

CHAPTER IV

OPERATIONS

The Loong Aik Co-operative Rice Mill Society undertakes two major operations, namely the provision of milling services and marketing services.

Rice Milling

Historically, this function has been singularly important. When the enterprise was set up, as a private concern in 1948, its sole function was the provision of milling services. The provision of marketing services was a latter development.

The Society uses two Scottish made Milling machines in rice milling, which can hull about 8 piculs of clean and dry padi per hour. Each picul of good, clean and dry padi yields an average about 68 percent (by weight) of rice. The remaining 32 per cent is composed of Bran and Broken Rice. The amount of broken rice obtained is very small - about 4 or 5 katies for every picul of padi milled. Two grades of Bran are produced from the Milling process: Coarse Bran and Fine Bran.

The term 'bran' here needs to be qualified. Bran is actually the broken outer covering or husk of the grain. However out of the milling process, the husk obtained is mixed with fine rice powder, crushed inner of the grain (the aleurone layer) which is rich in protein. In the context of this study, this mixture (of broken husks and rice powder) is termed and referred to as 'bran'. The two different grades of bran obtained is solely the result of the milling method employed by the Society - which is in three stages. This will be elaborated below.

Broken rice as the name implies are the broken bits and pieces of padi grains, which in the milling process comes out together with the bran. Broken rice is obtained primarily as a result of the condition of some of the padi grains sent in for milling. Factors conducive to the production of broken rice are:

- i) diseased padi
- ii) unripe grains

- iii) Wet padi and
- iv) padi which has been subjected to alternating wet and dry conditions.

The percentage of rice obtained from a given quantity of padi is not a constant function in the milling process. Hence the ratio between rice, bran and broken rice is similarly not constant. The quantity of rice obtained and consequently of bran and broken padi, from a given quantity of padi depends on the factors enumerated above. For example if the padi is diseased the percentage of clean rice obtained will be greatly reduced, sometimes to about 60% by weight of the padi milled. Much of the padi milled will be turned into broken rice, or disintegrated into powder to be mixed with the husk as bran. If the padi sent for milling contains unripe grains, then it is to be expected that the percentage of rice obtained will be greatly reduced. Being soft much will be turned into bran. On the other hand if the padi has not been sufficiently dried the padi grains are liable to get broken up more easily. Again the amount of rice obtained will be greatly reduced. Similarly if the padi has been subject to alternating wet and dry conditions.

The Loong Aik Co-operative Rice Mill Society provides milling services at the same charge for both its members as well as non-members. This milling charge, which is \$0.90 for every picul of padi milled is fixed by the government.¹

Members and non-members send in their padi by themselves. The Society does not provide any collection or delivery services (of padi or clean rice). Usually farmers use their own means of transportation - which is mainly the bi-cycles. These modes of transportation are used because the farmers do not mill their padi in bulk. Padi needed for home consumption is milled a little at a time.

The padi sent in for milling is first weighed. This is recorded in a receipt together with the amount to be charged for milling. This receipt which is given to the farmer acts as a claim later for the milled rice. In this respect two separate receipt books are used - one for members and the other for non-members. This is to facilitate the calculation and payments of rebates to members. Payments for milling are in cash and are to be

made the moment the farmer claims his rice. Another receipts Book is used for the purpose of recording receipts from rice milling. Hence then there is no room for malpractices (like misappropriation of funds received) with regards to the money earned by the Society.

The method of milling is in three stages. The first stage is primarily concerned with milling. Here the very coarse husks, empty grains and broken rice will be separated from the semi-milled rice. Stage two follows. This is a combination of milling and polishing. The remaining husks and coverings on the grains will be separated from the grains which will then be subjected to polishing. Stage two completes the milling process proper. The quality of milled rice obtained from the process is high and reflects the standard and efficiency of the milling method.² The rice is well polished and contains a minimum amount of broken rice. Stage three is essentially concerned with the by-products of the milling process. A locally-made wooden winnower is used which processes the by-products of milling from stage one. Here the broken rice, coarse bran and fine bran are separated from each other.

When considering the amount of padi milled by the Society over the five year period certain facts need to be noted. (See diagram 4). The first is the fairly even amounts of the padi milled per month, despite the fact that the padi harvesting season is spread only over February, March, April and May. The amount milled per month, on average throughout the five year period amounted to about 770 piculs.³

While such a pattern is clearly discernible, it is also evident from this diagram that a slight monthly variation exists. The largest amounts of padi milled per month are mostly concentrated in the beginning of the year - with the monthly total diminishing towards the end of the year. Thus for example from a high figure of 984.26 piculs in March 1963, the amount decreases

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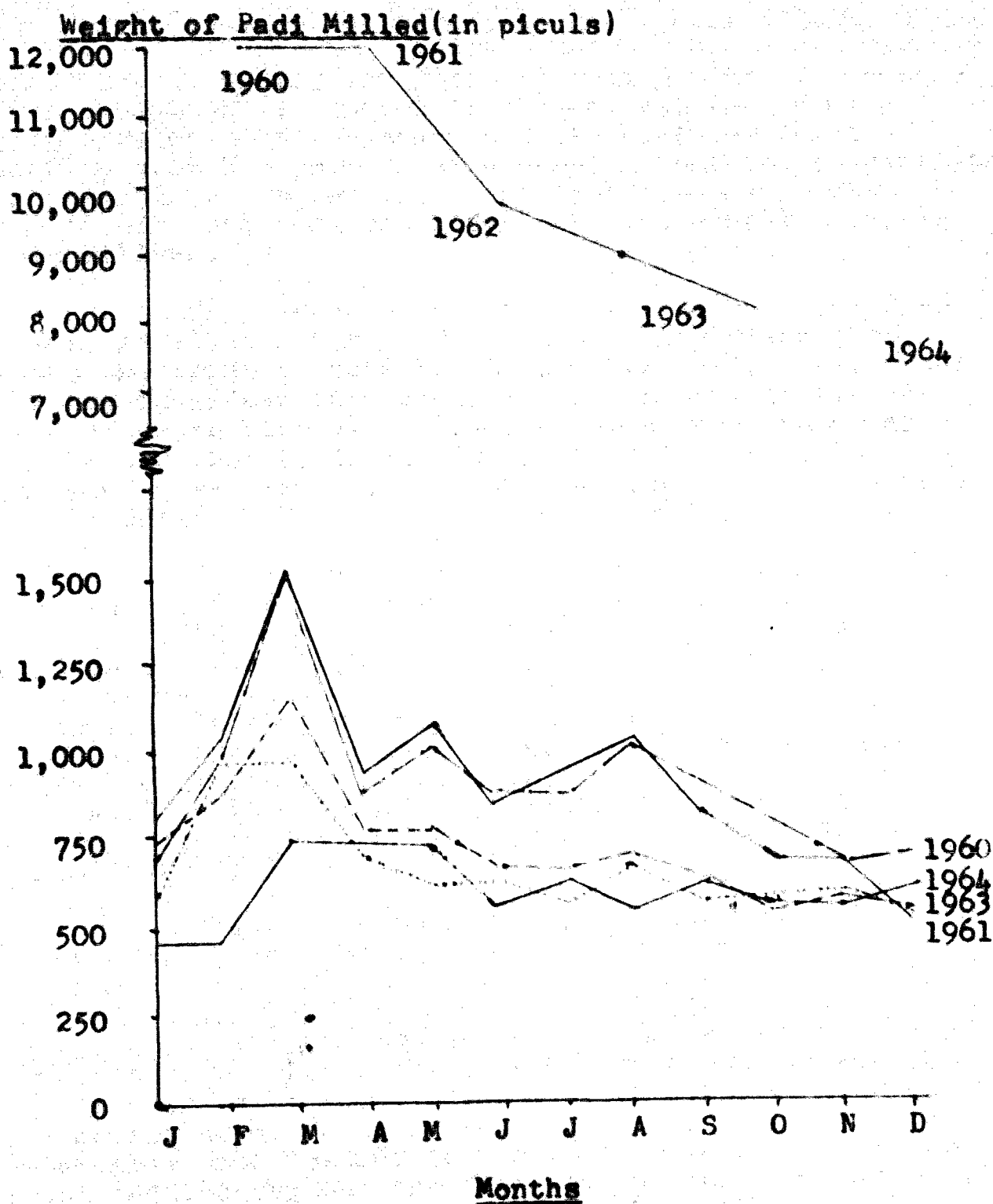
This is in a relative sense. From personal experience, the writer notes that Societies using the Kyowa rice Millers, produce rice which are not as well polished and which contains substantial quantity of broken rice.

