HVA AND THE NATIONALISATION OF THE SUGAR INDUSTRY IN ETHIOPIA

by

Robin Murray

Fellow of the Institute of Development Studies, University of Sussex

May 1976

Contents

		Page
1.	HVA in Ethiopia: the background	1
2.	The valuation of net assets	7
3.	Finance and Foreign Exchange	19
	i) Value and source of capital contributions	
	ii) Rates of return	
4.	International Comparisons	36
5.	The context of profit	46
	i) Protection	
	ii) Political alliances	
	iii) The conditions of labour	
6.	Nationalisation and HVA	56
7.	Nationalisation and Ethiopia	60
8.	Summary and conclusions	68

HVA in Ethiopia: The background

1. The Company. HVA is the largest manufacturing company in Ethiopia, both by sales and value added. Since its initial agreement with the Ethiopian government in 1951, it has developed three sugar mills and complementary plantations, at Wonji, Shoa and Matahara in the Awash valley. From a figure of 15,850 metric tons in 1955, production of sugar has increased to 120,658 tons in 1974, making Ethiopia the seventh largest producer of cane sugar in Africa. Sales in that year were E$ 85.2m., and net assets E$123.6m.[1] Under the nationalisation decree, the group has been taken under 'majority' government control rather than fully nationalised, but even so any decision to compensate the shareholders according to the net worth as shown in the books would constitute a major drain on Ethiopian funds. Any decision not to compensate at a level agreeable to the major foreign stockholders would, it is feared, threaten production at the estates and thus an important part of Ethiopian production.

2. This paper is therefore principally concerned with the financial and technical aspects of the nationalisation of HVA. In order to analyse either of these adequately it is necessary to look at them from an international perspective, to see the role that Ethiopia has played in HVA's international expansion and, from Ethiopia's point of view, the extent that alternative sources of production technology are needed and available internationally.

3. Origins and Development. The control of the HVA group in Ethiopia is in the hands of a Dutch sugar company of

the same name (its full name is Verenigde HVA Maatschappijen of Amsterdam). The Dutch firm was founded as an agricultural bank with trading interests in Indonesia in 1878, and extended its operation into direct production of sugar - mainly as the result of defaults on loans or bills by sugar companies in its debt. It also moved into the production of coffee, tapioca, oil palm, sisal, tea and rubber. Its consistent expansion and diversification made it into one of the leading companies in Indonesia. Two recent historians of the country described HVA as "one of the leading promoters of new enterprise" during the 20th century.[2] By 1930 HVA was one of the two largest national sugar companies in a country (Java) which rivalled Cuba as the world's leading cane sugar producer. It operated 15 sugar plantations and its Djatiroto mill near Malang, producing 49,854 tons of sugar in 1940, was the fourth largest in the world.[3]

4. During the war HVA's Indonesian assets were expropriated by the Japanese. Some fell into decay, others were transported to Japan. HVA's activities were limited to trading in commodities internationally. After the war (in 1946) HVA returned to Indonesia and began rebuilding their estates in unfavourable conditions. Two mills had been damaged beyond repair, another five had been found with nothing of any value left intact, while three were back in production by 1948-50. There were also four mills (Kentjong, Tegowangi, Kunir and Gunungsari) which had enough plant to be under consideration for rehabilitation in 1949-50. That they were not reconstructed was primarily due to the new power of the labour movement, notably after Independence was won in 1949. Wages were raised above what HVA themselves acknowledged were 'insufficient' levels. A seven hour day, and a 40 hour

working week were introduced with increased rates for overtime. There were strikes on the sugar estates, and the cane itself was attacked (in the season 1950-1 over one-fifth of the cane produced in Java was either stolen, destroyed or burnt).[4] In Indonesia as a whole HVA faced rising rents, the squatting of their lands by small cultivators, and strikes in Sumatra. Six HVA expatriates were murdered between 1949 and 1950. According to the Company's Annual Report in 1950 labour's action "threatened the large scale agricultural enterprises with annihilation" (p.15) and the general situation had "assumed a character of such gravity as to fill us with growing anxiety regarding the running of our Indonesian enterprises" (p.9). It was against this background that HVA decided to switch the focus of their expansion to Ethiopia.[5]

5. Terms and conditions in Ethiopia. The conditions which HVA found for operating in Ethiopia were in striking contrast to those in Indonesia. The country was still largely pre-capitalist, and was under the strong centralised rule of an absolutist monarch, the Emporer Haile Salassie. The supply of wage labour while still rudimentary promised to be adequate, and labour organisation (a major problem in Indonesia) was extremely weak. Further the initial agreement concluded between the Emporer and HVA in June 1951 (whose provision still held in the main up to the nationalisation in 1975) guaranteed three other spheres which had run into difficulty in Indonesia, rent, tax and foreign exchange, and added some further conditions for protection of HVA against competition from rival sugar producers.

6. The main provisions were as follows:

i) Rent.

HVA were to pay a rent of E$1 per annum to the government for each gasha of 40 hectares for the

first three years, then E$15 per gasha for the next two, then E$60 for the next five years, and finally E$110 for the remainder of the 60 year lease period. This still amounted to less than 1 US $ per hectare even at the height of the payments, an extraordinarily low rent for land which was to become one of the most fertile sugar producing areas in the world. (article 2).

ii) Tax.

HVA would be free from income tax on profits made during the first five years of production 'from the day on which production started'. (article 18); after this period HVA would only be subject to Government Income Taxes and not taxes levied on income or profits by any sub unit in Ethiopia (province etc). (article 20).

In Indonesia, HVA were paying more than 50% of their profits in tax, quite apart from further deductions on repatriations.

All goods imported for capital investment were to be free of customs duties, education tax, income tax and other 'imposts'. (article 22).

iii) Capital transfers.

- HVA would be permitted the foreign exchange for imports repatriations, the payment of management fees etc. The amount of profit remitted was to be anything up to the equivalent of profit from the previous year, with a limit of 15% of the foreign capital invested in Ethiopia. HVA could also remit amortisation up to 10% of the foreign capital invested in Ethiopia (foreign capital defined as foreign capital brought into Ethiopia plus retained earnings, all understood as capital invested at cost). (article 24).

- these permissable remittances should be constant in value in terms of the Dutch guilder. (article 24).
- expatriate personnel should have freedom to remit up to 30% of their salaries. (article 24).
- HVA should have freedom to remit outstanding capital after liquidation. (article 24).
- HVA should have the freedom to re-export machinery and equipment without being subject to export taxes. (article 25).

These provisions for the movement of funds across the exchanges should be seen in the context of those that had been introduced in Indonesia, which required HVA to purchase foreign exchange for machine imports, personnel payments, profit and dividend repatriations, at 50% above the rate of exchanges received by HVA for their exports.

iv) Protection.

No other sugar factory was to be allowed to establish itself within 100 kilometres of the area leased to HVA for a period of 15 years. (article 11).
The government would protect HVA against cheaper imports of sugar from abroad by 'such measures as it may deem necessary in order to protect HVA from such unfair competition in the domestic market". (article 12).

v) Length of agreement.

The lease was to last for 60 years, renewable under the same terms for a further 30 years, save for 15 years notice either side. (article 1).

7. Given a divided and disciplined labour force, HVA's main concerns may be summarised thus:

i) to establish monopoly guarantees with respect to tariff protection, franchises on land and so on.

ii) to ensure low rates of taxation from surplus realised from this monopoly position (income tax exemptions, exemption from tax on exports, low rents).

iii) to maintain freedom to move the net surplus realised as a result of this monopoly position to areas in the world where it was required for dividend payment or re-investment (freedom of remittance, and payment of management fees).

The 1951 agreement (and future modifications of this agreement) was designed to meet these concerns. It formed the basis for the build up of the Ethiopian operations, and after the Indonesian nationalisations in 1958, for the replacement of Indonesia by Ethiopia as the principle source of profit for HVA Amsterdam for the next 15 years.

8. Organisational forms and HVA's claims. Initially HVA operated directly with an Ethiopian branch. In 1958, a new company was set up, HVA (Ethiopia) in which HVA had an 80% holding, and Ethiopian shareholders 20%. The management remained, by means of a service agreement, in the hands of HVA. With the prospect of developing sugar production at Matahara, a new company was established, HVA (Matahara) in which HVA (Ethiopia) took a 44% holding, and HVA International 7%, the remainder being subscribed by the IFC Washington (10%), Ethiopian public bodies (23%) and local Ethiopian capital (16%). Again HVA International ran the operation under a management services agreement. Thus HVA's total contribution to the equity of the Ethiopian subsidiaries amounts to 80% of HVA (Ethiopia) and 7% of HVA (Matahara). When this is applied to the net asset figures it yields an overall claim of 51.9% of the net worth of both companies, or 64.2m.E$ out of a total of E$123.6m.

II

The valuation of net assets

9. The draft compensation code indicated that a net asset basis for compensation would be adjusted to take account of over-pricing, second-hand machinery, asset revaluations, manipulation of depreciation rates, as well as extent of foreign capital committed and the foreign exchange balance on capital account over the lifetime of the project. Although the draft code has been shelved in favour of a more general terms of reference for the compensation commission, I have presumed that the commission will still be interested in the above details of the valuation of HVA's claim.

10. In HVA's case it is necessary to go back to the 1950's and see its build up in Ethiopia in the context of the Indonesian situation described above. The initial project at Wonji was estimated by HVA in 1951 at E$10m. When the branch was capitalised in 1958, however, the value of the Dutch parent's holding was given as E$28.2m. and this latter figure is crucial in the subsequent increase of HVA's stake.

11. It is difficult to check the accuracy of the 1958 estimate. No branch accounts for HVA in Ethiopia were published prior to the capitalisation. However, evidence does exist from both Ethiopian and Dutch sources to suggest that the E$28m. is an overestimate. The evidence is as follows:

(i) Tate and Lyle in a study prepared for the Ethiopian government in 1969 considered the investment figure for Wonji and the later Shoa factory (1962) to be 43% more than their experience of similar projects (i.e. costs would normally be 70% of those declared by HVA). For Wonji this would imply a value of E$19.7m. as against E$28.2m.[6]

(ii) The estimated cost of a sugar factory at the time of Wonji's construction was in the region of $250 US per ton of sugar produced, a figure which includes the cost of land, preparation, infrastructure as well as direct production costs. In 1955 Wonji produced 15,850 tons of sugar. At US$250 or E$625 per ton, this would imply an investment of E$9.9m., a figure close to the E$10m. initially estimated by HVA in 1951.

By 1958 Wonji had a capacity of 25,000 tons of sugar per year, and had produced 26,050 tons in 1957. Using the mid 50's cost per ton, we get an expected investment value of E$15,625,000. This figure would allow for any diseconomies of scale in the E$10m. estimate for the original Wonji plant, though it must be noted that HVA's original estimate was for a small plant, with room for extension.

(iii) The HVA Head Office accounts for 1954 allow some basis of comparison of stated asset values with those that would be 'expected' according to world investment cost levels. At the end of 1954, Ethiopian Fixed Assets and Inventory are stated at E$16.7m. This we can see is a significant cost overrun compared to the initial estimate at a time of stable prices.

This same report estimates the cost of the extension of the factory at just under E$3m. If we deduct this from our expected figure for a 25,000 ton factory, it would give an expected cost for the first stage of E$12,625,000. This in turn suggests that already by 1954 the assets had been over-stated in the books by E$4m.

Given that HVA were doing their own purchasing abroad, that their accounts were not open to public scrutiny within Ethiopia, and that Ethiopian conditions could in many ways be considered more favourable than the average, then clearly some account must be given to explain this discrepancy.

Some explanation must also be given for the overrun on the extension. Price Waterhouse in their 1958 report at the time of capitalisation, said that E$6,356,508 of the asset value at cost had been contributed after the 1955 milling season. This is over twice HVA's own estimate for the extension. It will be necessary to look at the Price Waterhouse document once more to clarify what other costs are included in their post-1955 figure in addition to the cost of the extension.

Table 1 is a summary of the evidence presented above:

Table 1.

Growth of Fixed Assets at cost at Wonji, and alternative estimates

	Output in metric tons of sugar	Fixed Assets at Cost (E$)	Alternative estimates (E$)* Tate & Lyle	Viton(a)	Viton(b)
1952	-	6,387,318			
1953	-	13,900,000			
1954	2,653	16,700,000			
1955	15,850	18,930,000**			
1956	16,170	21,433,307			
1957	26,050	24,068,652			
1958	32,504	25,563,534	17,894,473	15,625,000	18,750,000

Notes: * The T & L estimate is 70% of stated fixed assets at cost. The Viton estimates are at E$625 a ton for 25,000 tons and 30,000 tons p.a. respectively.

** Calculated from depreciation figures for 1955, assuming HVA's practise of 2½% rate of depreciation.

Sources: HVA Head Office Accounts 1954 and Branch Accounts 1956-8, Tate & Lyle (1969) and Viton (1969).

Even taking the highest alternative estimate, Viton (b), the figures suggest a discrepancy of E$6.8m. on the value of fixed assets, for which no explanation has yet been given.

(iv) Initial machinery. There is the further question of whether the original machinery should even be valued at the 'normal' rate ruling on the world market at the time. When I visited Wonji with an official from the Ministry of National Resources Development we were both independently told by Ethiopian technicians that

the plant was in part second hand and had been in operation elsewhere. In the presence of a Dutch engineer who challenged this statement the Ethiopian technical manager insisted he had seen documents in the files on this. He believed they had come from Indonesia. The Dutchman said that he had understood that some of the plant had been in store at the Dutch machine suppliers Stork, rather than being specially constructed as is usual in the sugar industry.

