

CHAPTER IV

PADI MARKETING OPERATIONS

The Society purchases and sells the padi of both members and non-members. Padi marketing activities are characterised by their seasonality and are not a year round activity, because of the seasonal nature of padi harvesting. From 1961 to 1964 when only single cropping was practised, the bulk of marketing was done during the months of March, April and May. In 1965, with the introduction of double-cropping there were two marketing seasons, March to May, and October to November.¹ The bulk of the marketing activity usually lasts from 2 to 2½ months.

All padi marketing operations of the Society are supervised by a special sub-committee of the Society's management committee.

Marketing Employees

Because of the seasonality in padi marketing, marketing employees are taken on only at marketing seasons. These employees number 10 and are made up of 2 Weighing Clerks, 2 Accounts Clerks and 6 labourers. The weighing and accounting employees are employed on a month to month basis and the labourers on a piece-rate basis.

¹These months however are not the same from year to year. Harvests vary from year to year by as much as 4 to 5 weeks, and the padi marketing activity varies with this. For example, while the main crop of 1965 was harvested in March, the 1966 main crop was harvested in April, 1966.

²Accounts Clerks are paid \$220 per month, weighing clerks, \$200 per month, and labourers are paid 12 cents per rice-bag they handle.

The padi marketing operations of the Society can be considered under two separate aspects: padi purchasing and padi sales.

PADI PURCHASING

Padi is purchased outright from the farmers and the Society takes title to the purchases. The purchasing capital used by the Society consists of the Society's cash in hand and in banks, and loans from the Tanjong Karang Co-operative Rice Milling Union.³ The Society's own cash balances over the period 1961 to 1965 varied from \$41,000 in 1961 to about \$27,000 in 1965. In addition loans from the Union were \$20,000 in 1961; \$15,000 in 1962 and \$20,000 in 1963. No loans were taken in 1964 and 1965.

Packing and Grading of Padi Purchases

Padi purchased from farmers is already packed in jute bags with a capacity of between 110 and 130 katis each. These jute bags belong to the farmer and when a padi purchase is made the farmer is given the same number of empty bags by the Society.

Padi purchased is not graded according to quality by the farmer. The Society however undertakes the inspection of padi prior to purchase,⁴ and after the purchase no grading is done by the Society either, and all padi purchases are pooled together.

Transport and Handling

Transport for purchases is provided free of charge by the Society to both members and non-members. The Society owns no lorries but hired lorries transport padi from the farmers' houses to the Society.

Handling during all stages of padi-purchasing is provided by the Society and is ostensibly free of charge since farmers do not make a cash payment for

³For details see Chapter V.

⁴See section on 'Inspection of Padi Purchases and Determination of Deductions Made', this chapter.

handling. Handling charges are however deducted from the price paid to farmers.⁵

Storage

Padi purchased is seldom stored in the premises of the Society for sales are usually made on the same day as purchases. Padi is thus seldom even unloaded from the lorries, but sent straight to the purchasers.⁶

Storage facilities in the Society however exist for emergencies like when lorries are not available. The Society can store about 200 bags inside its premises and about 400 bags outside the buildings, under water-proof tarpaulins. In the past however it has been seldom found necessary to store padi outside.

Purchasing Procedure

The purchasing employees are divided into 2 groups of 1 weighing clerk, 1 Accounting Clerk and 3 labourers per group. The procedure employed during purchasing can be summarised as follows:-

- i) The lorry and the purchasing employees call at the farmer's house. This farmer has previously notified the Society of his intention to sell padi to it.
- ii) Inspection of the padi to be purchased is made, and deductions for dirt and moisture determined.⁷
- iii) Weighing of Padi.

⁵See section on Pricing, this chapter.

⁶The purchasers are the Tanjong Karang Co-operative Milling Union and the Selangor Rice-Millers Association. See section on Padi Sales.

⁷See section on 'Inspection of Padi Purchases and Determination of Deductions Made', this chapter.

- iv) Farmer is given a receipt of purchase stating weight of padi sold to the Society, the number of bags, and the total amount of money due to him. This receipt is the voucher for collection of payment from the Society and to collect empty rice bags in exchange for those sent with the sale to the Society.