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See Appendix VII Table 1.

DIAGRAM 4

RICE MILLING - TOTAL (YEARLY) BUSINESS MAGNITUDE AND
 QUANTITY HANDLED BY MONTH, LOONG AIK CO-OPERATIVE
 RICE MILL SOCIETY; 1960-1964.



slowly (and quite irregularly too) to 533.01 piculs in December of that year. (See Appendix VII Table 1). This decrease continued into 1964 up to February when a figure of 459.33 piculs was recorded. In March 1964 the figure rose again. This pattern is evident year after year from 1960. Evidently such a variation is determined by the padi harvesting season. Hence the highest figures are recorded during the padi harvesting months. However this variation is limited in extent: allowing thus a more regulated and constant monthly business for the Society over the year which otherwise would be concentrated only within a few months. This fact also means that the Society is receiving an almost constant monthly revenue from milling.

This monthly variation (for each of the five years) is illustrated in diagram 4. This graph also shows the range of such variations for every year. Such a range is widest when considering the monthly figures for the whole five year period - the highest being in March 1960 when 1,516.54 piculs of padi were milled and the lowest in February 1964 when a figure of 459.33 piculs was recorded.

The other point to be noted is that not only does the monthly variation exist, the yearly totals also varies. This is also illustrated by means of a graph in diagram 4. From 10,966.67 piculs in 1960, the yearly total of padi milled increased slightly to 10,998.82 piculs in 1961.4 It then decreases constantly to 7,368.80 piculs in 1964. Hence the yearly total gross revenue from milling must similarly decrease. This decrease was from \$9,854.10 in 1960 (which represents the total milling receipts for that year) to \$6,620.10 in 1964. This is shown in table 5 below.

The by-products of the milling process are of great commercial importance to the Society.

Bran provides bulk and protein to poultry feed. Hence it is of great market value. Of the two grades of bran produced, fine bran is of a higher quality and fetches a higher price of about \$8.00 a picul compared with \$4.00 for coarse bran. Prices are however not constant, especially with regards to the coarser variety. It was found that throughout the five year period, the price of coarse bran had fluctuated from \$3.00 a picul to \$5.50 a picul. For the fine bran, the price rarely fluctuates above or below \$8.00 a picul.

The sale of bran throughout the five year period does not follow any definite pattern. (See diagram 5.) Sale depended primarily on the conditions of supply and demand and does not reflect the amount of milling done over any period of time. For example in December 1960, when 370.25 piculs of Bran were sold it does not mean that the Society had milled 1371 piculs of padi in that month.⁵ Actually only 723.92 piculs of padi were milled in that month.⁶ The remainder thus represents unsold stock carried over from preceding months.

Revenue from the sale of bran accounts for an average of 60.6 per cent of the total gross earnings of the milling section. Earnings from bran sales in relation to milling receipts and total gross revenue of the milling section is shown in table 5 below.

However it has been pointed out earlier that the amount of milling done by the Society has tended to decline. Hence it is to be expected that the amount of bran produced and receipts from bran sales, ceteris paribus, would similarly show a decline. However the records of the Society, as shown in Table 5 indicates a sharp increase in revenue from bran sales in 1961 and 1964. This is because of the favourable market price (of \$5.50 per picul) for bran in 1961. For 1964, though the amount of padi milled in that year was lower than that of the previous year (by 683.11 piculs)⁷ the amount of bran sold was higher by 354.47 piculs.⁸ This actually represents the unsold stock of Bran bought over from 1963 and sold in 1964. The total quantity of bran sold and the gross revenue earned per year is illustrated in Diagram 6 below.

Although the quantity of broken rice obtained does not amount to much, relatively, (about 4% to 5% by

⁵ This is taking the average ratio of bran to padi milled - that is 100% of padi gives about 27% of Bran.

⁶ See Appendix VII Table II.

⁷ See Appendix VII, Table 1.

⁸ See Appendix VII, Table 2.