Clearly the documents in the files will need to be found. At this stage we need only remember HVA's position when it signed the Agreement with Ethiopia in June 1951. The company had four potentially repairable mills in Indonesia which it decided to scrap because of the labour militancy locally and at government level. It was short of cash because of its reliance on Indonesian profits for its international cash flow, and these profits were subject to a severe exchange rate on repatriations introduced by the new Indonesian government in 1950.

Stork undertook the supply of machinery to Wonji (a number of the machines still have Stork 1953 stamped on them), but it seems probable, given the statements of the technicians, that the actual installation consisted of parts cannibalised from the Indonesian factories, made up with Stork parts either specially manufactured or in store.

If we assume 75% of the cost of a sugar factory (including plantations, infrastructure etc) consists of imported equipment, then the expected costs of these imports on the higher Viton estimate would be

E$14m. Deducting 75% of HVA's own estimate of E$3m. for the extension would leave an expected figure of E$11.75m. for property, plant and equipment on the first stage.

Our only guide as to how much HVA actually paid Stork are the figures from the Head Office accounts. In 1952 and 1953 (by which time all equipment had been delivered and most of it installed) there is no increase in liabilities to creditors, but rather a drawing down of current assets (mainly in the form of exchequer bills and deposits) by a little over E$6m. in 1953. If we assume that the Indonesian assets were worth little more than scrap value, then the upper limit for overpricing would be E$5.75m.

Even allowing that the amount of over-pricing is only 2/5 of the upper limit, i.e. E$2.3m., then this added to the discrepancy of E$6.8m. already noted between the value in accounts and the 'expected' value for fixed assets, brings the total 'over-pricing' of the fixed assets at Wonji to just over E$9m. or nearly half our estimate for the correct 1958 figure.

(v) Depreciation. HVA used a depreciation rate of 2½% on capital expenditure at Wonji for the four years 1955-58, producing E$2,220,461 to be deducted from the value of fixed assets at the time of capitalisation. HVA have defended this depreciation rate on the grounds that sugar factories can last for forty years, but this is only true if they are maintained, re-equipped and so on. It is common practise in the industry to charge depreciation at a minimum of 7½% for rolling stock and machines (HVA were actually depreciating at 25% of their total assets in Indonesia in 1953).

If we apply this rate to 75% of HVA's fixed assets, and 2½% to the remainder, then for the four years 1955-58 the low level of depreciation will have resulted in an overstatement of the value of the fixed assets by E$3.4m.

We cannot add this effective overvaluation of assets to our previous estimates for overpricing, since there would be an element of double counting. But even if we adopt the same standards of depreciation for our adjusted fixed asset figure (i.e. excluding overpricing) we still get an overstatement of asset value by E$1.15m. due to the low rate of depreciation.

(vi) Revaluation of assets and management fees. In the original draft agreement submitted by HVA to the Ethiopian government in 1957, the estimated capital value of the assets as at 31st August 1957 was indicated to be E$28m., this being the sum which was to be issued as share capital. However, the figure included an item of E$2,631,579 as a capitalisation of management fees and interest incurred during the build up period. The Ethiopian government refused to allow such a capitalisation of intangibles and in the 31st August 1958 valuation there is mention of only E$243,665 as assignable to general management. In spite of the deduction of the 1957 management figure the share issue was still held at E$28m. No other item increased significantly to account for the missing E$2m. Rather, HVA got the Ethiopian government to agree to a revaluation of assets on the grounds that valuation of assets should be at replacement cost rather than historic costs minus depreciation (a principle which had not been mentioned in the 1957 valuation). This allowed an addition of E$2m. to the overall asset value, and

preserved the value of the branch at E$28m. Given that HVA's practise elsewhere in the world, and subsequent practise in Ethiopia has been to evaluate assets at historic costs minus depreciation, there are strong grounds for regarding this temporary change of principle as geared solely to inflating the value of the branch's assets prior to capitalisation.

The evidence suggests that the valuation of the branch in 1958 overstated asset values by at least 3.35m. (under-depreciation + revaluation), plus 9.1m. (our estimates for overvaluation of machinery). That is to say, the value of assets transferred to the new company HVA (Ethiopia) was E$15.55m. rather than E$28m. as the settlement suggests.

12. Appendix I (col. 1) gives the build-up of capital employed over the twenty years of HVA's operations in Ethiopia. After Wonji the two major expansions took place at neighbouring Shoa (1959-62) and at Matahara (1966-68). The first was largely Stork machinery, the second was constructed by the British machinery firm Fletcher and Stewart (a subsidiary of the British sugar firm Booker McConnell). Both appear to have used new machinery and equipment, the only problem (according to HVA technicians) being the quality of some of the British machinery at Matahara.

13. As far as the pricing of this machinery and equipment is concerned, we can only make comparisons as we did with the Wonji plant. At Shoa the capital cost was E$21.76m. which for the projected capacity of 25,000 tons of sugar per year makes a cost per ton of E$870. This should be compared to Viton's estimate of E$625 per ton and the Jamaican figure of 560E$. Using

Viton's figure for 25,000 ton plant would give an expected value of E$15.6m., and for one of 30,000 ton p.a., E$18.75m. The lower figure suggests an overpricing of just over E$6m., which accords with Tate and Lyle's estimate of the overvaluation at Shoa and Wonji, while the higher figure suggests an overpricing of E$3m.

14. The Matahara plant was designed to produce c.44,000 tons of sugar initially, and its fixed asset value was E$51.6m. in 1969, giving a fixed asset per ton ratio of E$1172, on the high side compared to the mid-sixties estimates of half this figure derived from other parts of the world, particularly as Fletcher and Stewart economised on some parts of the factory in order to minimise costs.

15. The important point in both these cases is that HVA controlled the purchasing. After the formation of HVA (Ethiopia) in 1958, VHVAM signed an agreement with HVA(E) which among other things gave VHVAM the sole right to purchase all material goods required by HVA(E), this purchasing right including control over transport, insurance, handling etc. (Article 6). The same right was included in the services agreement signed between VHVAM and HVA Matahara in 1967. In the case of the Shoan purchases there was no effective monitoring agency to check the price of the machinery imported. At Matahara we may presume that IFC did some checking, but experience from other sectors in Ethiopian manufacturing suggests that checking by aid agencies is frequently inadequate.

16. From the point of view of valuation, equally significant is HVA's depreciation procedures. These have remained as they were in the 1950's, with rates

of $2\frac{1}{2}$% being used on the plantations, dams, agricultural and factory machinery as well as the factory building. These items constitute the great bulk of the fixed assets (94% in the Matahara accounts for 1973/4 for example). As indicated earlier, this rate is out of line with practise in the sugar industry and in Ethiopian manufacturing. Tate and Lyle, the British sugar multinational, told me that they depreciated their plant over 10-20 years according to circumstances, never over 40 years. Agricultural machinery they wrote off over 5 years. While in principle a sugar factory might last forty years - as HVA argue - this is only so if there are frequent re-toolings and replacements. Moreover, with increasing technical change in sugar, plant becomes obsolete more rapidly, (see the problems of Barbados in the West Indies).

17. Other major Ethiopian companies used depreciation rates mainly within the Tate and Lyle range of 5% - 10% per annum. In the late 60's Barrattolo used 6.7%, Ethiopian Fabrics 8.7%, Bahr Dar 5.1%, Indo-Ethiopian 8.7%, Ethiopian Chipwood and Furniture 6.8%, Rubber and Canvas Shoes 5.7%.[8] Nowhere in our study of Ethiopian manufacturing industry did we find depreciation rates of under 5%. Further confirmation of the unsatisfactory nature of HVA's practise comes from the sugar plant in Tanzania run by HVA themselves. Here they use more usual rates, 5% for buildings, $12\frac{1}{2}$% for heavy machinery and 20% for light machinery. The plant on which these rates are charged is virtually the same as that at Shoa, manufactured and constructed by Stork at the beginning of the 1960's.

18. The question arises as to why HVA used so low a rate. It is more customary to meet over-depreciation in the

international accounting of multinational firms. High depreciation rates lower the declared profits, and therefore tax. In the case of HVA, the company's main concern was not tax (it had been granted tax holiday for five years in the initial agreement and similar tax holidays were granted for subsequent expansions) but the build up and protection of its assets. The method they used - the capitalisation of a branch with inflated asset values - is one we have observed in other sectors of Ethiopian manufacturing (Dofan for example), and internationally.[9] But even after capitalisation, the maintenance of high asset values through low depreciation rates is a form of security against forced sale of stock and/or nationalisation. Certainly they have paid higher taxes than they otherwise would have done with higher depreciation rates, but the tax take has remained low, and its payment has had the political advantage of being seen as an evident 'contribution' to Ethiopian capital funds. On the figures we have, the saving of tax through a normal rate of depreciation is small compared to the benefits of inflated asset values through the use of a low rate.

19. I have done an initial estimate of the significance of this practise for HVA's book values in Ethiopia. In the absence of further information it cannot be more than approximate, but it does suggest an order of magnitude. Under their current accounting practise, HVA declared fixed assets at book value of E$98m. in 1974. Using a 7½% depreciation rate instead of a 2½% one, and leaving any overpricing of the fixed assets out of account, would give us a book value of only E$24m. Looking at it another way, using normal accounting procedures, Wonji by now should be fully depreciated as should Shoa if we were to use a 7½% rate. Matahara, using a 7½% rate would already be half written off, i.e. the book value of its

fixed assets would be E$30.4m.

20. HVA would no doubt argue that both Wonji and Shoa are still in profitable operation, and that therefore a depreciation rate of 7½% or even 5% would be unreasonable. But this is to assume away the existence of protection. The fact that a government grants protection to old plant cannot be used as an argument for the continued economic viability of a plant and therefore for low depreciation rates. The proper criterion for depreciation is neither the length of the assets potential physical existence nor its potential economic existence given protection, but rather its potential competitive existence without protection. On those grounds there is no justification for HVA's 2½%.[10]

21. Bringing the arguments on asset valuation together, I am suggesting that the value of fixed assets should be reduced by E$68m. possibly more if the fixed assets at Matahara are found to have been overpriced. The over-pricing at Wonji and Shoa are no longer relevant to asset valuation if we use a 7½% depreciation rate, since the entire value of the assets would by now have been written off. Their relevance will then be confined to the flow of funds. In the absence of more reliable information, we will assume away overpricing of the Matahara machinery for the moment. In this case the value of Fixed Assets of both companies will be E$30m., and of the net assets E$41m. Of this HVA's claim amounts to approximately E$22m instead of the E$64m. as it stands in the 1974 accounts.

III

22. <u>Finance and Foreign Exchange</u>. In the last section I have been concerned with asset values. This section will consider VHVAM's claims to a share of those values. These claims are based on their holding of share capital, and their capital contribution to the growth of the Ethiopian operations. The draft compensation code indicated that - in assessing such claims - account should be taken of capital committed by foreign companies, the sources of this capital, and the extent of the foreign exchange returns enjoyed by them. I shall deal first with the sources of HVA's capital, and then the returns.

23. <u>The value and source of capital contributions</u>. According to the books VHVAM's share of total capital employed in their Ethiopian group was E$64m in 1974. Of this three fifths (E$38m) is stated as a foreign capital contribution, and two fifths (27m E$) the result of re-invested earnings. A closer look at the company reveals a very different picture. Since the early years of operating, almost the whole build up of VHVAM's claims has been through the reinvestment of Ethiopian profits, and that - quite apart from any profit repatriations - the net balance of foreign capital contributed by VHVAM is not E$38m, but less than E$5m.

24. The source of the discrepancy is largely the overstatement of foreign capital committed. According to the books VHVAM have made three major contributions of foreign exchange: E$22.4m representing the value of their stake in the branch which was built up on foreign funds, E$13.5m as a capitalised loan for the expansion

of Shoa, and E$2.3m. as VHVAM's equity contribution to Matahara in 1967.

25. As far as the initial build up at Wonji is concerned, we have already suggested that the actual value of assets transferred in 1958 was E$15.6m. rather than E$28m. as indicated in the books. Furthermore, since significant profits began to be earned from 1955 onwards, it is very probable that expansion after that was financed from re-invested earnings, (if indeed it was financed by HVA funds at all). This indicates that the Dutch contribution upto and including 1954 was no more than E$10m. If we now take account of the discrepancy in the targetted and actual price for the extension after 1955 - which we have assumed was in part due to overpricing imported machinery - then overpayments on the machinery from Ethiopian funds would constitute an actual deduction from foreign capital committed. We have assumed a figure of E$1.2m. for each of the years 1956 and 1957. Finally there is the capital repatriation of E$5.6m. after the 1958 settlement. When these capital repatriations are deducted from the effective foreign capital committed the Dutch company contributed a net figure of E$2m. by 1958, rather than the E$22.4m. suggested in the books, plus a further E$9m. drawn from reinvested earnings. Local Ethiopian capital contributed 5.6m. through the share subscription in 1958.

26. I should add that the re-investment figure may well be on the generous side. It was estimated on the assumption that new capital investments at cost in the books were financed from Ethiopian profits, between 1955 and 1958. It may well be that the finance came in

whole or in part from other sources, both local loans and depreciation provisions. I say this on the basis of HVA's international condition at this time. From the mid 50's it was proving extremely difficult and expensive to take profits out of Indonesia. The annual reports make constant reference to this, and from 1956 onwards no Indonesian profits are included in the head office profit figures. Other than their limited trading interests, this left Ethiopia as the sole effective profit centre to fund the guilders needed to pay dividends as head office expenses. The comparative figures, expressed in Ethiopian dollars, are given in Table 2.