Inspection of Padi Purchases and Determination of Deductions Made

Padi is inspected prior to purchase and deductions are made on the price for padi that does not conform to the definition of good dry padi.⁸ Deductions are made from the Guaranteed Minimum Price for excessive moisture content and dirt content. Inspection for dirt content is made visually by the weighing clerk. Moisture content is determined by a physical examination of the padi. This is contrary to a directive issued by the Senior Co-operative Officer, Kuala Selangor, requiring all co-operative societies to use a moisture-meter in determining moisture content.⁹ Because no moisture meter is used, determination of moisture content is very subjective. In practice the Society makes deductions on price varying from \$1.10 on padi that is clean and dry as defined above, to about \$1.60 on padi that would show a moisture content of 18-20% on the moisture-meter. A further deduction of 2 katis is made for every bag of padi purchased to compensate for the weight of the empty bag.

⁸The definition of 'good dry padi' has been given by the Trade Division of the Ministry of Commerce and Industry in a circular issued to the Society on 4th December, 1963, regarding the 1964 padi season. The definition reads:

" . . . not exceeding 13% moisture content, free of dirt, empty grains, husks, straw and other foreign matter, and having the grains fully matured."

⁹Circular No. Co-op. T.K.13/51/Pt.IV/35 issued by the Department of Co-operative Development specifies that the Society should use a Scotmec-Oxley Instantaneous Moisture-Meter to determine moisture content.

Purchase Prices and Payments to Farmers

Over the period 1961 to 1965 the Government Guaranteed Rice Price Scheme has been in force. The Guaranteed Minimum Price (or G.M.P.) was \$15 from 1961 to 1963, and \$16 in 1964 and 1965. These are the prices paid for the delivery of good dry padi to the Tanjong Karang Co-operative Rice Milling Union, 10 miles away.

In practice the price paid to farmers has never been the full amount of the guaranteed price. Deductions on the guaranteed price for moisture and dirt content, and marketing costs result in low prices being paid to farmers. Table 8 below shows the guaranteed prices, the actual prices received by farmers and the average padi purchase price per picul over the years 1961 to 1965.

TABLE 8

PADI PURCHASE PRICES OF THE LOONG YIP
CO-OPERATIVE RICE MILL SOCIETY
1961 TO 1965

Year	Guaranteed Minimum Price Per Picul	Range of Prices Paid to Farmers Per Picul	Average Price Per Picul
1961	\$15	\$12.80	\$12.80
1962	\$15	\$12.80	\$12.80
1963	\$15	\$12.60-\$13.40	\$13.00
1964	\$16	\$13.60-\$14.20	\$13.90
1965	\$16	\$13.80-\$14.20	\$14.00

Source: Padi Purchase Journals of the Loong Yip
Co-operative Rice Mill Society, 1961-1965.

The actual fixing of the upper and lower limits of purchase price is done by the Society's padi marketing sub-committee in conjunction with the other rice-mills

in the Sekinchan area. Meetings are held weekly and the range of purchase price is determined. This fixing of prices is done in reference to the Society's current sales prices and deductions made by the buyers of the Society's padi. In general, the greater the deductions made by these buyers, the lower are the prices paid to the farmers. A detailed analysis of pricing will be given at the end of this chapter.

Payments to farmers are always made in cash and the voucher for payments is the receipt of purchase issued by the Society.¹⁰ Payments are collected from the Society's offices and are made in full if cash is available, but sometimes, owing to cash shortages, only advances of about \$10 per picul are made, and the balance is paid later.¹¹ On rare occasions the cash shortage may be so great that even advances cannot be made and on such occasions farmers have to wait several days, sometimes a week, to collect their money.

Volume of Padi Purchases

Over the years 1961 to 1965 the volume of padi purchases varied greatly from year to year, ranging from 81,504.70 piculs in 1961 to 30,053.99 piculs in 1964. Table 9 below shows the annual purchase volumes for the years 1961 to 1965 as well as the cost of these purchases. The purchases show a downward trend since 1961. The increase in 1965 is due to double cropping introduced in that year. Otherwise the trend in purchases is on a decline.