DIAGRAM 5

LOONG AIK CO-OPERATIVE RICE MILL SOCIETY; 1960-1964

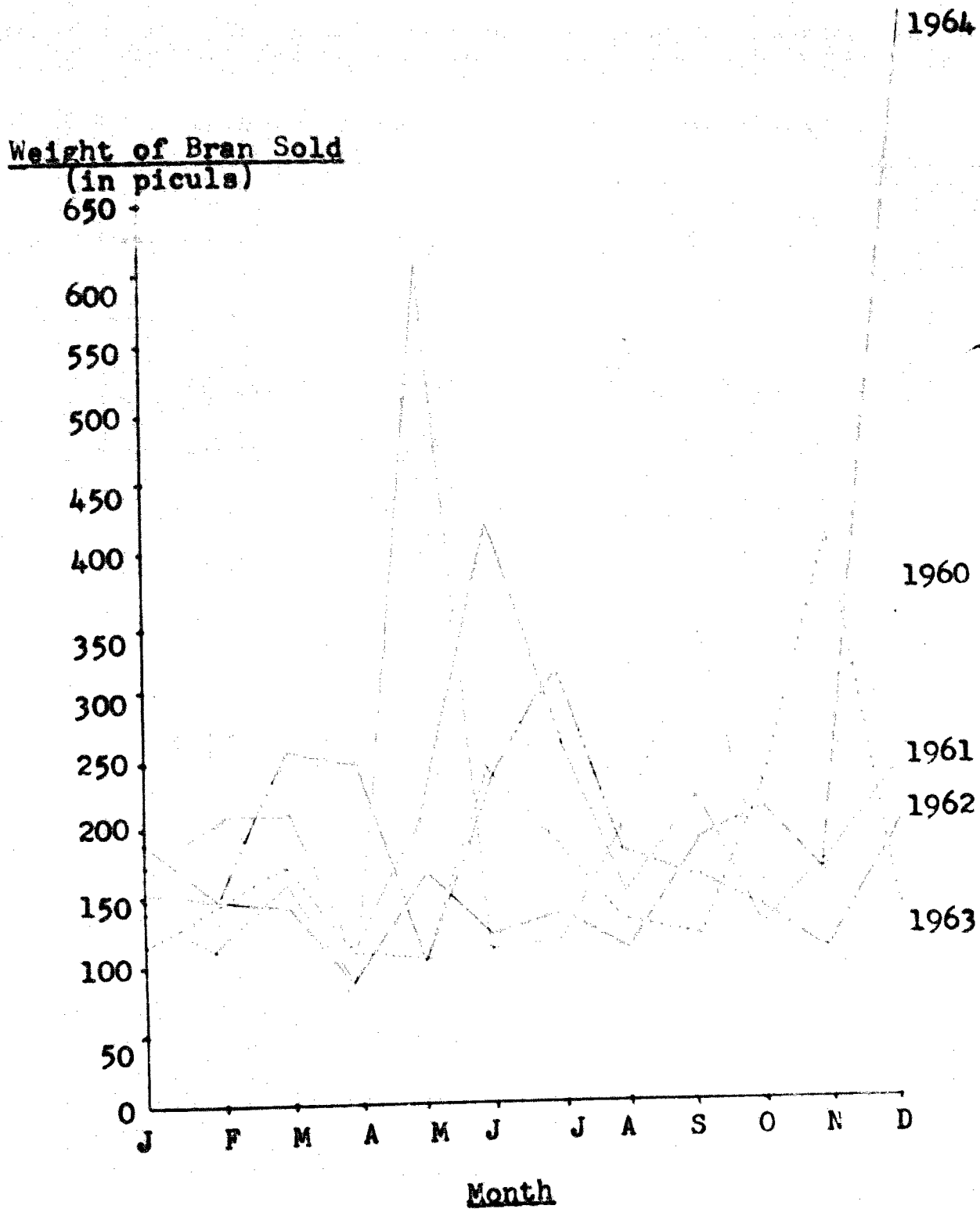


TABLE 5

BRAN SALES, MILLING RECEIPTS AND TOTAL GROSS REVENUE
 LOONG AIK CO-OPERATIVE RICE MILL SOCIETY 1960 - 1964

Year	Bran Sales	Milling Receipts	Total Gross Revenue	Bran Sales as percentage of Total Gross Revenue (approximate)
1960	\$12,590.00	\$9,854.10	\$22,444.10	55%
1961	\$13,560.05	\$9,887.40	\$23,447.45	58%
1962	\$12,468.20	\$7,882.30	\$20,350.50	61%
1963	\$11,679.00	\$7,222.40	\$18,901.40	62%
1964	\$13,019.00	\$6,620.10	\$19,639.10	67%

Source: Cashbook, Loong Aik Co-operative Rice Mill Society, 1960-1964.

wight of padi milled) its commercial value cannot be ignored. It is demanded both for consumption (especially by the poorer farmers) as well as for livestock feedstuff. The market price of broken rice has been relatively very stable - an average of \$0.14 a kati. However considering such a price and the amount of padi milled per year one can expect that the revenue it can earn in a year would be quite substantial.⁹ However, though it is known for fact that the Society had sold its stock of broken rice, the significant point is that it has not been shown in either the Society's records or financial statements. Similarly with regards to the sale of rice. It is known that the Society undertakes the purchasing of padi from members and non-members to be milled into rice and by-products.¹⁰ These are sold by the Society in order to obtain additional revenue. However with the exception of 1960, when \$612.00 was recorded as revenue earned from the sale of rice,¹¹ the Society's financial records for subsequent years show no evidence of any such transactions.

On the expense side, the milling section incurred an average of \$19,025.58 per year, for the five year period. Total expenses for each year from 1960 to 1964 is shown in table 6 below. The most important item on the expense side is the 'salaries and allowances' which in 1961 amounted to \$11,280.00. In 1960 the same item accounted for \$10,880. The figure varies from year to year on account of overtime allowances given to the milling employees. With reference to the Financial Statements of 1961 (see Appendix V.) the other important items are 'Food and allowances' and 'Depreciation expenses' which amounted to \$2,590.20 and \$2,866.98 respectively for that year. Of special significance, is the item of

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For example if 7,368 piculs of padi are milled (as in 1964) in a year, and if 4% is taken as the percentage of broken rice obtained (by weight) of every unit of padi milled, then the amount of broken rice obtained will be in the region of 294.72 piculs. At 0.14 a kati its market value (and hence its potential revenue) will amount to \$4,126.08.

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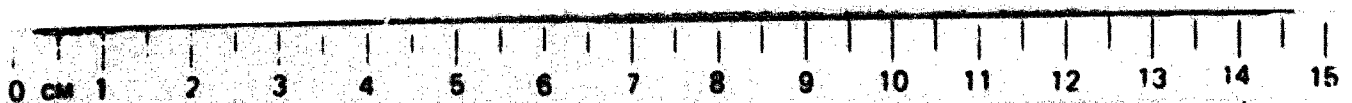
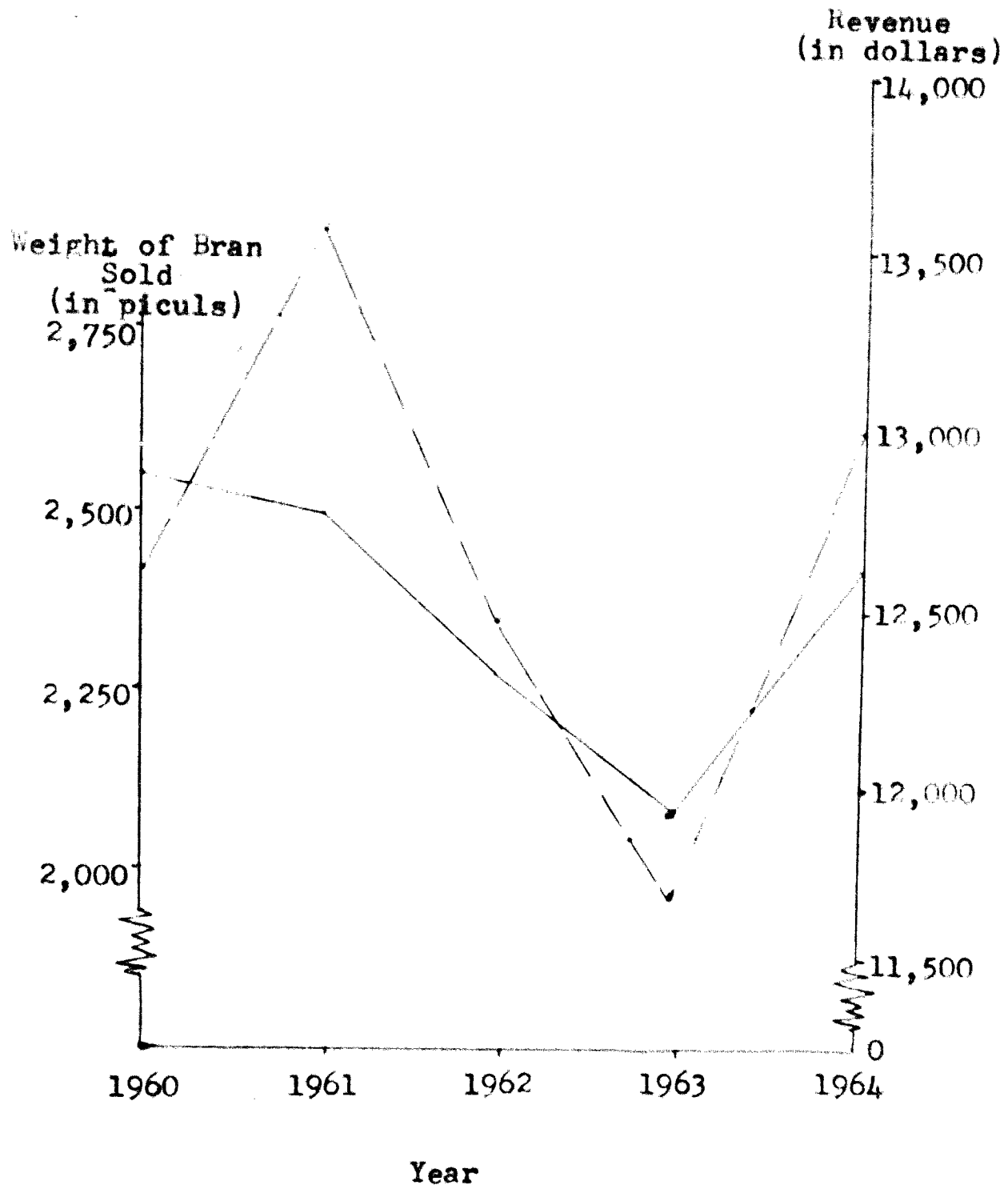
This is provided for by Article 7, Section 5 and 6 of the By-laws of the Loong Aik Co-operative Rice Mill Society. See Appendix I.