Table 2.

VHVAM Profits, 1953-58.

	Profit abroad	Interest & Commission	Total Profits abroad plus int & comm.	Ethiopian profits.	
				Repatriated assuming re-investment	Total
1953	6,733,682	1,954,818	8,688,500	-	-
1954	4,634,861	1,580,236	6,215,097	540,000	540,000
1955	3,978,194	1,884,993+	5,863,187+	770,000	3,000,000
1956	n.a.	n.a.	6,818,870+	1,176,260	3,679,487
1957	n.a.	n.a.	7,442,154+	4,581,996	7,217,341
1958	n.a.	n.a.	8,316,548+	5,662,459	7.157,341

Source: NVHVA Annual Reports.
HVA Ethiopia Branch Accounts.

+ interest excluded. The interest in 1954 was given separately as E$256,858, and was unlikely to have been more significant in the years when it was consolidated as commission.

From 1956 the Head Office accounts say explicitly that the profit figures include only profits from Ethiopia and commission earned by the Amsterdam office. The Amsterdam commission was predominantly tied to the Indonesian operations, and cannot be expected to have exceeded E$2m between 1956 and 1958 (there is no mention of any significant activity other than in Indonesia and Ethiopia) indeed they were probably less. This leaves discrepancies between the Head Office profit figures and the Ethiopian repatriations assuming reinvestment for all years, markedly in 1956. Unfortunately neither branch nor head office accounts indicate the extent of gearing in Ethiopia before 1959, and the exchange control records - which would allow us to check our assumptions on foreign capital inflows as well as the profit repatriations - are housed away from the National Bank and are difficult to get at. For the moment I have ignored the implications of dividend repatriations and assumed that expansion was financed through reinvestment profits from 1955-58. Investigations in the exchange records and HVA's own accounts may indicate that we should further reduce HVA's claims to foreign capital contributions.

27. The second major plant was built at Shoa, near Wonji, between 1959 and 1962. In the 1958 Agreement between VHVAM and the Ethiopian government, article 13 specified that the new factory would be financed out of profits and reserve funds. One HVA official told me that this had been done. Certainly there was a scrip issue of 20% of the ordinary E$28m shares financed out of HVA(E) reserves. The remainder of the increase in shares (from E$28m to E$50.4m) was subscribed in cash in

proportion to shareholding. The VHVAM portion of the cash subscription was reportedly financed through the capitalisation of a foreign exchange loan that had been extended to HVA(E) by the Dutch parent over the years 1960-62. HVA(E)'s books give this loan as E$13,16m in 1962 (of which E$5.02m had been contributed in 1962), but the capitalisation was for an amount of E$13.5m.

28. In checking whether this amount was actually committed in foreign exchange, we are again hampered by the inaccessibility of the exchange control records upto 1961. But from 1962 onwards, the records are kept in the National Bank itself. These records - in which a foreign company must register its foreign capital contribution if it wishes to have the authority to repatriate capital or dividends - contains no mention of the purported tranche of E$5m. foreign loan for 1962, either as a contribution in kind, in loan form or as new foreign equity capital.

29. If these records are accurate, then the maximum foreign exchange that VHVAM could have committed is the E$ 8.1m. mentioned as an outstanding loan from the Dutch company in HVA(E)'s 1961 accounts. From this figure we should further deduct any machinery overpricing (which I estimated at E$3m in the previous section, para. 13) and any inflated payments on foreign exchange current account which in effect amount to a contribution to the foreign exchange costs on capital account, and/or to repatriated profits.

30. The basis for this last point is the sharp downturn in HVA(E) results for 1961 and 1962. A full run of HVA

profit figures and rates of return is given in columns 7 and 20 of Appendix 1. From these figures one sees that in absolute terms the profits declared for 1961 and 1962 were the lowest in the history of HVA in Ethiopia between 1956 and 1974, and were only matched in terms of rate of return to net assets of HVA(E) (figures not included in this table) by the years of Matahara's construction in the late 60's. In 1961 the government auditor himself looked into the surprising coincidence of low profit figures and factory expansion. HVA's response was that dumped Russian sugar had caused them to lower prices by 5 cents a quintal, and the auditor evidently left it at that. There does appear to have been some price fall, and this is reflected in the sales figures but the drop in sales is not enough to account for the full fall in declared profits. Rather on the basis of a constant profit per ton figure as ruling in previous years, adjusted for the alleged price fall, I estimate that declared profits should have been E$1.1m. and E$1.6m. higher for 1961 and 1962 respectively.

31. If the price fall did take place as stated, then the discrepancies would have to be explained by changes on the cost side. It is noticeable in 1961 that in spite of a fall in output, operating costs increase. If this was the result of a shift of capital expenditure onto operating account then it could have been due to charging work on the plantation at Shoa to the Wonji account, or some of the Shoan factory cost to Wonji's spares account. It would certainly be worth referring to the auditor's file on his investigation to see if there is any further evidence on this.

32. What we can point to, as a final note on these figures, is a further discrepancy between the Head Office and HVA(E) results. The relevant figures are presented in Table 3:

Table 3.
VHVAM Income and Profits, 1959-63 (E$s)

	VHVAM Total Income	Net Profits	HVA(E) dividends to NHVAM
1959	7,099,079	3,735,658	3,024,000
1960	5,822,895	3.735,658	3,360,000
1961	6.259,792	3.526,667	2,040,000
1962	5,745,694	3.528,264	2,040,000
1963	5,360,625	3.949,097	4,032,000

Source: NHVA Head Office Accounts.
HVA(E) Accounts.

In these years, VHVAM were almost entirely dependent on Ethiopia for their profits. The small interests in Brazil actually made a loss in 1961, and the international trading business, while profitable, was still restricted. This being so, we would expect the fall in Ethiopian dividends to make a parallel dip in VHVAM profits. That they did not do so suggests that some profits from Ethiopia were realised in Holland other than through stated dividend repatriations.

33. For the sake of estimates of foreign capital contribution, I will for the moment omit any effect these accounting discrepancies may have had. I mention them here so that account can be taken of them when more detailed

figures become available, and as a context for my assumptions on overpricing and non-recorded foreign capital contributions in 1962. Limiting our calculations to these last two items, we find a VHVAM foreign capital contribution to Shoa of E$5.1m rather than the ES/13.5m suggested in their Ethiopian books.

34. The third major increase in capital was required for the development of the Matahara complex. In this case, even the accounts show that a majority of the capital was supplied from Ethiopian funds, part from the government, part from local subscribers, and E$14m (44%) from HVA(E)'s reinvested earnings. The funding relationship between the two companies is shown in Table 4:

Table 4.

Year	HVA(M) paid up share Capital	Amount paid up by HVA(E)	HVA(E) Reserves	HVA(E) Bank Overdraft	HVA(M) Bank Overdraft	Loans from HVA(E) to HVA(M)
1966	3,7000,000	1,884,000	10,206,587	-	-	-
1967	11,684,000	5,307,000	13,688,199	5,497,304	-	-
1968	18,711,000	8,319,000	17,674,766	9,595,336	-	-
1969	32,000,000	11,717,000	18,327,558	6,027,821	-	-
1970	32,000,000	11,717,000	18,754,943	1,388,770	1,141,110	954,532
1971	32,000,000	14,017,000	19,702,775	-	-	1,002,080

Source: Company accounts.

One can see from these figures how HVA(E) financed their shareholding from accumulated reserves (this is acknowledged by the company), how they increased their reserves from

post-tax profits, increased their bank overdraft to fund the cash needs of HVA(M) in the process of expansion and how cash needs eased with the coming on stream of production in 1970.

35. The size of the project - Matahara was to grow to the capacity of Wonji and Shoa combined, at an initial cost of E$52m - meant that not all the funds could be found internally. VHVAM themselves were unwilling to commit their limited liquid assets to Matahara and they therefore confined their capital contribution to E$2.3m., sufficient to raise the control of HVA(M) by NHVAM companies to 51%. The bulk of the foreign finance was provided by the International Finance Corporation (through equity and loan) and Dutch banking capital (through loan). These banking contributions we may assume were actually committed in foreign exchange. IFC's equity investment E$5.44m is registered in the exchange control records over the period 1967-9.

36. The amount and form of VHVAM's contribution is less certain. I have listed it as E$2.3m. since that is the amount specified in all the Ethiopian documents, and in HVA's Ethiopian accounts. The Dutch accounts for 1968 on the other hand say that VHVAM actually paid E$4.5m. To check this I again consulted the exchange control files, and found that only E$1,472,000 had been entered as contributed by Amsterdam to HVA(M), supplied in two amounts of E$ 961,000 in 1967 and E$511,000 in 1968. There was no evidence of any other flows whatsoever, either on Matahara's account or on those of HVA(E) or HVA International. Furthermore I was told that this sum

of E$1.47m had been deposited into the subscription blocked account of HVA Matahara on the evidence of Commercial Bank of Ethiopia confirmation letters. There were none of the usual credit advices, and there was nothing in the letters to prove the feeding of the account in foreign currency from abroad. Indeed the Exchange Control Department had evidently asked repeatedly for evidence that foreign currency had been deposited (e.g. through credit advices) but had never been given any. In a case therefore where we can check the statements made in accounts, we find that the Dutch and Ethiopian accounts conflict, the figures in exchange control are lower than either, and that even these figures seem to be unsubstantiated.

37. Gathering the above evidence together, we find that the foreign capital contributions at Wonji (by 1958), Shoa and Matahara have amounted to E$2m, E$5.1m., and zero, rather than E$22.4m, E$13.5m, and E$2.3m. as stated in the local books. Furthermore, the exchange control accounts show that the Dutch company has repatriated more than E$2.3m. of its invested capital between 1963 and 1974. This brings the overall figure for net foreign capital contributions to E$4.8m. rather than the E$38.2m. implied in the books.

38. The annual changes of effective foreign capital are given in column 5 of the Appendix 1, with corresponding figures for the declared Dutch contribution (col 3), re-invested earnings (col 6), and total effective Dutch capital contribution (col 4). Remembering that the initial reinvested earnings figure must be increased to take account of the reinvestments prior to capitalisation

in 1958, we find that the effective contribution by VHVAM to the capital employed of its group in Ethiopia is E$40.4m. rather than E$64.2m, of which 88% has been funded through reinvested earnings. On this basis VHVAM have built up a stock of shares with a combined value of E$55.6m, a stake in net assets of E$64.2m, and control of a group with sales in 1974 of E$85m, and net assets of 123.6m.

39. Returns. When we come to VHVAM's returns on invested capital, their long term rate appears relatively modest. The figures are given in columns 20 and 21 of Appendix 1. For the period of published figures, 1959-74, the HVA group as a whole in Ethiopia has had an average post tax profit rate on capital employed of 12.8% per annum. This is around the average of stated results for manufacturing industry in Ethiopia, and roughly in line for rates of return in the international sugar industry as a whole.[11] VHVAM's share of this profit (column 21) is slightly higher at 13.0% average p.a., but the difference is insignificant.

40. A number of modifications need to be made to these figures if they are to accurately reflect VHVAM's effective rate of return from their Ethiopian interest. First, the profit from HVA International's Addis Ababa branch should be added in. This branch has only filed accounts for six years since 1959, but they enable us to see the trend and make estimates for the whole period. More precise figures would hopefully be available from Revenue files.[12]

41. Secondly, we should add in VHVAM's returns from their technical fees. These were of two kinds, management fees and purchasing fees. The rates at which they could be charged was specified in

successive agreements between the government and VHVAM and between the Dutch company and its subsidiaries. They are summarised in Table 5. These rates are not out of line with other rates charged to Ethiopian companies or with international practice.

Table 5.

Service fee charges by VHVAM in Ethiopia.

	Ethiopian branch.	HVA(Ethiopia)	HVA(Matahara)
Management fee	5% of net sales upto E$500,000 p.a.	2½% of factory gate proceeds for all goods sold. (approx. E$500,000 for each of Wonji & Shoa)	E$300,000 p.a 1967-70 2½% of net proceeds upto 10% of annual net profit, but not less than E$390,000 p.a. (range E$390,000 to approx. E$650,000)
Purchasing fee			
a) Capital account		2½% of invoice price, fob loco Addis Ababa.	3%
b) operating account		5%	

Sources: 1951 Government Agreement
1958 Service Agreement
1967 Matahara Agreement.

By way of comparison we have included the terms of HVA's management contract in Tanzania in Table 6.

Table 6.

Management Fees charged by HVA in Tanzania.

Initial Agreement (1964)	E$375,000 plus E$7.5 per ton (range of expected returns E$500-600,000)
Renegotiated Agreement	E$150,000 p.a.. Nothing for 1st 20,000 tons, E$7.5 for next 10,000, E$15 for anything above. plus 6% of operating surplus, including depreciation as a cost. (range of expected returns E$350,000-450,000)

In terms of expected returns which I have estimated in brackets, we can see that the initial agreement in Tanzania for production of approx. 25,000 tons yields very similar results to those concluded in Ethiopia, though the renegotiation does bring the rate down. In all these cases HVA would argue that the fees cannot be seen as profit, but rather in the Ethiopian case at least, as a contribution to overheads. There are costs, they say, in operating an international purchasing department, and a pool of technical and managerial skill, just as there are costs in running a firm as they do in Ethiopia or Tanzania.