¹⁰ To enable the calculation of patronage dividends on padi sales, the receipt issued to members is different from the one issued to non-members. One copy of this receipt, stating the name of the member and the amount of padi sold to the Society is retained by the Society.

¹¹ Cash shortages occur whenever the Tanjong Karang Co-operative Milling Union or the Selangor Rice Millers Association, who are both the buyers of the Society's padi, delay payment to the Society.

TABLE 9

**PADI PURCHASED BY THE LOONG YIP
CO-OPERATIVE RICE MILL SOCIETY
1961 - 1965**

Year	Amount of Padi Purchased (Gross Weight) (Piculs)	Cost of Purchases (\$)
1961	81,504.70	1,044,555.14
1962	59,806.41	770,466.80
1963	36,034.39	478,391.10
1964	30,053.99	416,827.65
1965	45,106.00	625,313.10

Source: Audit Reports of the Loong Yip Co-operative Rice Mill Society, 1961-1965, by Lim Yeok Shin & Co.

This decline in purchases since 1961 is attributed by the Society to competition from blackmarketeers. These blackmarketeers offer higher prices usually about 10 cents above the Society's prices, and make prompt cash payments at the time of purchase.¹² Most of the people selling padi to blackmarketeers are non-members of the Society who formerly used to sell

¹² Blackmarketeers are able to pay higher prices because of low overheads. They also attract farmers because they offer prompt payment in full. It is rumoured that these blackmarketeers are really the agents of the private rice mills in Kuala Lumpur who have been experiencing a shortage of supply of padi. In 1963 competition from blackmarketeers was so severe that the Society's padi marketing business suffered a loss of more than \$4,200. (See Chapter V).

to the Society. The Society does not envisage that the annual amount of padi purchase in the future will fall very much below 45,000 piculs. Also, unless the Society's membership increases or the productivity of the farmers increases, no substantial increase in the volume of padi purchases is expected.

PADI SALES

All padi purchased is sold by the Society to 2 buyers. These are the Tanjong Karang Co-operative Rice Milling Union and the Selangor Rice Millers Association.¹³ All padi sold is to the Union or through the Union to the Selangor Rice Millers Association (henceforth referred to as 'private millers'). No direct sale of padi by the Society to the private millers is permitted. This is because the Union has sole rights for rice milling in the Tanjong Karang district. In normal times, padi is only sold to private millers if the Union is unable to buy from the Society for any reason, and sales to private millers can only be made with the approval of the Union.¹⁴

Packing, Grading and Transport

Padi purchased by the Society is not repacked or graded in any way after purchase. Also no differentiation is made between the different varieties of padi planted in Sekinchan.

Transport to the Union Mill is by lorry and the cost is borne by the Society. Transport charges amount to between 20 and 30 cents but are not paid directly by the Society. The cost of transport is paid by the Union and deducted from the price of padi paid to the Society. In the case of sales to private millers

¹³This association is made up of 3 rice mills in Kuala Lumpur. They are the Haji Ahmad Rice Mill Co. Ltd., Lin Seng Rice Mill Co. Ltd. and the Selangor Rice Mill Co. Ltd. No contract exists between the Society and the Selangor Rice Millers Association but there is an agreement between the 2 parties concerning the terms of sale.

¹⁴The Society's padi transport permit is only up to Tanjong Karang. Any padi sold to private millers can only be transported with a transport permit issued by the Tanjong Karang Co-operative Milling Union.

in Kuala Lumpur, the cost of transport from the Society to the Union Mill is borne by the Society, but transport costs from Tanjong Karang to Kuala Lumpur are borne by the private millers.¹⁵

Deductions

Deductions based on the gross weight sold by the Society are made by the purchasers for moisture content in excess of 13% and for dirt. In actual practice no moisture meter is used by the purchasers and the determination of moisture and dirt content of the padi is done physically. The purchasers therefore have no way of knowing if the moisture content is 13% or less. In practice a flat deduction rate of 7 to 10% is made on all padi purchases from the Society to compensate for dirt and moisture. A further deduction of 2 katis per bag of padi is made for the weight of the empty rice bag.¹⁶ The price paid to the Society is based on net weight less the above deductions. The deductions made on an average lorry load of padi by the Union Mill are as follows:-¹⁷

Gross weight of padi in 77 bags 105.80 piculs

Deductions:

2 katis per bag for	piculs	
weight of empty bags	1.44	
9% Deduction for dirt		
and moisture	<u>9.50</u>	<u>10.94</u> piculs

Net weight on which payment	
is made	<u>94.86</u> piculs

Details of pricing will be studied later in this chapter.