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Milling Accounts - Financial Statements of the Loong Aik Co-operative Rice Mill Society.

DIAGRAM 6

BRAN SALES - TOTAL QUANTITY SOLD AND GROSS REVENUE
 LOONG AIK CO-OPERATIVE RICE MILL SOCIETY; 1960-1964



'food and allowances.' This is a very uncommon item. Such an expense item appeared in the milling accounts of the Society as a result of the practice of providing food for the milling employees which in actuality can be considered as additions to their basic salary. Other expense items are 'fuel and oil,' 'spares, printing and stationery', 'traveling expenses', 'upkeep of building', 'insurance', (workers compensation insurance) and 'wages' (for the extra hands employed during peak business periods.)

The large overhead cost on milling should be noted. For example in 1961, expenses for salaries, food, wages, and allowances alone accounted for \$14,124.65 of the total milling expense of \$19,761.07. In 1961 too, 'salaries and allowances' and 'food and allowances' averaged about \$940 and \$217.14 a month.¹²

A problem regarding milling operations concerns the quality of padi sent for milling. Farmers seldom dry their padi. In most cases this is somewhat inevitable. Most farmers do not have the required space in their house compounds to dry the padi; neither can they afford to do it on the padi fields. Hence the padi, especially immediately after harvest, has not been sufficiently dried. This leads to the small turnover of milled rice and at the same time reduces the capacity of the milling machines. The Society has to an extent made a move towards the solving of this problem. It has provided within its premise a cement floored drying yard for use not only by members but also non-members. However this drying yard is too insufficient to cater for all.

On average, the net revenue contribution of the milling section to the total gross profit of the Society amounted to \$1,930.92 a year for the five years. The highest net contribution to gross profit of the Society was in 1961 when a figure of \$3,686.38 was recorded. In 1963 however the Society registered a loss. This loss amounted to \$164.47. This is shown in table 6 below.

This table points out clearly to the Society's need of wide patronage from members and non-members. Since the Society is operating under large overhead costs¹³ this

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See Appendix V.

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Whereby about \$14,124.00 out of total milling costs \$19,761.07 (as in 1961) goes to Salaries, Wages, Food and allowances.

TABLE 6

MILLING OPERATIONS - GROSS REVENUE, EXPENSES AND NET
 PROFIT, - THE SEKINGHAM LOONG AIK CO-OPERATIVE RICE
 MILL SOCIETY - 1960-1964

Year	Total Gross Revenue (Milling Receipts and Bran Sales)	Total Expenses	Net Contribution to Total Gross Profit of the Society	Net Loss
1960	\$22,444.10	\$19,302.25	\$3,141.85	-
1961	23,447.45	19,761.07	3,686.38	-
1962	20,350.50	19,429.89	920.61	-
1963	18,901.40	19,065.87	-	\$164.47
1964	19,639.10	17,568.85	2,070.25	-

Source: Cash Book and Financial Statements 1960-
 1964. - Loong Aik Co-operative Rice
 Mill Society.

is absolutely essential in ensuring that the Society does not incur further losses. However, since the full potential milling business that can be obtained is limited by the Society's area of operations, the alternative would be to reduce operating costs. This the writer feels is feasible, especially if the Committee of Management is made more conscientious in the appropriation of funds.

Padi Marketing

Padi marketing is the only other important function of the Loong Aik Co-operative Rice Mill Society. In this respect, the Co-operative Society provides marketing services for its members as well as non-members. Together with the other three Co-operative Societies in the area (which are the only bodies issued with licenses to purchase padi in the area) the Loong Aik Co-operative Society undertakes the marketing of padi for the whole Sekinchan area.

In respect of padi marketing, every person upon being selected to become a member is required to enter into an agreement with the Society.¹⁴ The form of this agreement which is to be executed in favour of the Society is prescribed by the by-laws.¹⁵ This agreement is actually a written statement of the rights and duties of the member in respect of the operations (padi marketing) of the Society. However the significant point is that such agreements has never even been made between the Society and any of its members at all. Here the question thus emerges as to whether the members are aware at all of their rights and duties as members of the Society. It would certainly seem not.

The Society purchases the farmers' produce (padi) outright. Hence upon purchase from the farmers the Society assumes title over the goods and takes responsibility over its subsequent sale. All profits and losses will then accrue to the Society alone. Members' and non-members' produce are not differentiated and neither does the Society handle separately each individual member's

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See Article 16, By-laws of the Loong Aik Co-operative Rice Mill Society. Appendix I.

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See Appendix II.

produce.

Farmers desirous of selling their padi to the Society could either send their produce direct to the Society on their own expense or request transportation from the Society. The latter however is limited to cases where the farmers wish to sell their produce in bulk. In this respect, the Society will collect the padi from the farmers' houses (through the use of lorries). No charges, either in the form of deductions on the weight of padi bought ~~on~~^{or} a lower price per picul of padi purchased are made by the Society on the farmers for the provision of this service. Such a service could be provided economically by the Society on account of the lay-out of settlement area in Sekinchan (which consists of agglomerations of houses into compact village sites.) Further, competition from the other Co-operative Societies for business volume necessitates the provision of such service.

Due to the necessity of paying rebates on patronage done by the members of the Society, records has to be kept on the amount of padi sold by the members to the Society. This is done by using separate receipt books for members and non-members. While this facilitated ~~the amount~~ the determination of the amount of rebates to be paid it also did away with the necessity of keeping an extra and voluminous record on members' patronage. Further the receipts issued to the members would serve latter as a claim for the actual amount of rebates to which each of them were entitled to.

In order to undertake padi marketing efficiently the Society is equipped with sufficient storage facilities. The storage capacity is 2000 gunny sacks of padi each weighing between 100 to 160 katies. On an average of 130 katies per gunny sack this would amount to 2,600 piculs. Admittedly such a figure is small, considering the amount handled by the Society - which was often in excess of 10,000 piculs a month. However during the height of the marketing season, when business is at its peak such storage capacity was found adequate. This was so because, the padi purchased by the Society need not be stored for any great length of time. During the height of the harvesting season for example, the bulk of the padi purchased in a single day was transported off, on that very same day. At the latest the padi were moved out after two or three days. One factor contributing to this situation is the availability of commercial transport lorries for hire. This has made it possible for the immediate transportation of padi from the Society to its places of consignment.