42. Our case for including the technical fees in profits comes from the fact that actual costs of management are covered by the local firm. Dutch employees in Ethiopia are on the Ethiopian payroll. The expenses of visiting specialists and advisers, as well as fees for hiring outside specialists, were to be paid by HVA(E) (article 5 of the 1958 Service Agreement). There remains that part

of the overhead in Holland that can be specified as contributing to the efficient operation of the Ethiopian concerns. From what I have seen such part would be small, and certainly much less in value than the technical fees enjoyed. Rather the fees should be seen not as an allocation of cost but as a return to skilled manpower and privatised knowledge. As such it should be included as profit.

43. Thirdly, we should in principle take account of any overpricing of intermediate inputs by HVA(International). Given that they have complete control over purchasing, they have leeway to repatriate profits in this way. Whether they do so or not we do not know. We checked their invoices at Shoa and found that they were the original invoices from the manufacturers, but as we know from other European experience, this is no guarantee that discounts are not being paid into HVA's Netherlands accounts. In one case examined by an Ethiopian official HVA were found to have changed the currency denomination of an item imported from Germany four times - though we do not know what effect this currency mobility had on the item's price. In general, while HVA's proportion of imported inputs is low (4.6% of all intermediates in 1970), the total import bill is large. In 1974 HVA was said by National Bank officials to be the largest importers in Ethiopian trade, so that overpricing of operating account imports could be a significant channel for profit repatriation (a 20% overpricing in 1970 on current account imports would have amounted to 10% of HVA's exported dividend). It remains true nevertheless that HVA's results are much more sensitive to overpricing of machinery than they are to overpricing of intermediates,

a point confirmed in my discussions with a Tanzanian official who had been involved in monitoring HVA in Tanzania.

44. In column 12 of Appendix 1 I have adjusted the declared profit figures to take account of some of the above points. I have excluded any consideration of overpricing because of lack of evidence, and I have also left out purchasing fees - treating them as a contribution to direct overhead costs in Amsterdam. A fuller investigation would I suspect reveal positive figures for both these excluded items. As it is I have estimated a run of figures for HVA International Profits, and for management fees, based on branch account and questionaire returns, and I have added these to the declared profit results to get a figure for effective returns to VHVAM from Ethiopia.

45. The use of effective returns raises VHVAM's rate of return on declared capital over the 20 year period 1955-74 to an average of 16.9% p.a.. If, however, we use our effective capital contribution as the base for comparison, then VHVAM's effective rate of return rises to 27.2%. As a sustained, annual post-tax rate of return this is a substantial figure, and explains HVA's commitment to Ethiopia at least up until the revolution.

46. The results on the foreign capital account are even more striking. HVA have had a consistently high pay out ratio from their declared profits in Ethiopia. Between 1955-1974 over $\frac{2}{3}$ of their profits have been declared as dividends (69%), and VHVAM's share has always been repatriated. Over the period of their operations E$78m have been returned to Holland in this

way, principally because the Dutch head office has used Ethiopia as its main profit reservoir to furnish funds for Dutch expenses, diversification, and above all, Dutch dividend payments. When HVA International and the proceeds of management fees are added onto this, total foreign exchange repatriations (column 16) have accumulated to E$99m. This means that HVA have effectively 'turned over' their foreign capital between 16 and 20 times in 20 years.

47. The foreign capital account is shown graphically in Figure 1. Already by 1958, HVA had received back twice the foreign exchange they committed initially. During the 1960's the annual repatriations of foreign exchange ran at between 36% and 89% of foreign capital committed, while in the 1970's, after the coming on stream of Matahara, the rate of return of foreign capital rose to 153% p.a. The cumulative disparity between VHVAM's foreign exchange claims in Ethiopia (now formalised as compensation claim) and their foreign exchange receipts is clearly shown in the graph.

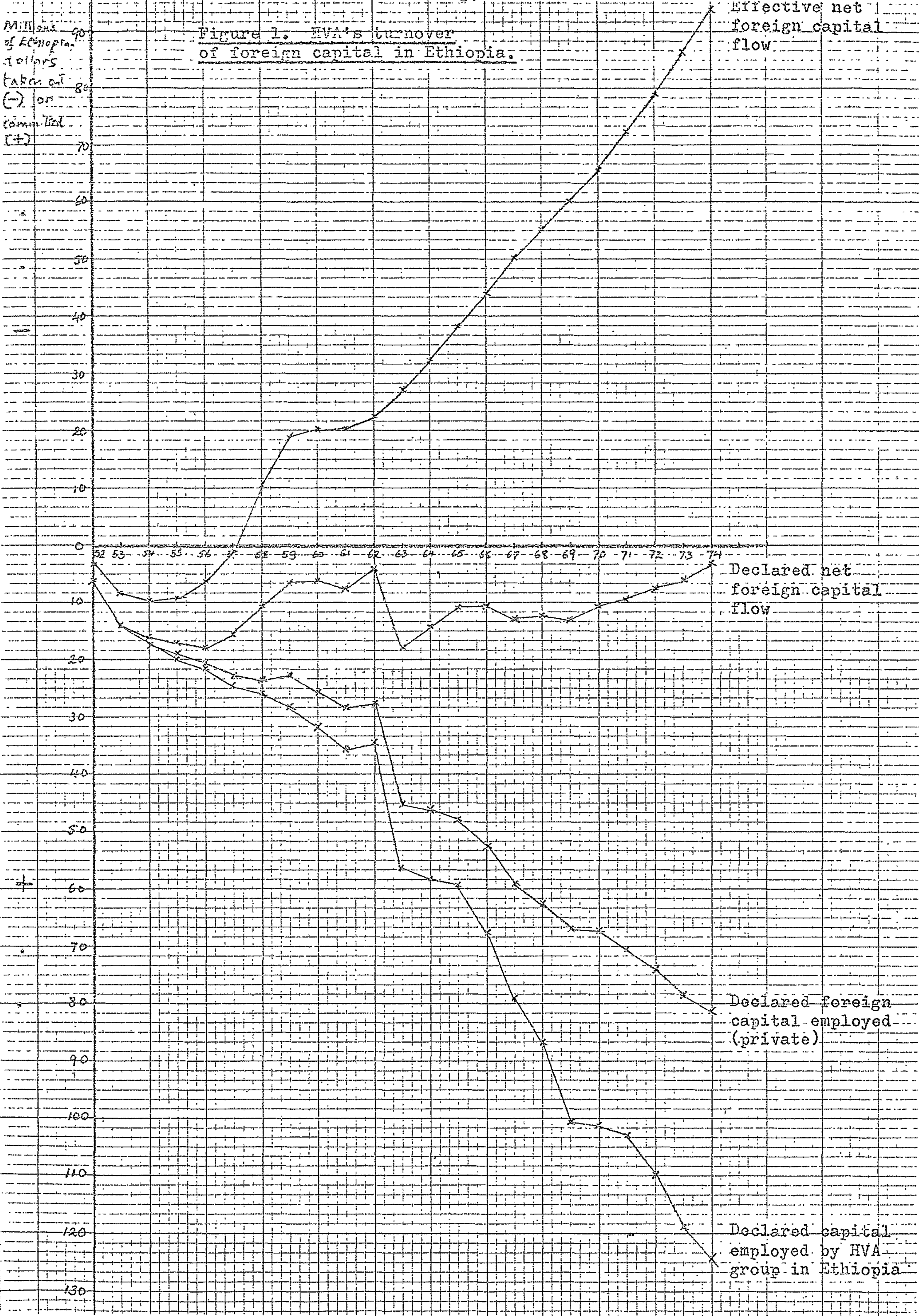

Figure 1. HVA's turnover of foreign capital in Ethiopia.
Millions of Ethiopian dollars taken out (-) or committed (+)
90
80
70
60
50
40
30
20
10
0
10
20
30
40
50
60
70
80
90
100
110
120
130
52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74
Effective net foreign capital flow
Declared net foreign capital flow
Declared foreign capital employed (private)
Declared capital employed by HVA group in Ethiopia

IV

International Comparisons.

48. HVA's declared rate of return was in line with international levels. Their effective rate of return was very considerably above. The main cause of the difference I have identified as the watering of stock, i.e. the 'puffing up' of the value of capital employed. If this line of argument is correct, then we would expect to find some reason for effective rates of return to be so much higher in Ethiopia than elsewhere. In this section I shall consider HVA's conditions of operating and their performance in the light of international experience.

49. Costs. The main elements on the cost side we need to consider are land costs and productivity, labour costs and productivity, factory cost, size, and depreciation, and the cost of capital.

a) land. HVA's estates in Ethiopia are among the most productive in the world. Tables 7-9 show details of Ethiopia's advantage. In Table 7, Ethiopia achieves roughly double the Caribbean yields of cane per harvested hectare, and 12% more than Peru, which is second only to Hawaii in the international yield rankings. Sugar yielded per cent of cane is also significantly higher in Ethiopia than in the Caribbean (Table 8), so that the final figure for metric tons of sugar per hectare year harvested (Table 9) also shows Ethiopia on top.

One factor in explaining these differences is the presence of irrigation in both Peru and Ethiopia. Irrigation increases the initial capital cost but leads to cost savings in ploughing, preparation, weeding and transportation. Any net cost would be included in the land cost. Also to be included is the entry cost at Wonji, Shoa and

Table 7.

International comparison of sugar cane yields per hectare

tons per hectare harvested year

Guadeloupe	53.5	Puerto Rico	66.9
Cuba	55.7	Jamaica	67.1
Trinidad and T.	61.0	St. Kitts	69.9
Dominican Rep.	61.7	Guyana	78.1
Barbados	62.5		
Martinique	62.8	Peru	115
		HVA(E)	129.1

Note: it is necessary to correct actual yields for the length of growing period of the cane. In the Caribbean the period is 12-13 months, and the above figures assume that the actual figure is also the figure per year. At Wonji, like Peru, the period is 17-18 months and I have corrected the actual yield figures accordingly (Peru 165 tons per h.h., HVA(E) 189.3 tons per h.h.)

Figures are for 1971, save HVA(E) 1972, and Peru 1974.

Source: G. Hagelberg, The Caribbean Sugar Industries, Yale 1974, pp 138 and 143.
HVA Annual Reports.

Table 8

Sugar Yields as a % of cane, 1972.

Puerto Rico	7.07*	Barbados	10.60
Guyana	8.75	St. Kitts	10.66
Jamaica	9.29		
Trinidad & T.	9.53	HVA (Matahara)	10.95
		HVA (Ethiopia)	11.53

* 1971 figure

Source: Hagelberg, op.cit., p. 142
HVA Annual Reports.

Table 9

Metric Tons of sugar per hectar year harvested 1972

Puerto Rico	4.7*	Barbados	6.3
Cuba	5.9**	Mauritius	9.0
Guyana	6.1		
Trinidad & T.	6.1	Peru	14.0
St. Kitts	6.2	HVA(E)	14.9

Notes: * 1971
** 1970
a. the figure is for the large mills and estates
b. Matahara's productivity is equal to Wonji/Shoa according to HVA(M) annual report for 1973/4 p. 29

Sources: Hagelberg op. cit., pp. 140 & 143
HVA(E) Annual Report.

Matahara. At both Wonji and Matahara HVA were moving into already commercially owned lands - at Wonji there was already a small sugar estate started by the Italians and later owned by the Greek expatriate Lazaradis, and at Matahara there was an Italian owned plantation. We do not know how much HVA paid to Lazaradis - small sums were paid out of the branch profits to him during the 1950's - but we do know that the purchase price at Matahara was considerably below the asking price.

Finally there is the annual rent payment which as we have already noted in para 6(i) above, was absurdly small for land of such quality.

b) <u>the factories</u>. There are economies of scale in sugar production. A plant producing 36,000 tons of sugar per year has scale economies compared to one of 22,000, and this in turn has scale advantages roughly twice those of a 9,000 ton per annum plant.[13] Recently it has been suggested that only 100,000 tons p.a. sugar mills are worth erecting. The latest Tate and Lyle contract in Venezuala is for a mill producing 700 tons of sugar per day or 140,000 tons per 200 day year. Lonrho are going to operate two mills in the Sudan each producing 800 tons of sugar per day or 160,000 tons per 200 day year. The largest mill in the world is the Central Romana factory in the Dominican Republic which has a capacity of 14,000 tons of cane per day and produced 416,000 tons of raw sugar in 237 campaign days in 1972.

While HVA's plants are therefore not in the front rank as regards size, they are still larger than most of the plants whose costs determine the Commonwealth Sugar Agreement price. Thus in Table 10 it can be seen that in 1962 Ethiopia's factory had a higher output than the average of all those sugar producers in the Caribbean with the exception of the Dominican Republic and Trinidad and Tobago, while in 1972 Ethiopia's average was still only exceeded by these two countries and Cuba.

Table 10

Average size of sugar factories

	1958-62	1970-72
Dominican Republic	56,369	73,326
Cuba	30,095	49,727
Trinidad & Tobago	49,924	39,650
Ethiopia	37,416	38,055
Guyana	27,496	30,485
Jamaica	16,915	25,829
Puerto Rico	30,448	19,706
Haiti	24,158	18,000
Guadeloupe	14,790	14,667
Leeward & Windward Islands	15,508	12,529
Barbados	7,680	9,708
Martinique	9,727	8.750
US Virgin Islands	15,095	-

The figures are for centrifugal sugar production. The years of the figures are within the ranges 1958-62, and 1970-72, with the Ethiopian figures taken for 1962 and 1972.
Source: Hagelberg, op. cit., pp. 112 and 150, and HVA Company reports.

