form of control and management; as long as this individualistic form of organisation is maintained, any further expansion of the size of the mills would be uneconomic for the existing "head" of the business would find it difficult to manage efficiently any larger number of men or capital equipment and resources. Thus the typical mill occupies a mid-way position between the mechanised firms of the Western type and the labour intensive but capital lacking enterprises of many of the Under-developed countries.

D. Growth and Structure:

In all the oil mills, as in most secondary industries in Malaya, the capital, enterprise and skill has been Chinese.* These secondary industries can be considered to be the indirect results of foreign investment which was mainly confined to the plantations of rubber and coconut and the mining of tin - all produced for export. During the beginning of the Century the

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* Much of what is written here and the next page is based on interviews with the present mill owners and verified by talks with some of the "elders" of Penang.

exports of rubber, copra and tin from Penang contributed to the prosperity of the island and there was an expanding domestic market for consumer goods. A certain amount of savings was available for investment. The local businessmen knew by experience that the most profitable investments were those which exploit new techniques while making use of basic raw materials. They saw that the "kampong" way of making oil was inefficient and wasteful and as copra was sorted out and graded in the island, they set up "mills" to meet the local demand for oil. These mills were set up in the business sector of the town for it was here that the copra was graded and where the consumers of oil were.

These pioneers were amply rewarded for the risks they took in branching into new lines of investment. The yield on the capital was high because of the thriving state of the Malayan economy due to the high prices of rubber and tin. The profits obtained were almost completely re-invested in the industry for these early investors were frugal men who had come from the neighbouring countries to better their lot economically in this new land. They were accustomed to a simple way of life and they understood clearly their position. Their social standing and power could not be made known by any ostentatious habits or high standards of living. They were being judged by the amount of investments they had in this country; they were respected by the community because they were wealthy and independent and had many employees under their control. All these helped to account for the high rate of re-investment of capital profits within the industry and the rapid development of the country.

The mills soon proved to be too small for there was now a wide market for the oil for it was exported to the neighbouring countries. Modern machinery had to be used, for greater efficiency meant economy. The original location of the mills was not suitable for the expanding firms. New mills were built on the mouth of the Sungei Pinang as this was an advantageous site for the importation of copra and the export of oil. Inpre-war days, these mills when compared to other mills in Asia, were fairly well mechanised and were in a favourable position.

E. The Present Position:

To-day the mill owners are pessimistic about the future of the oil milling industry although in the last few years they have been fairly successful due to the increased economic activity in all sectors of the country. They cannot get a sufficient supply of copra to keep their mills running at full capacity. The copra producing countries are setting up their own oil crushing industries using capital intensive methods of the Western type. The local millers are unable to instal the latest machinery for their capital is limited. They also fear that labour will re-act adversely to changes which appear to damage their interests. Again they find that the workers now are different: the pre-war supply of cheap and unorganised labour which was an important factor in the development of the industry has now changed. The Unions are demanding higher wages for shorter hours of work and in this they are strongly supported by public opinion for it is the belief that inefficient firms which cannot raise the living standard of the workers to a minimum level must be prepared to give way to more efficient organisations.

The answer to the problems of the millers is evident. The mills must adapt themselves to the changing times. They must face competition in costs and quality from foreign firms both in the world and domestic markets. Their spirit of enterprise which originally built up these small businesses is now not adequate. The firms must have all the economies from increased production. A private limited company on a family basis is too small an organization for this purpose. It is time that these firms are "floated off" into public companies: this form of organization will secure the necessary capital and administrative staff to manage large undertakings efficiently.

The mills in Province Wellesley were all formed in the Post-war years and while there were 18 mills in 1948, the number increased to 23 in 1951 but dropped to 16 in 1956. This business turnover is a characteristic feature of Malayan businesses for during times of prosperity as during the Korean boom, there is a tendency for the more enterprising skilled workers to break away from their employers and set up their own businesses with a small capital accumulated from their savings. These small businessmen are extremely versatile and are always on the lookout for speculative ventures and this adds to the instability of the Malayan economy. These mills have to face severe competition from the larger and comparatively efficient Penang mills. The multiplicity of mills found in each of the small "towns" of Province Wellesley appears to be excessive. A partnership of several of the mills will result in economies of large scale production and will lead to greater stability in the long run. As small and inexperienced businessmen they find great difficulty in establishing themselves to others outside their own towns as genuine oil-millers and hence create a goodwill which is so essential for successful trading*.

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*View of Secretary of Oil Millers' Association Province Wellesley, 24 Station Road, Bukit Mertajam.