The padi bought by the Society are sold to two main consumers, which are commercial enterprises undertaking

the milling and sale of rice on large scale. These two are the Tanjong Karang Co-operative Milling Union and the Selangor Rice Millers Association (comprised of several private commercial rice mills) in Kuala Lumpur.

Under the padi marketing scheme of 1960, 1961, 1962, the Society sells its padi to the Tanjong Karang Co-operative Milling Union on a quota basis. This is due to the ~~Union's~~ capacity of the Union in absorbing all the produce handled by its member Societies. The amount in excess of the fixed quota are sold by the Society direct to the Selangor Rice Millers Association in Kuala Lumpur. Generally the business done by the Society with the Rice Millers Association is greater by about three times than that with the Tanjong Karang Co-operative Milling Union. For example in 1962, total net sales of padi to the Union was only 7,102.06 piculs whilst that to the Selangor Rice Millers Association amounted to 21,622.55 piculs.¹⁶ Aside from the limited absorbing capacity of the Union, this situation was brought about by the Association's (Selangor Rice Millers Association) practice of paying commissions to the Society based on the amount of business done with the Association (by weight of net padi sales).¹⁷ This commission was about \$0.20 to \$0.30 for every picul of padi (net) delivered to the Association and amounted to an inducement or incentive for the Society to sell its padi to the Association.

Before the commencement of every marketing season the Society enters into separate agreements with the Tanjong Karang Co-operative Milling Union, and the Selangor Rice Millers Association on the conditions of sale and purchase of padi.¹⁸ The agreements made with the Union and the Association however are both similar in their contents and purposes. Matters outlined in these agreements, among others are the fixation of the minimum price for padi, transportation charges, deductions for

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Financial Records of the Loong Aik Co-operative Rice Mill Society, 1962.

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Personal interview with the Co-operative Officer, Division of Co-operative Development, Kuala Lumpur.

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See Appendix 4 for the full texts of a specimen agreement between the Society and the Selangor Rice Millers Association.

moisture content, disputes and the rights and responsibilities of both parties to the agreement.

However, the Society's marketing scheme for 1963 and 1964 was not wholly similar to that of the preceding years. A change was brought about as a result of a directive sent to the Society from the Ministry of Agriculture and Co-operatives. Accordingly, the Loong Aik Co-operative Rice Mill Society was to sell padi from the crop in its area to or through its Co-operative Milling Union only and not direct to any other private organizations as has been the practice in the past. Secondly, the Society was to employ a standard moisture meter for the purpose of standardizing the measurement of moisture content of padi.

On paper this would mean that the Society has to direct all its sales to the Tanjong Karang Co-operative Milling Union, and instead of purchasing direct from the Society the private organizations (Selangor Rice Millers Associations) had to obtain its supply of padi through the Union. However in practice, this did not change the situation to any significant degree. Due to the limited capacity of the Co-operative Milling Union most of the Society's padi has still to be directed to the private rice millers. In fact lorries from the private mills continued to load padi direct from the Society and transport it back to Kuala Lumpur. The only difference was in the paper work involved between the Union, private Rice Mills and the Society. The private rice millers had to have their permits and papers endorsed by the Union and the Society. The other important aspect of the directive is regarding the use of a moisture meter for the purpose of standardizing the measurement of the moisture content of padi. The Society was to use this meter in purchasing padi from the farmers. According to the existing government regulated scheme,¹⁹ dry padi (of marketable quality) is expressed as 12% moisture content. Beyond this the Society is allowed to make deductions. Accordingly the scheme is as follows (Table 7).

Beyond 18% moisture content the Society is allowed to reject the padi altogether. Such a detailed scheme was however never outlined in the agreements made (every year from 1960 to 1964) between the Society and its buyers. All that was stated was "No deduction will be made for normal moisture content of below 12% or dirt content."²⁰

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¹⁹ Through the Ministry of Commerce and Industry.

²⁰ See Appendix 4, Item 5.

TABLE 7

SCHEME ON DEDUCTIONS FOR MOISTURE CONTENT ON PADI PURCHASES

Moisture Content of Padi	Deductions allowed (as % of gross padi weight)
13 to 15%	2%
15 to 17%	4%
17 to 18%	7%

Source: Personal interview; Division of Co-operative Development.

However, although the Society acquired such a moisture meter, this has never been made used of. In the first place, the use of a moisture meter is too time consuming. Secondly it entails some amount of complications on price fixation. Every gunny sack of padi to be purchased must be made, and price has to be calculated based on the net weight of the padi. There are also limitations to the efficient use of the meter. For instance different parts of the gunny sack sometimes give different readings. More serious still is the farmers' objection to having their produce inspected or deducted or even refused altogether. However, the most important reason is provided for by the policy of the Tanjong Karang Co-operative Milling Union and the Selangor Rice Millers Association with regards to the purchase of padi from the Society. These two did not make a similar use of the moisture meter. Instead deductions for moisture content were made at a flat rate ranging between 6 to 10 per cent of gross padi weight. Hence it is to its obvious disadvantage, if the Society complies with the Government regulated scheme. For while this may mean a decrease in business volume (since padi with moisture content above 18% may be rejected) the deductions made by the Society for its purchases will not be at par with those made by the Society's buyers.

"must be inspected, the correct deductions based on its moisture content"

In the marketing of padi, there is a need for a large operating capital. This is especially so in the initial stages of the marketing season (which coincides with the beginning of the padi harvesting season) when purchases has to be made with Society's own capital funds. The need for capital becomes less acute when the marketing season is well under way, since receipts from sales could be rotated to pay for purchases. Hence before nearly every marketing season, loans were applied from the government through the Tanjong Karang Milling Union, at a nominal interest rate of 6% per annum. These loans for 1960 and 1962 amounted to \$20,000 for each respective year. For 1963 this was increased to \$30,000. The same amount was applied for in 1964. The Society did not take any loans in 1961. Throughout the five year period, these loans have always been repaid in full within two months, that is by the end of the marketing season. Thus the amount of interest payable was kept at the very minimum.

Mention must now be made on the system of pricing adopted in the marketing scheme of the Society. Firstly the selling price. This is determined by the separate agreements made between the Society and the Tanjong Karang Co-operative Milling Union and Selangor Rice Millers' Association.²¹ Accordingly "the price of padi of fair marketable quality will be \$15.00 per-picul ex-Tanjong Karang or \$14.70 per picul loaded onto lorry ex-Sekinchan." In 1964 however this guaranteed minimum price was raised to \$16.00 ex-Tanjong Karang or \$15.80 ex-Sekinchan. This price however is for the net quantity of padi sold - after the deductions for moisture content and dirt were made. The difference between the price ex-Tanjong Karang and the price ex-Sekinchan (which is 30 cents) actually represents the transportation cost from the Society to Tanjong Karang which has to be borne by the seller. In case of a sale to Petaling Jaya, then, the purchaser (Selangor Rice Miller's Association) pays for the transport cost from Tanjong Karang to Petaling Jaya. The transportation cost from Sekinchan to Tanjong Karang however varies with the years; from \$0.20 to \$0.30 per picul.

With regards to the buying price, this is basically fixed by an agreement reached between all the Co-operative Societies in the Sekinchan area. Rather than risking a price competition (due to the fact that all the Societies have the same area of operations) in order to achieve maximum business volume, such a move was made.