At the time Shoa and Matahara were built, each was a medium sized 'modern' plant, and even Wonji could be considered 'medium sized' at the time.

Where HVA was at a disadvantage was in the capital cost of equipment, but in terms of an annual charge this was largely offset by the low depreciation rate.

c) labour. HVA's labour costs per ton in Ethiopia are very low. Table 11 gives comparative figures for four areas of sugar production in the Western Hemisphere:

Table 11: Labour costs per ton of sugar, US $

Country	US $
Guyana (1968) (G$)	103.2
Puerto Rico (1966-70)	60.7
Ethiopia (1962)	50.3
Hawai (1966-70)	43.3
Ethiopia (1972)	34.9
Florida (1966-70)	32.8

Source: Hagelberg op.cit., pp.120 & 126
HVA Reports, and Ali Haji Abdullahi
Large Scale Commercial Farming in
Ethiopia, 1972, pp.28 & 32.

Labour costs per ton depend on two factors, wages and labour productivity. Ethiopian wages are very low. In 1962 a daily wage labourer earned a maximum of E$292 (£41) for a full year's work, and given the seasonality of employment the figure was probably near £30. In 1972 it had risen to a maximum of E$400 p.a. (£57), which with fringe benefits is claimed by the company to bring the figure up to £100. By way of comparison, in Jamaica there was a minimum annual figure for daily wage sugar cane workers of £200. Until recently, the Ethiopian wage rate in HVA's plantations has probably been among the lowest for sugar plantation workers in the world.[14]

Until the late 1960's the low wage rates had not made it worthwhile to invest in capital intensive cane harvesting equipment, according to HVA. Accordingly their productivity figures were only moderate. In Peru for instance output is about 30 tons per worker, in pre-revolutionary Cuba about 12 tons, roughly the same in Guyana, 10 tons per head in Mauritius (for a short milling period) while in Ethiopia in 1967 output was 9.5 tons per head. By 1971 however, HVA had raised this figure to 13.75 tons per head. Average productivity with below average wages produces the low labour cost per ton which we noted in Table 11.

The point of these international comparisons is to assess HVA's relative standing in an international supply schedule, and consider the likelihood of the company enjoying differential rent. What our figures point to is that the Ethiopian operations almost certainly have lower costs compared to the marginal Caribbean producers whose costs determine the Commonwealth Sugar Agreement price. Land rents, and land productivity, depreciation rates and labour costs per ton of sugar produced are all very favourable to Ethiopia. What is not favourable is the cost of the factories. In our earlier discussion we found no good reason for the discrepancy of factory costs in Ethiopia compared to the rates ruling internationally. If our argument holds, then factory costs would not be a cause of disadvantage, and we would expect HVA's operations to yield differential rent with respect to the CSA price.

50. Prices. When we compare Ethiopian prices, however, we find that they actually excede CSA prices. Table 12 shows the trends during the 1960's:

Table 12

Ethiopian and Commonwealth Sugar Agreement Prices, 1960-70.
(prices on raw basis in US cents per kilo)

Year	CSA price	HVA bagged price	% difference
1960	12.4	11.9	- 3
1961	12.6	12.7	1
1962	12.7	13.3	5
1963	12.8	13.2	3
1964	12.8	13.2	3
1965	12.9	14.2	10
1966	12.2	13.9	14
1967	12.2	14.1	16
1968	10.5	15.7	50
1969	11.1	15.7	41
1970	11.1	15.7	47
1970 (after 20.8.70)	11.1	16.2	46

Source: Dr. S. Barac, HVA Sugar Prices p.4.

Furthermore, a comparison of Ethiopian prices with the domestic

Table 13

Wholesale price of white sugar in US cents per lb.

	1969	1970	1971	1972	1973
Ethiopia (AA)	11.4	n.a.	n.a.	13.2	15.1
Kenya	n.a.	9.0			
Tanzania	9.7				
Zambia (railhead)	4.5				
Mauritius	3.4	3.0	4.0	4.0	4.0
Malagasy Republic				9.6	9.5
UAR	11.8				6.7
Somalia	14.1		14.2	16.1	
Swaziland				9.8	
Jamaica	12.5	12.0	10.00	10.00	13.0
Dominican Republic	7.9			8.00	6.0
Cuba (retail)	6.9	6.9	6.9	6.9	
Barbados	7.5	8.0	12.0	15.0	18.5
Mexico		7.8	7.8	7.8	
USA		11.3	11.9	13.1	
UK	8.3	8.5	9.6		
CSA (raw)	5.1	5.1	5.0	6.1	

Source: International Sugar Year Books, 1969 - 1973.

51. These are striking figures. In spite of Ethiopia's advantages from the point of view of sugar production, her wholesale price in 1972 was nearly double that of Cuba, and more than treble that of Mauritius. In the earlier years of comparison, the Ethiopian price considerably exceeded the price in Kenya, Tanzania, the UAR and Zambia. Even with a price equivalent to the CSA price (we can take the UK price as a high equivalent because it is for refined sugar where HVA produce the less refined plantation white) we would expect Ethiopia to enjoy differential rent in sugar production. With a price at least 50% above this the potential rent is much higher.[15]

52. This brings us back to our figures. For a company in such a favourable economic position, protected by tariffs, with a 100% market control, HVA's declared profits are incomprehensibly low. In his excellent paper on HVA sugar prices, Dr. Barac (then at the Ministry of Commerce and Industry) suggested that the reason might be HVA's inefficiency. He cited the following evidence:

a) the mills at Shoa and Wonji were too small, and lacked modern instrumentation and control. He also quoted the Tate and Lyle report which considered that the mill roller at Shoa could have been run faster with no poorer rate of extraction.

b) There was too large a labour force, particularly too high a proportion of expatriates in managerial and technical positions. Tate and Lyle estimated that economies in staffing could reduce costs by E$1.00 - E$1.50 per quintal (i.e. by 4-6%, roughly comparable to potential savings through more intensive utilisation.

c) Wage and salary rates, particularly in the upper reaches of the firm were very high by Ethiopian standards.

d) Training costs increased (from nil in 1963 to E$ 0.35 per quintal) and these increases were not always matched by increased productivity because of the underutilisation of the trainees. In the words of the HVA Annual Report of 1966/7, "Our experience has so far not been encouraging, we are increasingly concerned about the large number of promising young men who leave before having completed their training."

I have already considered some of these possible "inefficiencies" above, notably the plant and the basic wage levels. There is no reason to believe that these can account for the differences in price with comparable producers, indeed the basic wage level would rather point the other way. The size of the expatriate management certainly was disproportionate (HVA have tended to have a high expatriate ratio in their international operations) but this has now been considerably reduced, and neither this nor the overmanning and high payments to the Ethiopian staff can account for the size of the differential we are considering.

53. My own impression indeed is that HVA are a relatively efficient company, certainly from their own point of view. In the 1930's they achieved among the highest productivity levels for sugar in the world. We have seen the evidence of their productivity achievements in Ethiopia. The Tanzanian official to whom I spoke thought that HVA had performed better than either Bookers in Kenya or Tate and Lyle in Zambia. They had taken over the running of the Kilambero plantation from another Dutch firm, RCMA, in 1964. In spite of a severe attack of the yellow welp disease, HVA brought the operation round to profitability by the early 1970's, against the forecasts of all the initial financial backers (the IFC, the Commonwealth Development Corporation, the Netherlands Overseas Finance Company, and the Standard Bank). The official thought that Kilambero was now the leading sugar estate in East Africa.

54. Here indeed is perhaps our most decisive comparison. The Kilambero estate is if anything less favourable for sugar production than the Awash Valley in Ethiopia. Wage rates are more than twice as high in Tanzania as they are in Ethiopia. The factory was supplied and provided at almost exactly the same time as Shoa by the same machinery suppliers, Stork. The estate is now managed by the same company HVA, and is earning similar declared profits. Yet the Ethiopian prices are considerably above those in Tanzania, and this is without taking retail mark-ups and taxes into account. Nothing more sharply poses the problem of the missing profit in Ethiopia than this contrast with Tanzania.

55. The dilemma, I have suggested, is solved when we take the inflation of fixed assets, and in particular the overpricing of machinery into account. These factors account for the greater part of the difference between our estimates of 13% and 27% for declared and effective profits enjoyed by VHVAM over the period. Put another way, the international comparisons with HVA's performance in Ethiopia supports the general argument of the third part of this paper, namely that HVA's effective rate return has been considerably higher than its declared rate.

V

The context of profit

56. HVA's capital claims reconsidered. In the earlier part of the paper I suggested that the value of the HVA group's net assets in Ethiopia should be lowered to E$41m, and that VHVAM's own net claim should also be adjusted from 51% to 40% of capital employed, or from E$22m to E$16.6m. Even then, we should remember that this claim is based on capital committed by HVA in Ethiopia. The great majority of this has been funded from reinvested Ethiopian profits. The question arises as to the validity of these profits, certainly when seen from the standpoint of Ethiopia's new regime. There are three grounds for challenging this validity:

(i) the dependence of these profits on false reporting of the rate of profit;
(ii) a studied alliance with the old Imperial regime;
(iii) the conditions or labour from whence these profits derive.

I will deal with the points in turn.

57. Protection. It will be remembered that the original agreement in 1951 bound the government to protect HVA against cheap imports by 'such measures as it may deem necessary in order to protect HVA from such unfair competition in the domestic market'. Both the government and HVA deemed it necessary to introduce measures. HVA has enjoyed tariff protection throughout its twenty year period of independent operation. Given HVA's declared assets and capital employed, a 'normal' rate of return indicated a domestic price level as given in Table 14. The degree of potential 'unfair' competition can be gauged from comparing this domestic price with the Ethiopian cif price for imports.

Table 14.

Domestic and Imported prices of sugar in Ethiopia, 1954-70

(Ethiopian dollars per quintal)

Year	Domestic wholesale price	Cif price	Difference
1954	55	29	26
1955	52	30	22
1956	58	36	22
1957	59	31	28
1958	54	28	26
1959	52	28	24
1960	58	25	33
1961	53	28	25
1962	53	25	28
1963	60	40	20
1964	61	35	26
1965	61	24	37
1966	61	22	39
1967	61	16	45
1968	61	18	43
1969	62	52	10
1970	62	51	11

Source: Getachew Gabre "Balance of Payments Effects of Foreign Private Investments with a case study of the sugar industry" Addis Ababa, 1972. p.35.

The resultant protection has varied but has always been considerable. Gabre quoting Araya in 1968 gives an import duty of E$35 a quintal. Guisinger's tariff study in 1972 lists a nominal tariff of 73%. The result has been to effectively block all except a small quantity of refined

sugar imports. In as much as these results were obtained on the basis of a mis-statement of rates of return, then there is a very real question as to whether HVA can sustain a compensation claim which has depended on the high tariff level.

58. The re-invested profit represents 'monopoly' profits partially ensured by the mis-statements. If we take the declared rates of return as in some sense 'normal' profits, and apply the rate to HVA's effective capital committed (column 4 in Appendix 1) we find an annual stream of profits that has already been exceeded by the effective profit outflow (column 15). That is to say that on the basis of the declared rate of return on effective capital committed, HVA stands to pay the Ethiopian government substantial compensation for surplus profits remitted. The annual stream of repatriated profits has earned VHVAM an average post tax rate of return of 18.7% over the 20 year period on their effective capital employed, (column 24). The company should be asked to explain on what possible grounds they can base a claim for compensation on re-invested surplus profits which stand over and above the 18.7% repatriated returns.

59. Political alliances. I have implied that HVA's monopoly position was based on mis-representation. While I think there was mis-representation, it is also important to record that HVA developed a strong alliance with the old regime, and took pains to ensure that what was good for HVA was also good for members of the regime, i.e. for those in charge of ensuring the conditions suitable for HVA's profitable operations. The details of the Emperor's interests in HVA will no doubt be available to the Compensation Commission. He certainly appears to have held shares indirectly in HVA (Matahara), and probably also in Ethiopia.

I was also told by a leading Ethiopian businessman that the price paid by HVA for the original concession at Wonji included a sum for the Emperor as payment for the original Government agreement, and that the price of the estate at Matahara had been forced down by the Emperor at HVA's request (the Emperor threatened to foreclose on a CBE loan to the Graeco-Ethiopian owners), with HVA and the Emperor sharing the resulting savings (E$1\frac{1}{2}$m. to HVA, E$1m to the Emperor). As for other members of the regime with an interest, we find at least four Ministers with shareholdings in the HVA group as of 1971, including the then Minister of Finance (through his wife), and the Governor of the National Bank.

60. The general impression I have gained through talking to government and bank officials is that HVA had very close, preferential links with the Imperial regime - it was interesting that a leading commodity analyst in the City of London I spoke to referred to HVA Ethiopia as the Emporer's Company. Such impressions are not evidence, but if the evidence does confirm this view - and the terms of the HVA Agreements, the high levels of tariff protection, and the strong government support for HVA against Ethiopian labour all suggest that government action ran closely in line with HVA wishes - then this affects the compensation claim. For what HVA's monopoly conditions have amounted to is a charge on the rest of the Ethiopian economy through much higher sugar prices than were warranted on any general criteria. Since this general practise of the Imperial regime of appropriating national wealth for its own consumption and power through the preferential use of state power was one of the principal reasons for overthrow of the old order, HVA can hardly expect the new government to recognise a claim to compensation based on monopoly profits derived from collusion with the persons and practises of the old order.