¹⁵ Clause 1 of the agreement between the Society and the Selangor Rice Millers Association regarding transport reads: "... Lorry charges from Tanjong Karang to Kuala Lumpur will be borne by the purchasers."

¹⁶ Empty rice bags are returned to the Society by the purchasers.

¹⁷ The source of this information is one of the many receipts of purchase issued to the Society by the Union Mill.

Prices and Payments for Sale of Padi

Although the Society undertakes the delivery of padi to the Union Mill, the prices paid to it, even on net weight less deductions, are not the full amount of the guaranteed price. Transport charges are deducted and paid by the Union to the transport company which undertakes the transport.

Prices paid vary with the cost of transport. Table 10 shows the guaranteed price, the price paid to the Society and transport charges per picul of padi, over the years 1961 to 1965.

TABLE 10

PRICES OF PADI SALES BY THE LOONG
YIP CO-OPERATIVE RICE MILL SOCIETY,
1961 - 1965

Year	Guaranteed Minimum Price (\$)	Transport Charge to Union Mill (\$)	Net Price Paid Per Picul to Society (\$)
1961	15	0.30	14.70
1962	15	0.30	14.70
1963	15	0.25	14.75
1964	16	0.20	15.80
1965	16	0.20	15.80

Source: Padi Sales Journals of the Loong Yip
Co-operative Rice Mill Society, 1961-1965.

Note: Transport charges may vary from day to day between 20 and 30 cents. The figures for transport charges given above represent the most common transport charge for each year.

Payments for padi purchases are always made in cash whether the purchaser is the Union Mill or private millers. However the system used is not full payment after each purchase. The Union pays every 5 or 6 days a sum ranging from \$20,000 to \$30,000 for padi purchases from the Society. At the end of the marketing season, either the Union Mill will owe some money to the Society, or the Society will have a cash balance due to the Union Mill. This amount outstanding is settled.

Volume of Padi Sales

The volume of padi sales over the years 1961 to 1965 varied greatly because of similar variations in the volume of purchases. Records of padi sales show only net weights of padi sold, that is, less all deductions made by the purchasers. The difference between the gross purchases of the Society and its net sales may be taken to represent the total deductions made by the purchasers. Table 11 below shows the volume of padi sales over the years 1961 to 1965.

TABLE 11

PADI SALES OF THE LOONG YIP CO-OPERATIVE RICE MILL SOCIETY, 1961 TO 1965

Year	Net Sales (Piculs)	Net Sales (\$)
1961	73,823.72	1,085,718.14
1962	54,408.20	798,159.38
1963	33,289.34	491,846.02
1964	27,312.61	429,793.53
1965	40,293.68	637,526.89

Source: Audit Reports of the Loong Yip Co-operative Rice Mill Society, 1961 to 1965, by Lim Yeok Shin & Co.

Sales may be further classified according to destination - the Union Mill or the private millers in Kuala Lumpur. Data is however available only for the 3 years 1962, 1963 and 1965. Table 12 below shows the classification of sales by destination. Before 1963, the Society's sales to private millers exceeded sales to the Union, the volume sold to private millers being about 3 times as much as that sold to the Union. In 1964 however, a new mill was built by the Union which would enable it to handle a greater capacity and in 1965 sales to the Union greatly exceeded sales to private millers.

TABLE 12

LOONG YIP CO-OPERATIVE RICE MILL SOCIETY:
CLASSIFICATION OF PADI SALES
BY DESTINATION

Year	Total Net Sales (Piculs)	Sales to Union Mill (Piculs)	Sales to Private Millers (Piculs)
1962	52,408.20	13,910.66	40,497.54
1963	33,289.34	10,566.58	22,722.76
1965	40,293.68	23,384.26	16,909.42

Source: Audit Reports of the Loong Yip Co-operative Rice Mill Society, 1962, 1963 & 1965 by Lim Yeok Shin & Co.