However this price agreed upon is determined in the first place by several other factors. Most important is the deduction for dirt and moisture content made by the Society's buyers. On average, these deductions made by both the Union and the private millers amounted to a flat rate of 9% of gross padi sales.²² Moisture deduction is always at its highest at the beginning of the marketing season (10% of gross sales by weight) diminishing slowly to about 6% or 8% at the end of the season.²³ Since the Society does not make a similar deduction on its purchases of padi from the farmers, the value of the equivalent amount is deducted from the price due to the farmers. And since the moisture deduction diminishes with the period of the marketing season, this amount (deductable from the price paid to the farmers) similarly diminishes.²⁴

Another important factor is the margin needed by the Society to cover its overhead marketing costs like salaries and allowances, food expenses and travelling expenses. (See table 9). However, throughout the five year period the margin deducted by the Society did not remain constant. For example at the end of the marketing season

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This is in absolute terms, that is, weight of padi deducted for moisture content and dirt over the weight of gross padi sales. In percentage terms, this average is lower. For example in 1960 with a maximum moisture content deduction of 10% and a minimum of 6% the average deduction will come to 8% of gross sales.

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This is done on the basis that padi sold at the end of the marketing season are those which has been stored for a relatively longer period of time and hence has a lower moisture content.

24

For example at the beginning of the marketing season in 1960, deductions for moisture content made by the Union (and the Millers Association) was at 10% of gross sale. The price at which the Society sells its padi was \$14.70 per picul ex-Sekinchan. From this selling price of \$14.70 per picul the Society thus deducted 10% or \$1.47 to cover the deductions made by the Union and Millers Association, on the Society's gross sales. At the end of the 1960 marketing season, the deductions for moisture content fell to 6% of gross sales. Hence the deductions made by the Society on the price (of \$14.70 per picul) was \$0.88.

in 1963, the Society operated on a marketing margin which was as low as \$0.04 a picul. This is no doubt an exceptional situation, which was brought about by the Society's determination to compete with the prices in the blackmarket.

The other deduction made on the guaranteed minimum price is the handling charge. This is for the loading of gunny sack into lorries and amounted to 12 cents a gunny sack of padi.

After all these deduction are made the final price to be paid to the farmers will be fixed by an agreement between the Management Committees representing all the Societies in the area. As deductions for moisture content made on sales are decreased, fresh agreements are made to determine the new purchasing price of padi. Hence prices received by the farmers increase to the maximum amount by the end of the marketing season. The method of arriving at this price is shown below. (Table 8)

Table 9 below shows a concise overall picture on the padi marketing situation over the period of 5 years.

From this price analysis, it can be noted that the difference between the GMP and the price paid to farmers per picul of padi (except for 1963 and 1964) amounted to an average of about \$2.20. A substantial portion of this (about half) represents the deduction made for moisture and dirt. However this deduction which is based on an average flat rate of 9% of gross sales is essentially arbitrarily determined. As such the guaranteed minimum price imposed by the government was rendered ineffective, since the deductions made (which are not in accordance with the government regulated scheme) tended, on the whole, to become too excessive thereby absorbing much of the benefits of a high GMP.

The remaining portion, which amounted to about \$0.90 represents the marketing costs for every picul of padi. This is made up of transport charges, handling charges and margins for overheads (like salaries, wages travelling allowances and food allowances).

Hence from a GMP of \$15.00 per picul ex-Tanjong Karang, (1960-1963) an average of 86.9% of the price goes to the farmers, 4.8% goes as marketing costs and margin to the society, while the remainder (8.3%) amounted to the deductions made by the society on the price to cover similar deductions (for moisture and dirt) made by the Union or Milers Association & the Societys' Gross Scales (by weight). A similar situation prevailed in 1964.

With regards to the marketing costs over the years, wages, salaries and allowances accounted for over

TABLE 8

PRICING METHOD ADOPTED BY THE LOON AIK CO-
OPERATIVE RICE MILL SOCIETY 1960-1962 *

Price at the Society's level (per picul)

Guaranteed minimum price (GMP)	\$15.00
Transport charges	0.30
Price to the Society (per picul)	<u>14.70 *</u>

Price at the farmer's level

Price to the Society	14.70
Deduction on price for moisture and dirt \$1.47	
Deduction for handling charge 0.12	
Deduction for marketing margin 0.51	<u>2.10</u>
Net Price to farmers. (per picul)	<u>12.60 †</u>

* The position in 1963 and 1964 differed slightly on account of the fact that the G.M.P. for 1964 was \$16.00 a picul and the transport charges in 1963 was \$0.25 a picul.

† This \$14.70 per picul (net price to the Society) is on net sales after deductions (by weight) for moisture and dirt.

* The net price to farmers' is however on the gross weight of purchases. No deductions on purchases are made by the Society, except for 2 katies-which represents the weight of a gunny sack.

Source: Personal interview with the Committee of Management, Loong Aik Co-operative Rice Mill Society.

TABLE 9
PADI MARKETING-PRICES, DEDUCTIONS AND MARKETING MARGINS
LOONG AIK CO-OPERATIVE RICE MILL SOCIETY 1960-1964

Year	Guaranteed Minimum Price (per picul)	Price to Society (per picul)	Deductions for Moisture and Dirt as percentage of gross sales (per picul)			Net Prices to Farmers (per picul)			Marketing Margin (per picul)			Deductions on Price made by the society (per picul)		
			Beginning of season (Maximum)	End of season (Min.)	Average	Beginning (Minimum)	End (Max.)	Average	Maximum (Begin.)	Minimum (End)	Average	Max. (Begin.)	Min. (End)	Average
1960	\$15.00	\$14.70	10%	6%	8%	\$12.60	\$12.50	\$12.80	\$0.51	\$0.20	\$0.46	\$1.47	\$0.88	\$1.32
1961	\$15.00	\$14.70	10%	6%	8%	\$12.60	\$12.50	\$12.80	\$0.51	\$0.20	\$0.46	\$1.47	\$0.88	\$1.32
1962	\$15.00	\$14.70	10%	6%	8%	\$12.60	\$12.50	\$12.80	\$0.51	\$0.20	\$0.46	\$1.47	\$0.88	\$1.32
1963	\$15.00	\$14.75	10%	6%	8%	\$12.70	\$12.70	\$12.25	\$0.45	\$0.04	\$0.20	\$1.48	\$0.80	\$1.18
1964	\$16.00	\$15.80	10%	8%	9%	\$12.60	\$14.20	\$12.90	\$0.50	\$0.12	\$0.26	\$1.58	\$1.86	\$1.42

SOURCE: (1) Inspection Reports made by the cooperative officer, Division of Co-operative Development.

(11) Padi Sales book, Padi book - Loong Aik co-operative Rice Mill Society 1960-1964.

50% of total costs. For example in 1961, out of \$16,249.55 (which represents the total marketing expenses incurred by the Society in that year) \$8,887.48 or 54.7% was incurred as payment to wages, salaries and allowances.²⁵ Other important items are handling charges and lorry transport which in 1961 amounted to \$15,580.63 and \$1,290.84 respectively. The other remaining expense items are food allowances, travelling allowances, printing and stationery, interest on loans and other miscellaneous expenses.

In respect of the actual purchases and sales of padi, though this is mainly confined within the harvesting months (of February, March and April) it does not preclude the carrying out of marketing activities in the other months of the year. This is especially with regards to purchases though the amount handled is relatively insignificant when compared in the peak months of the marketing season. This situation is graphically illustrated in Diagram 7. This diagram shows that the bulk of padi purchases in any one year were made in the months of February, March and April - with its peak month, March, coinciding with the peak harvesting season. Such a tendency is however not so evident in respect of padi sales. (See diagram 8)

Table 10 below shows the yearly totals of purchases, sales and revenue for padi marketing for the period 1960-1964. It must be noted here that the amounts shown under total deductions for any one year, represents the difference between the gross purchases and net sales. This difference is accounted for by two factors:

- a) Deductions for moisture and dirt.
- b) Shortages.