61. The conditions of labour. This point is even more sharply made when we consider HVA's policy towards Ethiopian labour. From the beginning their policy has been consistently directed towards maintaining a divided, submissive, and ill paid mass labour force. We have already noted that one of the main factors in HVA's decision to expand in Ethiopia was the weakness of organised labour in that area. HVA's very presence - by 1964 employing 9,000 workers out of a total manufacturing labour force of less than 50,000 - has led to a strengthening of trade unionism, but HVA with the frequent support of the government have done all they could to deter, deflect and limit this process in order to maintain cheap labour.

62. HVA's strategy of division had the following features:

a) from its inception HVA followed a policy of over-publicity of the work available and the rates of pay, with the result that there has been an excess of labour seeking work in and around the estates. As late as 1967 of the workers present on the Wonji/Shoa plantations, only 50% were fully employed, 40% got 2 or 3 days work a week, and 10% were totally unemployed. This encouraged acute competition for jobs, often on a day to day basis.

b) HVA have sought labour from areas which have limited contact with other sources of money employment. In the construction period workers were recruited from Addis Ababa, Nazareth, and Arussi province, but by 1952 HVA had shifted their recruitment campaign to Sidamo province in the South, from whence HVA often transplanted workers to join the labour reservoir on the estates. Even now the Wonji plantation manager told us that the seasonal workers were still recruited in the rural areas of the South where there was a buyers market and where the company put applicants

through a series of health and other tests before transporting them to the estates. The so-called seasonal worker is in fact away from home for 8-10 months in the year, and will then have to apply for work again at the start of the next year. The plantation manager attributed the low degree of labour unrest at Shoa/Wonji to this screening process, in contrast to Matahara where 'anyone who turned up could be taken on'. The screening of workers, their transportation to work far away from their families for much of the year, lodged by the company in dormitories or in crowded conditions, then returned annually to their homes ready for re-employment on the same conditions is a strategy for labour discipline that has a long history all over the world, and now affects one worker in seven in Western Europe.[18]

c) contract labour. For many years HVA hired labour through intermediaries called Capos. The worker had the formal status of an 'independent contractor' and would contract with the Capos for specified tasks. Given the over-supply of labour on the estates this led to a system of buying and selling jobs. Capos would be bribed for jobs, and a dual payment system came into operation. Wage payments to workers were returned to Capos who would take their cut, a cut for the field assistant, and a cut for the workers' 'saving associations' in which both the Capos and the Field Assistant had interests. The residual would then be shared out among the workers who had actually done the work. According to one Trade Unionist the result was that "the worker was subjected to receiving almost as low as a quarter of what he ought to have been paid, even under HVA's low pay system." Any crossing of a Capo would lead to a worker being discriminated against at the next 'hiring'. This bind was further strengthened by the fact that many of the shops on the estate (56 in 1967) were rented through the Field Assistants, charged

high prices, and were able through the Capo system and threat of discrimination, to pressurise workers into to patronising these shops.[19]

d) The company used and still uses wherever possible a system of piece rates and bonuses. The worker becomes his own foreman, disciplined by the task and the stopwatch. The Company's power is shown in the setting of the rate and the inspection of the results. For many years HVA workers found it difficult to challenge either: indeed at one time they were being paid on the plantation by weight of cane cut, but were not given the opportunity to inspect the weight as measured on the scales.

e) HVA have consistently fought against the development of unions on the plantations. In the 1950's the principal workers' organisations at Wonji were self-help associations or IDIRs. They grew up soon after the factory started operations and offered aid to workers in time of sickness, death or dismissal from work, as well as a means of meeting together in a structured way. At Wonji an IDIR member dismissed from his job was given E$4,000-6,000, and this and similar benefits led to a steady growth of membership and financial strength. HVA struck at this growth by dismissing a large group of workers simultaneously. The IDIR consequently broke up.[20]

The IDIR was revitalised in 1959 and played an important role in the strike that took place in that year at Wonji, and in the labour actions at Wonji in 1961. Yet in many ways its role as a friendly society limited its ability to organise and lead industrial action. Hence the attempt to set up a trade union by the workers at Wonji, an attempt strongly resisted by HVA, but finally sanctioned after sustained labour action in 1962. Hence

also HVA's subsequent discrimination in favour of IDIRs against Trade Unions, as for example in the building of a church at Wonji in 1966. On the plantation, the workers applied to join the main Wonji/Shoa union in 1965, but HVA entered objections that the workers were not employees of HVA (being 'independent contractors') and were therefore not eligible to do so. When the government authorities ruled that the workers could join the union, the Capo system and HVA's anti-union policy continued to make it very difficult for the union to organise effectively, discriminating against union leaders as far as jobs were concerned, arrests of trade union leaders by a police force which had its salary and housing paid for - indirectly - by HVA.

f) finally, when it was clear that union was established, HVA attempted to limit its impact by mechanisation. On the Wonji estate they introduced a grab loading system in the face of workers demonstrations to the Company and the Emporer, and when these demonstrations failed to bite (44 of the leading trade unionists were sacked without compensation) the company introduced more machinery into fertilising, forking and loading the cane. Altogether the number of seasonal workers on the estates were reduced from 7,000 to 1,200. In the factories the major step was the adoption of capital intensive machinery at Matahara. The reason given by HVA was the labour troubles on the existing estates during the sixties. "On the basis of the experience at Wonji and Shoa and recent developments in sugar engineering and technology all over the world, a factory has been designed which will be equipped with the most up-to-date installation" (Share Prospectus for HVA(M) 1968). As a result, even by 1971 Matahara had a ratio between permenent employees and annual output of 42 tons per worker, against Wonji and Shoa's ratio of 20 tons per worker in the same year.

63.The result of these policies towards labour was a history of declining wages on the plantations, worsening working conditions, and a lengthening of hours. This is how the union saw the situation in 1967: "Previously, each worker was assigned to a Capo, but mow each worker gets up in the morning, carries his tools, uncertain of being employed, going from one Capo to another requesting a job, and in many cases returning home unemployed. Cane cutters not immediately employed used to receive E$0.50 per day until employed and E$2.00 when the cutting period was finished plus transportation to the estates and then back to their home areas. ...At one time cutters were issued with identification cards but HVA-Ethiopia abolished this system, exposing the cane cutter to extortion from the Capos. Transportation to the cane field and drinking water were once furnished: this has been discontinued by HVA-Ethiopia. The working day has been lengthened to 14-16 hours per day. ...Wages at the estates between 1953 and 1965 have been slowly reduced to a point where they are far less than half what they were in 1953." The very demands that the field workers independently made after wild cat strikes in 1967 testify to the conditions HVA had imposed: "We must be given jobs... We must be provided with medical facilities... We must be recognised as workers by being registered... We must have our working hours fixed... We must have our daily rates fixed... We must be paid overtime... All trading and drink establishments in the Plantation Section must be given to the workers as they are established for their welfare... Cane cutters must be paid 4 months wages... The Company must put an end to the propaganda it disseminates throughout the country about the availability of jobs as a consequence of which there are more hands required...We must have a liaison officer from the Government who will alleviate our suffering... There must be an end to unfair imprisonment on the part of the police... For works

performed in darkness and distant places, transportation and light must be provided... Water must be provided during working hours."[21]

64. HVA's rate of profit is founded on these conditions, on the division and repression of workers torn from their people and their rural rhythms and submitted to the time economy of capital. This profit has now been transformed into property by accountants, and stands as a claim to compensation. Might we not ask HVA and their share-holders' representatives to elaborate this claim to a body of HVA's field workers and factory hands who have been submitted to HVA's methods of controlling labour?

VI

Nationalisation and HVA

65. For HVA the nationalisation of its Ethiopian assets comes at a critical stage of its development. As a company it stood to be eclipsed after Indonesian independence. In 1950 99% of its fixed assets were in Indonesia. At 91m.fl. they covered the share capital of 60m.fl one and a half times, and accounted for 83% of capital employed. Indonesia provided almost all the profit with which the shareholders were paid their regular dividend. By the mid 50's the flow of profits had stopped and in 1957 the assets were nationalised without compensation. In the books HVA entered their claim at 30m. fl., but the claim was valueless.

66. HVA remained in existence because of Ethiopia. By 1958 they entered their Ethiopian interests in the head office books at 47m.fl. By 1965 the Ethiopian fixed assets (property plant and equipment) were entered at 71m. fl. or 89% of HVA's total. Once more the share capital was covered by the value of fixed assets, and once more there was a regular profit stream to furnish the dividend for HVA's original shareholders. Their over-riding concern during the 1960's was to consolidate this rehabilitation. Expansion was concentrated in Ethiopia. Profits from Ethiopia went to cover head office expenses and the dividend. Virtually all profits declared in the holding company's accounts were distributed until 1969. None were retained for expansion.

67. By the late 1960's, HVA found themselves alive but vulnerable. Other international sugar companies were expanding by vertical integration (uniting machinery production, sugar production and often by product production) and diversification into new fields (Bookers into retailing, Tate and Lyle into trading and shipping,

and into the general field of agro-industrial consultancy and development). HVA were still confined to sugar production. Moreover, they were dependent on one country, and one ruler. It was for these reasons that the Dutch financial institutions began to pull out their holdings in HVA at this time, fearing the possibility of another Indonesia without an Ethiopia to take its place.

68. HVA have accordingly started on a belated policy of diversification. The main features of the policy are as follows:

a) an emphasis on horizontal integration into new sugar production or into products requiring similar support services (palm oil, tea, abaca, - i.e. plantation crops, mostly involving international trade).[22]

b) a notable absense of vertical integration, with the exception of their interests in sugar chemical production in Holland and Brazil, in a distillery in Ghana and in sweet making and cattle raising in Ethiopia. Most striking is HVA's lack of a link to a sugar machinery producer, Stork having merged with one of the main Dutch machinery manufacturers - Werkspoor.

c) a development of the company as a provider of managerial and technical services, with little or no equity participation. They have increased their number of consultants at head office from 15-20 in 1958 to 50 or so now (excluding permanent employees engaged 'in the field'). Their consultancy has mainly involved re-structuring existing firms, and managing sugar production on a semi-permanent basis. More recently they have gone into turnkey projects, and now into 'product-key' ones - where one contractor organises the design, ordering and construction of a sugar operation as well as providing its management.

d) the limiting of equity investment to sectors which are less susceptible to nationalisation (HVA have taken over two Dutch trading firms) and to similarly secure places (the investment in the Dutch sugar chemical plant).

e) the diversification of geographical interest. HVA have now had experience of primary production in 24 countries, 18 of them involving some aspect of sugar. But they are still heavily concentrated - by virtue of their know-how- on underdeveloped countries.

69. It is still open to question as to how far this strategy will succeed. The sale of know-how in a relatively competitive industry promises only limited profits. Their lack of a machinery subsidiary prevents the company from making the machinery profits from turnkey projects enjoyed by their rivals. Their prospectus makes a virtue of this necessity when it says, 'HVA has no connections directly or indirectly with any engineering equipment manufacturer or other supplier'. But the extra business it may win on this score cannot make up for the profits foregone from the tied machinery sales. Their one chance is to provide these services to their own subsidiary in a protected market with disciplined labour. This is the recipe which worked so well in Indonesia before the war and in Ethiopia afterwards. They now have participations in Brazil and Surinam (formerly Dutch Guyana), in Indonesia, Kenya and Ghana. None of these match in any way the holdings in Ethiopia.

70. HVA's great problem has been their lack of cash. They have been trying to diversify and match the developments of the international industry on a shoestring. In 1968 their liquid assets totalled less than 6m fl (E$4m) and were under 1m fl in 1974. The Ethiopian profits may have been large but they have only just been sufficient to maintain the dividend, expand the head office, and finance the

Dutch takeovers. Accordingly even after 5 years of diversification, Ethiopia still accounts for 92% of the company's property, plant and equipment and 80% of the profits. The nationalisation in Ethiopia and the freezing of dividend outflows has meant that HVA were forced to announce a zero dividend in April 1976 for the first time since 1947.[23] With current liabilities now exceeding current assets, HVA are perhaps even more vulnerable than they were when Indonesia nationalised them in 1957. Their one hope is to liquidate their assets in Ethiopia, freeing money for investment in diversification. This is why the compensation issue is more critical for HVA than perhaps for any other international firm in Ethiopia. A continued share and management contract will allow them to maintain at least part of the value of assets in their books, and to renew the flow of profits through the mechanisms we have described earlier. A full expropriation without compensation and the ending of relations, would lead the current market value of the company - standing 39m fl (E$32m) as against the book value of the capital employed at 133m fl (E$110) - to be even more severely marked down on the Amsterdam stock exchange.

VII

Nationalisation and Ethiopia

71. For Ethiopia the question falls into two parts: the significance of HVA's operations for the local economy, and the extent of the losses (if any) which would result from HVA's withdrawal in the event of nationalisation without compensation.

72. As far as HVA's significance is concerned, the company's proponents in Ethiopia have emphasised its contribution to taxation, foreign exchange and employment, as well as more generally to growth through its own high value added, and its indirect stimulus via local multiplier effects and linkages. Some of these claims are far fetched. The substantial sums of taxation derived from sugar were, because of HVA's monopoly, effectively a tax on consumers of sugar and thus on the total economy rather than a deduction from some notional 'normal' corporate profit'.