The difference between gross purchases and net sales would represent the total amount of padi lost through deductions for moisture and dirt contents. Table 13 below shows the amount of deductions made by the purchasing mills and the average percentage deduction borne by the Society over the years 1961 to 1965.

The amount of padi lost through these deductions is substantial. No payment is received from the purchasers on the amount deducted.

TABLE 13

DEDUCTIONS ON SALES OF PADI BY
THE LOONG YIP CO-OPERATIVE RICE
MILL SOCIETY, 1961 TO 1965

Year	Amount of Padi Deducted (Piculs)	Percentage
1961	7,680.98	9.4%
1962	5,398.21	9 %
1963	2,745.05	7.6%
1964	2,741.38	9.1%
1965	4,812.32	10.60%

Source: Audit Reports of the Loong Yip Co-operative Rice Mill Society, 1961 to 1965, by Lim Teck Shin & Co.

ANALYSIS OF PRICING

The upper limit of the price of padi is the Guaranteed Minimum Price (G.M.P.). The low prices paid to farmers reflect the amount paid for different marketing services. Although the Society purchases padi outright from the farmers, all marketing costs and deductions made on the padi sales of the Society are ultimately borne by the farmer. For the farmer, marketing is not completed when he sells his padi to the Society. The price he receives will be net of lorry charges to Tanjong Karang, handling charges, and less the current deduction rate being made by the Tanjong Karang Co-operative Milling Union and the Selangor Rice Millers Association.

As the Guaranteed Minimum Price is the upper limit and is fixed, market forces of supply and demand do not act directly on price, but on the deductions made on gross weight by the purchasers of the

Society's padi. At the height of the padi season, when there is an enormous amount of padi available, the deduction rate on gross weight of padi purchases is high, as much as 11% in 1965. Towards the end of the season, scarcity of supply forces the deduction rate lower, to 7%.

This deduction on weight is translated into deduction on price paid by the Society to the farmers. There is no direct correlation between deductions made by the purchasers of the Society's padi and the price that farmers receive. Generally however, the higher the deductions practised by these final buyers, the lower the price received by the farmers.

To ensure that a sufficient margin of the price goes to the Society, the Society in conjunction with the committees of the other co-operative rice mills in Sekinehan fixes the range of prices to be paid. The margin to the Society on sales of padi remained fairly stable in 1965, varying from 36 to 38 cents per picul.

Given below are 2 pricing situations, one at the beginning and the other at the end of the main padi season of 1965.

Pricing at Height of Season

<u>Price at Society's Level</u> (per picul)	\$
Guaranteed Minimum Price	16.00
Transport charges to Tanjong Karang	<u>.20</u>
Price paid on net sales of Society	15.80
	<u>=====</u>

Price at Farmers Level (per picul)

Price received by Society on net sales	15.80
Deduction of 10% on \$15.80 to compensate for deductions on Society's sales	<u>1.58</u>
	14.22
Handling charges	<u>.12</u>
	14.10
Price paid to Farmers	<u>13.80</u>
Gross margin to Society	<u>.30</u>
	<u>=====</u>

Pricing Towards End of Season

<u>Price at Society's level (per picul)</u>	\$
Guaranteed Minimum Price	16.00
Transport charges to Tanjong Karang	<u>.20</u>
Price paid on net sales of Society	15.80
	=====

Price at Farmers level (per picul)

Price received by Society on net sales	15.80
Deduction of 7% on \$15.80 to compensate for deductions on Society's sales	<u>1.10</u>
	14.70
Handling charges	<u>.12</u>
	14.58
Price paid to Farmers	<u>14.20</u>
Gross margin to Society38
	=====

The gross margin to the Society was fairly stable in 1965 because of the range of prices paid to farmers. However, in 1961 and 1962 for example, when the price paid to farmers was a flat rate of \$12.80 per picul, the gross margin to the Society varied from about 31 cents per picul at the height of the season to 54 cents per picul towards the end of the season.