Shortages, refer in the difference in the weight of padi recorded at the Society and those recorded at either the Tanjong Karang Co-operative Milling Union or Selangor Rice Millers Association (Petaling Jaya). This may be due to a number of reasons, namely shrinkage,²⁶ wrong measurement and pilferage. However the proportion of sales (by weight) lost through shortages is practically negligible. For example in the 1962 marketing season, this amounted to only 76.47 piculs. Accordingly, the

25

See Appendix V. Padi Accounts.

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defined here as reduction in the weight of padi due to loss of moisture content such as is caused by heat, and prolonged storage.

DIAGRAM 7

PADI PURCHASES(GROSS) - QUANTITY HANDLED BY MONTH
 LOONG AIK CO-OPERATIVE RICE MILL SOCIETY 1960-1964

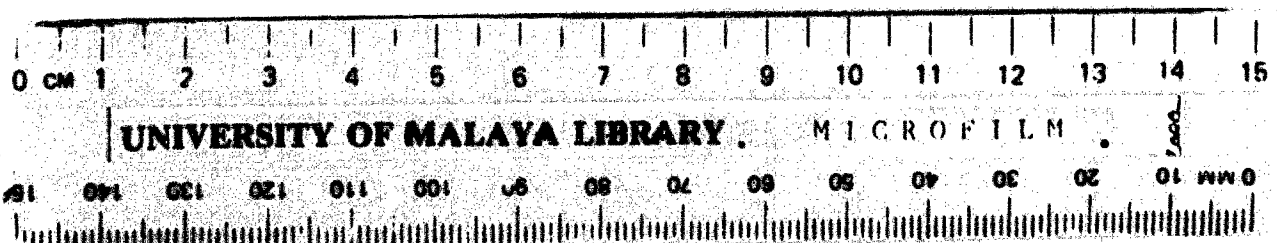
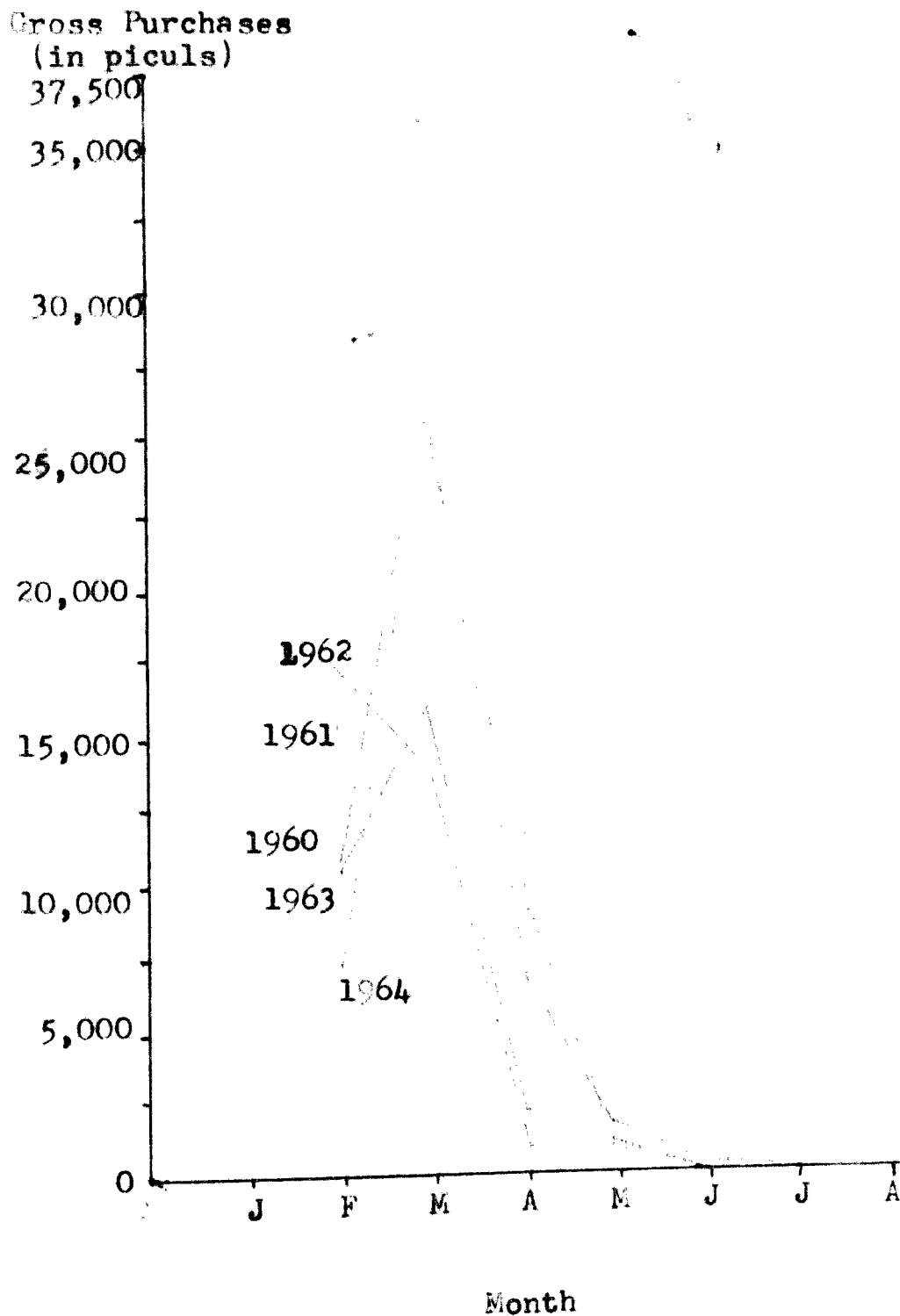
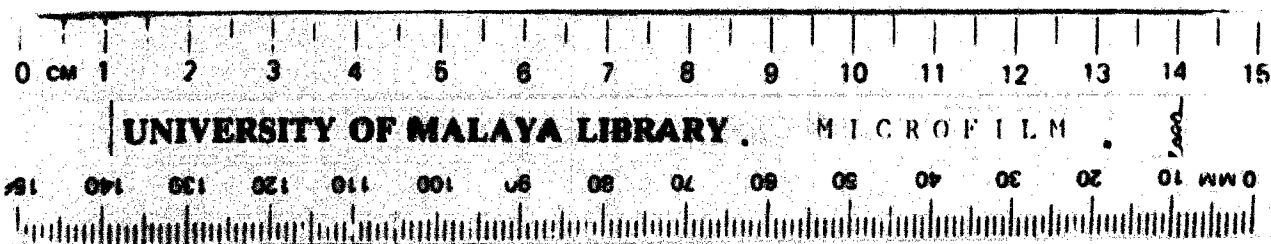
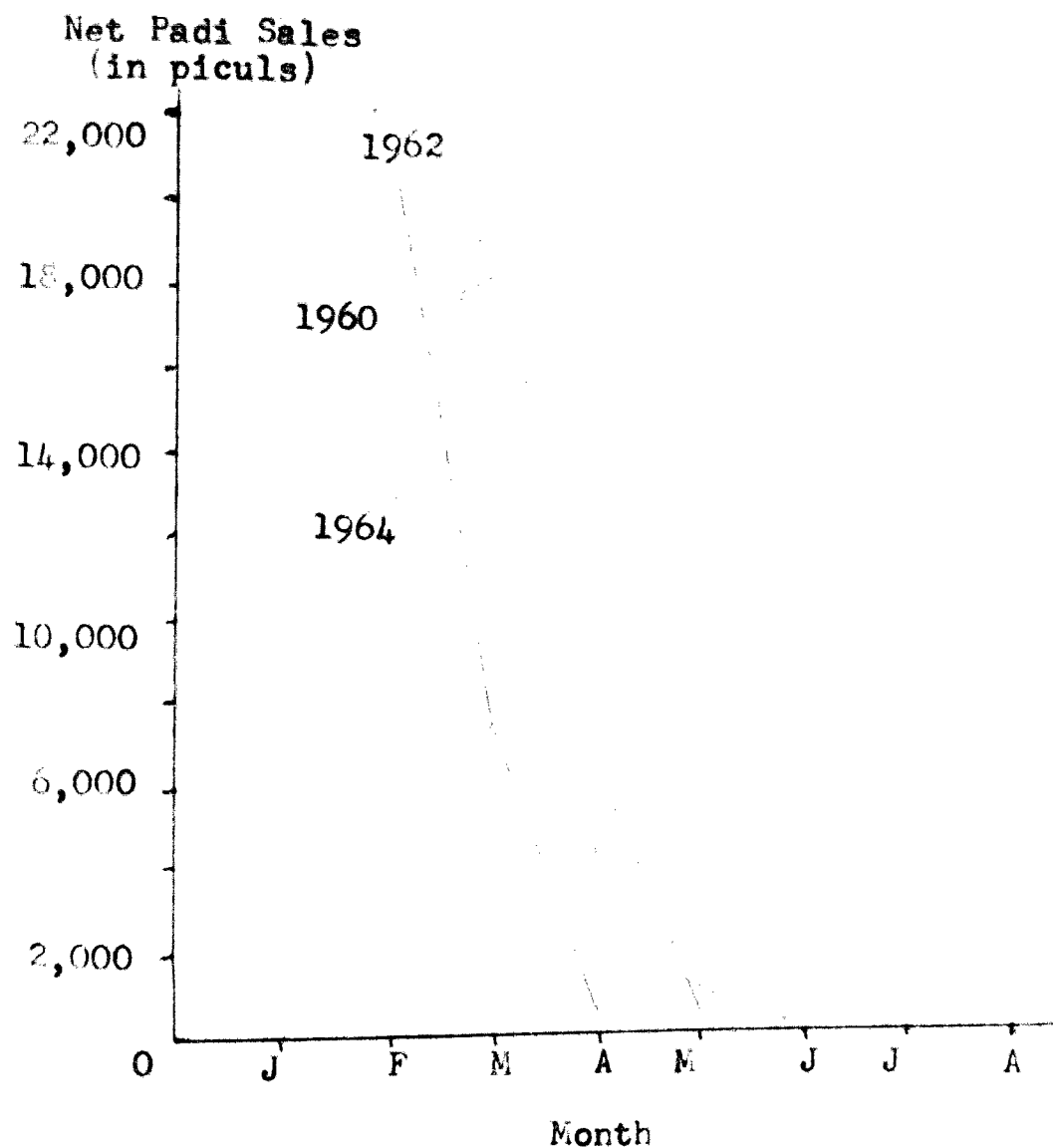