The saving of foreign exchange of HVA's operations is also far from clear. In an estimate made for 1968, Dr. Barac found there was a net drain of foreign exchange from sugar production in Ethiopia as contrasted to imports. Below are his figures with a revised estimate taking into account later evidence on service commissions, the import content of expatriate salaries and a more reasonable figure for depreciation.

Table 15

Foreign exchange expenditure by HVA (Ethiopia 1967-8)

	SB's estimate	Revised estimate
Depreciation (at annual rate of 10% for head office equipment with 50% foreign content; 2½% for plantations, dams, canals, & irrigation machinery with 10% import content; 2½% factory buildings, plant, machinery & equipment with 80% import content; 2½% heavy rolling stock and agricultural machinery with 100% import content; & 25% light rolling stock with 100% import content.)	1,247,817	2,495,634
Purchases abroad	2,360,000	2,360,000
Dividends repatriated	3,628,800	3,628,800
Total service commissions paid to VHVAM	330,007	660,015
Expatriate salaries sent abroad (revised estimate includes imports; SB's figure takes 19% of expatriate salaries)	474,911	1,250,000
Total	8,041,535	10,394,449

In 1968 it was possible to buy 82,472 tons of sugar on the world market with the amount of money given in Dr.Barac's estimate. The price then was of course low, but so too was the dividend repatriated by HVA. If we take an average world market price for the period 1960/69, the average profit for the period, and also adjust the figures as in the revised estimate, we find that Ethiopia could have imported an average of 55,683 tons per annum on the foreign exchange costs of the Shoa/Wonji operations alone, against an average production of 66,190 over the same period. The saving is positive, but surprisingly small.

74. As far as other effects on the economy are concerned, undoubtedly HVA has provided a market both for intermediates and via wages and salaries for subsistence goods. It has played a significant role therefore in expanding capitalism in Ethiopia. Whether these are marked up as 'contributions' or merely 'consequences' of HVA operations depends on ones view of the role of the market in development. Certainly it is hard to share the view that HVA's contribution to employment is somehow an argument in favour of the company, once one has seen the conditions in which that employment takes place.

75. Yet the main point is not to construct some form of cost benefit analysis comparing what has taken place with what would have happened in the absence of the company, but rather to compare the likely progress of the operation under two alternatives; a) a majority government ownership; with compensation agreeable to HVA and HVA remaining as managing agents; b) full nationalisation, with replacement of HVA by an alternative management. Could HVA inflict costs on Ethiopia which would outweigh the gains of retiring HVA without compensation ? Could they sabotage production through the supply of spare parts, technical knowledge and managerial skill, and/or invoke more general sanctions from Holland or international bodies like the World Bank ?

76. My judgement is that in all these respects Ethiopia is in a strong position to take a firm line. Sugar industry consultants with whom I have discussed the matter regard it as straightforward to substitute HVA without a serious loss in output. On spare parts, the main machinery at Wonji and Shoa comes from Stork, at Matahara from Fletcher and Stewart. Stork it is true is a Dutch firm. It has no links with HVA, and though it might cut off supplies out of solidarity with a firm with which it does a good deal of joint business, the sugar consultants thought it would be unlikely to maintain that solidarity if a) the orders were placed through a third party, or b) there was the prospect of a major new sugar plant order which I understand is possible at some point in the future.

77. Furthermore, much of the Stork machinery is either substitutable or repairable by other suppliers. The sugar machinery market is competitive. The major international suppliers are listed in Table 16.

Table 16.

Major Sugar Machinery Producers

Smith and Mirless (Tate & Lyle, UK)
Fletcher and Stewart (Booker McConnell, UK)
Fives Babcock (France, subsidiary of British firm Babcock & Willcox).
BMA (Germany)
Buchau (Germany)
Cekop (Poland)
Skoda (Czekoslovakia)
Hitachi (Japan)
Fulton (US)

Source: industry information.

In addition there are now many smaller producers, including those from underdeveloped countries. Taiwan is building a sugar mill in Liberia for example, Brazil makes a lot of its own sugar machinery and exports to Bolivia, India undertakes all its own construction.

78. Much of the specialised equipment is in any case supplied by independent specialists. The centifuges at Shoa were made by Broadbents of Huddersfield, UK, the boilers by Babcock and Willcox, the turbines at Shoa by Brown Boveri of Switzerland. Again it was thought extremely unlikely that these firms would refuse to supply an Ethiopian operation which had dispensed with HVA.

79. As far as technicians are concerned, the number of expatriates still in Ethiopia is small, and most of them are concentrated in management. The main technical posts at Shoa and Wonji are held by Ethiopians. We had some discussion with them about the technical dependence which still remained, and they made the following comments:

a) spare part ordering was simple. Currently all spares required were entered on one order form which was then retyped by HVA International in Amsterdam. The technical manager we talked to thought that Ethiopia would be perfectly capable of doing this, though it might require someone working from an office in Europe.

b) the Wonji technicians said they had an idea of what prices should be. From an inspection of the ordering system this appeared to be based on the previous price charged for the part.

c) both at Wonji and Shoa the technicians considered themselves fully capable of operating and maintaining the mills - this was their current job - and the plantation manager, an Ethiopian, made a similar remark about running the plantation.

d) none of them regarded management as a serious problem, though whether this was with good cause I cannot judge.

e) the one field in which they felt themselves inexperienced was in the design and checking of a new plant. HVA International had a team with this experience, though the Ethiopian technicians agreed that this could be learned or hired independently.

We also discussed technical dependence with a Dutch engineer from Matahara. At the time (July 1975) there were 25 expatriates at Matahara, but this was being reduced to 9 by the start of the next milling season. The Dutchmen thought that even if all 9 were withdrawn Matahara could still be operated, even if output might drop by half. In general he thought that HVA had very little technical hold over Ethiopia, which was one of the reasons for their great concern in Amsterdam.

80. Since then I have talked to sugar technicians from Mauritius, the Phillipines and Peru. Each of them regarded the problem as relatively trivial, particularly because the plants were now old and their technology well known. All of them thought their countries would be in a position to provide technical assistance. A former long term consultant to the Cuban sugar industry thought similarly that the Cubans would certainly be able to supply any technical support required, as they were doing in Zambia.

81. I would not wish to minimise the technical economies which have been derived from HVA in Holland. They have a large office of designers, traders, technical consultants and back up staff. They have established their reputation in the international sugar industry as technical consultants and managers. Some of this know-how has been internalised in the Ethiopian staff - the technical manager at Wonji had been to Ghana to give technical aid to an HVA managed sugar mill there. Other technicians particularly on the new development side, would have to be further developed in Ethiopia, and for a period at least

bought from other suppliers. My point is, however, that sugar technology is relatively accessible to new entrants, its international supply is relatively competitive and dispersed, and that the losses that Ethiopia might sustain in the short run (if any) would be more than made up for on our calculations by the saving in compensation payments or further dividend and capital outflows.

82. Ethiopia is also in a good position with respect to more general sanctions on behalf of HVA. First there is the evidence itself. If this is elaborated and sustained, then the case against compensation must appear strong. Elsewhere I have suggested that the compensation proceedings take a quasi judicial form, with public testimony brought forward on the points at issue, and the company being required to answer. Such a public form would make it more difficult for international or national bodies to press for compensation in the face of clear breaches of local law and international principle.

83. Secondly HVA is in a weak position. Certainly it is a large firm, it ranks 39th in Holland, and is quoted on the Dutch stock exchange. But its links with major Dutch industry and Dutch politics are weak.[24] Abandoned by the institutions its shareholders are mostly small, the leading tranche being held by an old Indonesian Chinese, and more recently by a Belgian agro-industrial firm Socofin who were invited to take a 20% holding to prevent an attempted asset stripping operation. We might note here incidentally, that the whole of HVA could now be bought up on the stock exchange for half the sum that HVA are claiming for their Ethiopian assets.

84. Finally, HVA have been the subject of attack from anti-imperialist groups in Holland, who could certainly be expected to support an Ethiopian stand against the company.

85. The injuries that HVA can inflict are therefore limited. Set against this is the advantage for Ethiopia of a clear break with HVA: a saving of compensation payments whether in foreign exchange or local currency; the prospect of ending the foreign exchange outflows on the dividend account; the transformation of the labour process on the estates and in the factories, a transformation most difficult to effect through HVA; and a weakening of HVA's political presence which they have used to strengthen their monopoly position and ease the free flow of capital across the exchanges. The break and the alternative strategy would have to be carefully planned and the details worked out separately by people with technical knowledge of sugar production. My argument has been merely that this alternative strategy is justified, desirable and can be put into practice.

VIII

Summary and conclusion

1. The Claim.

86. HVA's claim in the event of full nationalisation of their holdings would amount to 51% of the value of the net assets of the group, which in 1974 would equal E$64.2m. Three forms of adjustment need to be made to this figure.

i) the value of the fixed assets should be written down to take account of HVA's practise of under-depreciating the assets in their books. With a 7½% depreciation rate this would lower the value of fixed assets from E$98m to E$30m, and HVA's claim from E$64m to E$22m. This change in accounting practise might be expected to increase current assets, but in fact most of 'lost depreciation' has been transferred abroad as profit remittance and could not be re-possessed. (paras. 16-21).

ii) HVA's claim to 51% of the value of net assets, based on their declared contribution to capital employed, should be lowered because of their over-statement of capital committed. Of the declared figure of E$64, three fifths is stated to be contributed out of foreign capital, and two fifths out of reinvested earnings. As the result of an investigation of machinery imports and of the exchange control records, we estimate that their effective foreign capital contribution is less than E$5m rather than E$38m as implied in the books, that their overall effective capital contribution is E$40.4m. not E$64.2, and their claim on net assets 40% not 51% as indicated by their formal shareholding. (paras 22-28).

iii) HVA's residual claim, being principally based on reinvested profits, should be reduced because of the circumstances in which these profits were realised:

a) their declared profits of 13% on which their arguments for continued high rates of protection were based, misrepresented their effective profit, which I estimate at an average of 27.2% post tax for the 20 year period 1955-74. (paras 39-47, and 57-58).

b) their monopoly position which allowed Ethiopian sugar prices to remain at up to 3 times the level of other African countries (paras 50-51) without compensating production disadvantages (paras 48-49) was also linked to a close alliance with the Imperial regime and its practises. (paras 59-60).

c) HVA's treatment of Ethiopian labour, their degredation of conditions, their depression of wages, their consistent attempt to keep labour unorganised and divided, are all practises on which no claims whatsoever can be based (paras 61-4).

The conditions for HVA's monopoly profits negate claims to compensation based on them. At a 'normal' rate of return on effective capital employed, HVA would be required to pay substantial compensation to the Ethiopian government for 'excess' profits repatriated (approx. E$25m.)

2. The Balance of dependence.

87. HVA are in a weaker position than Ethiopia in the event of a conflict on compensation. HVA are heavily dependent on their Ethiopian operations. Ethiopia still accounts for 92% of the international company's property plant and equipment, and 80% of its profits. The freezing of dividend flows after nationalisation has meant that HVA have declared zero dividend in Holland, and their share price has continued to fall. Although the 39th largest firm in Holland, they now lack institutional backing and industrial support. The internationally competitive character of sugar technology and machinery means that it would be hard for HVA to sabotage Ethiopian production through interruptions of the supply of spare parts and the withdrawal of technicians. The one possible sanction, Dutch representation to the World Bank to cut off general loans, could be countered by public hearings in which the realities of HVA's operations in Ethiopia over the last twenty five years could be exhibited, and their lessons brought home by action in Ethiopia, and Holland (paras, 65-70, 76-84).

88. Against this nationalisation without compensation promises Ethiopia some recompense for the excess profits that passed through the exchanges on HVA's account since 1955, it offers a chance to stop this degree of foreign exchange drain in the future, to increase Ethiopian control of sugar technology, and to re-organise and liberate the labour process of the sugar estates and in the factories. (paras. 85).

3. Concluding comments.

89. Certain general points are clearly brought out from the study of HVA's in Ethiopia.

i) the tendency for multinational firms arrange their accounts so that large effective profits appear as normal profits in order to minimise tax, or to avoid the attention of competitors, governments or organised labour.

ii) the use of overpricing initial machinery in such accounting arrangements. Machinery overpricing has the following advantages:
- it inflates the capital base and thus lowers the declared rate of profit
- it allows higher depreciation provisions, and thus lowers declared profits and taxes
- in the case of joint ventures, machinery overpricing allows a foreign firm to lower its effective capital contribution to equity funds, or to realise profits from a partners' capital contribution
- it allows cash to be taken across the exchanges under the heading of import costs rather than as an export of capital. This is important where there are restrictions on the latter.
- it raises the value of assets on which compensation can be claimed after nationalisation.

iii) the inflation of the value of assets ('watering the stock) through other means, for example asset revaluation, capitalisation of fees, and low depreciation rates.

iv) the obscuring of effective profits through the use of management and service charges, the control of imports

and exports (opening the possibility for transfer pricing) or the use of a branch which is not required to declare its profits.

v) the build up of a foreign capital stake through reinvested local earnings.

vi) the timing of expansions to ensure semi-continuous existence of tax holidays for one part of the firm's operations.

vii) the maintenance of control through management and service contracts, even when equity control is diluted.

viii) the reinforcement of this control through information restriction.

ix) the importance for international firms of political alliances with ruling regimes in the foreign country concerned. In this case we may note HVA's initial concern to 'buy' a government guarantee, to involve members of the regime through shareholdings, and to develop a managerial aristocracy of Ethiopians within the firm with high rates of pay but often limited power.

x) the use of particular contractual forms, methods of recruitment, wage systems, and production technology to ensure the discipline of labour in production and the weakness of labour organisation.