DIAGRAM 8

PADI SALES(NET) - QUANTITY HANDLED BY MONTH
 LOONG AIK CO-OPERATIVE RICE MILL SOCIETY, 1960, 1962, 1964



revenue lost on account of this shortage was \$1,102.50.²⁷

With reference to Table 10, attention must also be drawn to 1963. A net loss of \$1,753.97 was recorded for this year. The principal cause of this was the competition in padi purchases, between the Society and the blackmarketeers operating in the area. For example (with reference to Table 10) towards the end of the marketing season, the situation was such that the buying price of padi was raised to a maximum of \$13.70 a picul to compete with the prices offered by the unlicensed agents. This was carried out at the expense of a low marketing margin of only \$0.04 a picul. Throughout the padi marketing season prices in the blackmarket and those made by the Society differed by about \$0.30 per picul. At the start of the marketing season, the price padi by the Society for its purchases was \$12.70 per picul, while that in the blackmarket was at \$13.00. However when the Society, in retaliation increased its price to \$13.10 a picul the blackmarketeers offered \$13.40 a picul; the price in the black-market rose to \$13.70 - which ultimately was the price paid by the Society to the farmers at the end of the marketing season.²⁸ This price difference thus, while it serves to draw the business away from the Society, it also forces (though its price raising tendency) the Society to operate on a lower marketing margin. The net result is a loss in the economies of scale (thereby increasing the cost per unit of padi marketed), a smaller margin to cover overheads and consequently a net loss in operations.

Blackmarketing as carried out by unlicensed agents was chiefly prevalent in 1962 and 1963. However, it affected the Society most in 1963. In 1962, the damage done on the Society's business was quite substantial too. In that year the Society reported that it is doing only half the amount of business done the previous year.²⁹

27

Inspection Reports, made by the Co-operative Officer from the Division of Co-operative Development.

28

Inspection Reports, made by the Co-operative Officer from the Division of Co-operative Development; dated 27.2.1963 and 26.3.1963.

29

Inspection report, made by the Co-operative Officer, Division of Co-operative Development; dated 30.3.1962.

TABLE 10

PADI MARKETING - YEARLY TOTALS OF PURCHASES, SALES AND REVENUE
 LOONG AIK CO-OPERATIVE RICE MILL SOCIETY 1960-1964

Year	Gross Purchases (in piculs)	Value of Gross purchases	Total Deductions (in piculs) ^a	Net Sales (in piculs)	Value of Net sales	Net Contribution to Gross profit of the Society	Net Loss
1960	45,381.23	\$581,124.51	4,437.62	40,943.61	\$630,799.99	\$6,015.01	-
1961	63,486.93	\$810,323.58	6,130.97	57,355.96	\$869,986.77	\$11,308.59	
1962	31,879.35	\$407,173.23	3,154.74	28,724.61	\$427,302.23	\$5,253.58	
1963	29,626.70	\$397,653.68	2,245.70	27,381.00	\$421,340.13	\$ -	\$1,753.97
1964	43,912.97	\$610,419.64	3,949.97	39,963.00	\$642,734.05	\$4,565.90	

^a This included shortages and deductions for moisture and dirt.

SOURCE: Padi Sales Book, Padi Purchase Book, Cash Book and Padi Accounts (from the financial statements); Loong Aik Co-operative Rice Mill Society; 1960-1964.

Hence it is evident that blackmarketing constituted the biggest problem faced by the Society in padi marketing in the five year period.

There are also allegations of unfair practices made at the other end of the marketing chain, the Millers at Petaling Jaya. The first is with regards to transportation. Though, taking the five years as a whole this does not constitute as a real problem, there were times, especially in 1961 when great difficulty was experienced in obtaining lorry transport; lorry drivers had even to be bribed and persuaded to do this task. Further, unloading at the mills in Petaling Jaya was often held up with considerable delays causing the undertaking of lorry transport for padi uneconomic. This may be perhaps the delaying tactics of the millers who are under contractual obligation to purchase all padi at mill door while the storage and stock conditions do not permit.³⁰