90. All these points relate to the techniques and power of the international firm concerned. But we have also seen that these techniques are not inscrutable, and this power is not unlimited. Indeed, it is ever more confined by the circumstances of the international market, by Ethiopian labour on the estates, and by the course of the Ethiopian revolution. We may say that in this case at least it is clear - as it has been clear to HVA from the beginning - that it is politics not economics that has the final say in determining the industry's course of development.

Footnotes

For their help in preparing this paper I would particularly like to thank Dr.Stefan Barac, Gerry Hagelberg, the Berlin Sugar Institute, and officials at the MNRD and National Bank in Ethiopia.

1. Net asset are defined as Total Assets minus Current Liabilities and Long Term Loans. Dates are given as the year during which the bulk of HVA's activities took place in their accounting year which runs from 1st September. Thus 1973/4 is given as 1974. This is to conform with the consolidation practise of HVA Amsterdam.

2. G.C.Allen and A.G.Donnithorne, Western Enterprise in Indonesia and Malaya, Allen & Unwin 1954. p.191.

3. John Sutter, Indonesianisasi; Politics in a Changing Economy, 1940-55. Cornell University Thesis 1955. Vol.1. p.13.

4. Ibid. Vol. III. p.704.

5. The information in this paragraph has been taken from HVA's Annual Reports, 1949-51, or notes from company interviews.

6. Tate and Lyle's study implies that the discrepancy between their costs and those of HVA were due to an underutilisation of capacity rather than overpricing of equipment costs per se. Their argument should be checked in the report. At this point we cite their results as supportive of other evidence rather than as conclusive in themselves.

7. See Al Viton, "World Sugar Outlook for the 1970's" in Sugar y Azukar, Vol.64, No.12, 1969. By way of a check we may take an estimate made by a Dutchman at the time of Wonji's construction. This was US$200 per ton, but it excluded the cost of agriculture, transport and other infrastructure. In HVA Ethiopia's books, the cost of the factory itself, "buildings, plant, machinery and equipment" constituted 72% of fixed assets at cost. Assuming the same ratio for Wonji and Shoa, we would have to adjust the Dutch estimate to US$278 per ton to get a figure for the total cost of establishment. See Peter Honig, "Technichal Progress in the Sugar Industry"" in Sugar y Azucar, Vol. 49, No.10, 1954, pp.33-5.

A later estimate for the mid 60's of US$200 per ton of annual sugar capacity was given in the Jamaican government's "Report of the sugar industry enquiry commission", Kingston, 1966, but this was for a capacity of 50,000 tons, i.e. one more comparable to the Matahara factory.

8. Figures from the study on HVA, by Dr.S.Barac, then of the Ministry of Commerce and Industry.

9. One interesting example from the sugar industry came to light in the course of the Denning Enquiry into the Sugar industry in Fiji. The sugar mills there were owned by the large Australian sugar firm CSR. They were instructed by a Government commission to set up a subsidiary to replace the branch in 1961, and in 1964 CSR offered some of its share to the Fijian public. During Lord Denning's investigation it became clear that: i) CSR revalued both their milling assets and land attached to their mills, ii) they used only a 4% depreciation rate, iii) they issued bonus shares, paid for by means of what Lord Denning called "a very complex financial operation" and

which the Company referred to as "satisfaction of dividend after capitalising accumulated reserves". Lord Denning said he was unable to assess the reasonableness of the asset valuation itself. This is a common difficulty in the capitalisation of branches. See the Denning Report, Chapter II, pp. 13-16.

10. Another way of looking at the point is to value assets on the basis of discounted future earnings. Without protection, zero earnings would imply zero fixed asset values in their present use. In fact HVA have acknowledged that their Wonji plant, "the old grandmother needs major retooling after 20 years of operation."

11. In a study of 14 major companies in the manufacturing sector, the World Bank found an average rate of net profit on equity plus reserves of 12·5% for the years 1967-1969. The study commented that this order of magnitude had been "confirmed by statements from manufacturers and bankers who often indicate that prospective entrepreneurs usually expect a financial return of around 15-20% but usually earn about 10-15%." I.B.R.D. Economic Growth and Prospects in Ethiopia, 1970 Vol II Annex 2, p.7.

12. Strictly we should have included the branch's asset figures in our general figure for capital employed, but since these assets appear to amount to little more than 1 car, and given the inadequate figures on the book value of this asset, I have not done so.

13. R.M.Auty. "The sugar industry of Demerara 1930-65: some problems in identifying scale economies, "Journal of Tropical Geography, (Singapore) 34 (June) pp.8-16. cf. G.B. Hagelberg, The Caribbean Sugar Industries: Constraints and Opportunities, Yale 1974, p.98.

14. The Wonji Trade Unionists Report "Conditions and Wages, Past and Present" 1967, says "whether measured by the hour, day or month, or by cost per ton of cane cut and loaded on the carts, HVA-Ethiopia pays the lowest wages among the large sugar plantations in Africa and receives the highest gross and net per ton for sugar in Africa." p.24. See also the references cited in the report, notably: Charles Gamba, "The system of plantation wages" in Journal of Industrial Relations, 1966, pp.268-78, and W.Morgan, Economic Survey of the Sugar Plantation Industry, International Federation of Plantation, Agricultural and Allied Workers, Geneva, n.d.

15. HVA evidently tried to use the Ethiopian domestic price as a lever for raising prices in Tanzania. They claimed that the Ethiopian government allowed a price of 1,400 East African shillings, or US$200 a ton, i.e. 20 cents a kilo. The Tanzanians successfully resisted the argument, with no ill effects.

16. Getachew Gabre, Balance of Payments Effects of Foreign Private Investments with a Case Study of the Sugar Industry, HSI University Thesis, May 1972, p.35.

17. Stephen Guisinger, Tariffs and Trade Policies for the Ethiopian Manufacturing Sector, Addis Ababa, August 1972. Table 2.

18. For a moving account of European conditions see John Berger, A Seventh Man, Penguin Books 1975.

19. The account of the Capo system comes from "Conditions and Wages, Past and Present" op.cit. which also provides much of the evidence for the treatment of labour by HVA.

20. Petros Yohannes, Factors Retarding the Development of the Labour Movement in Ethiopia, HSI University Thesis, June 1970. passim.

21. "Conditions and Wages, Past and Present" op.cit.

22. In Ethiopia HVA expanded into tea, cattle raising, fresh vegetables and fruit, as well as offering to conduct a free feasibility study into a fourth sugar plantation to be run and supplied but not financed by HVA. These projects have either not proceeded or are still in their early stages.

23. The announcement on 6th April 1976 said that of their profits of 8.2m fl. in 1975, 6.6m fl. came from Ethiopia, and that these had been blocked. See de Volkskrant, for the 7th April.

24. A recent study of major Dutch firms found HVA one of the least integrated with other sectors of industry as exemplified by the extent of the inter-locking directorates. See H.M.Helmers, R.J.Mokken, R.C.Plijter, and F.N.Stokman, Graven naar macht, Van Gennep, Amsterdam, 1975, p.424.

HVA IN ETHIOPIA

FINANCE & RETURNS 1952-1974.

	1	2	3	4	5	6	7	8	9	10	11	12
	Capital Employed	Declared foreign share in equity & reserves	VHVAM share	Total VHVAM effective capital	Effective foreign capital	Accumulated re-invested earnings	Net profit after tax of HVA group in E.	VHVAM share of profits	Re-invested earnings	Dividend to VHVAM	HVA Int. Profits	Management Fees
1952	6,387,318	6,387,318	6,387,318	3,387,318	3,387,318	-	-	-	-	-	-	-
1953	13,900,000	13,900,000	13,900,000	7,900,000	7,900,000	-	-	-	-	-	-	-
1954	16,700,000	16,700,000	16,700,000	10,000,000	10,000,000	-	540,000*	540,000*	-	540,000*	-	-
1955	18,930,000*	18,456,828	18,930,000*	12,230,000	10,000,000	2,230,000	3,000,000*	3,000,000*	2,230,000	770,000*	-	-
1956	21,433,227	20,424,871	21,433,227	13,533,227	8,800,000	4,733,227	3,679,487	3,679,487	2,503,227	1,176,260	-	-
1957	24,068,572	22,459,613	24,068,572	14,968,522	7,600,000	7,368,572	7,217,341	7,217,341	2,635,345	4,581,996	-	-
1958	25,563,454	23,324,560	25,563,454	10,890,303	2,026,849	8,863,454	7,157,341	7,157,341	1,494,882	5,662,459	-	-
1959	28,000,000	22,400,000	22,400,000	13,753,738	2,026,849	11,726,889	7,359,294	5,887,435	2,863,435	3,024,000	90,171	500,000*
1960	31,579,294	25,263,435	25,263,435	19,215,764	4,468,192	14,747,572	7,975,854	6,380,683	3,020,683	3,360,000	116,514	500,000*
1961	35,355,148	28,284,118	28,284,118	22,555,899	7,162,662	15,393,237	3,357,081	2,685,665	645,665	2,040,000	23,924	500,000*
1962	34,291,780	27,433,424	27,433,424	23,059,539	7,162,662	15,896,877	3,179,550	2,543,640	503,640	2,040,000	35,430	500,000*
1963	56,261,870	45,009,496	45,009,496	24,794,521	7,161,572	17,632,949	7,210,090	5,768,072	1,736,072	4,032,000	120,958	500,000*
1964	58,018,480	46,414,784	46,414,784	26,999,809	7,161,572	19,838,237	8,804,610	7,043,688	2,205,288	4,838,400	120,000*	500,000*
1965	59,689,486	47,751,588	47,751,588	28,336,614	7,161,572	21,175,042	7,719,006	6,175,205	1,336,805	4,838,400	120,000*	612,808
1966	67,073,460	52,267,465	50,964,706	31,283,793	7,161,572	24,122,221	9,731,974	7,785,579	2,947,179	4,838,400	120,000*	893,580
1967	79,640,631	59,130,904	54,725,092	34,467,205	7,158,447	27,308,758	10,031,171	8,024,937	3,186,537	4,838,400	120,000*	973,288
1968	86,785,766	62,415,012	55,804,665	35,041,713	7,158,447	27,883,266	5,254,135	4,203,308	574,508	3,628,800	152,445	1,251,015
1969	100,727,558	66,655,646	57,282,046	35,519,487	7,113,987	28,405,500	4,852,792	3,882,234	522,234	3,360,000	150,000*	1,272,700
1970	101,493,749	67,114,682	57,648,306	34,944,906	5,963,987	28,980,919	5,227,138	3,935,419	575,419	3,360,000	150,000*	1,065,394
1971	104,822,601	70,824,258	58,577,707	34,848,508	4,813,987	30,034,521	10,540,852	5,301,002	1,053,602	4,247,400	200,000*	1,219,041
1972	109,952,286	73,655,793	60,213,875	36,484,677	4,813,987	31,670,690	13,468,665	6,883,169	1,636,169	5,247,000	200,000*	1,200,000*
1973	118,546,684	78,415,410	62,985,396	38,616,474	4,813,987	33,802,487	17,672,873	8,130,797	2,131,797	5,999,000	200,000*	1,200,000*
1974	123,629,615	80,997,919	64,173,695	40,444,772	4,813,987	35,630,785	14,470,806	7,770,298	1,828,298	5,942,000	200,000*	1,200,000*
Total							136,855,891	113,995,300	35,630,785	78,364,515	2,119,442	13,887,826

	13	14	15	16	17	18	19	20	21	22	23	24	
	Total Returns (8+11+12)	Accumulated Dividends	Foreign Re-patriations (10+11+12)	Cumulative Foreign Re-patriations	Capital Repatriations	Net Foreign Exchange Contributions (5-16)	Declared foreign exchange balance (2-14)	Rate of Return (7 % of 1)	Rate of Return (8 as % of 3)	Rate of Return (13 as a % of 3)	Effective Rate of Return (13 as a % of 4)	Effective Repatriated Return (15 as a % of 4	and 5)
1952	-	-	-	-	-	3,387,318	6,387,318	-	-	-	-	-	-
1953	-	-	-	-	-	7,900,000	13,900,000	-	-	-	-	-	-
1954	540,000	540,000	540,000	540,000	-	9,460,000	16,160,000	3.2	3.2	3.2	5.4	5.4	5.4
1955	3,000,000	1,310,000	770,000	1,310,000	-	8,690,000	17,146,828	16.3	16.3	16.3	24.4	6.3	7.7
1956	3,679,487	2,486,260	1,176,260	2,486,260	1,200,000	6,313,740	17,938,611	18.0	18.0	18.0	27.2	8.7	13.4
1957	7,217,341	7,068,256	4,581,996	7,068,256	1,200,000	531,744	15,391,357	32.1	32.1	32.1	48.2	30.6	60.2
1958	7,157,341	12,730,715	5,662,459	12,730,715	5,773,151	-10,703,866	10,593,845	30.7	30.7	30.7	65.7	52.0	279.4
1959	6,477,606	15,754,715	3,614,171	20,744,478	-	-18,717,629	6,645,285	26.3	26.3	28.9	47.1	26.2	178.4
1960	6,997,197	19,114,730	3,976,514	24,720,992	-	-20,252,800	6,148,705	25.3	25.3	27.7	36.4	20.7	89.0
1961	3,209,589	21,154,730	2,563,924	27,284,916	-	-20,122,254	7,129,388	9.5	9.5	11.3	14.2	11.4	35.8
1962	3,079,070	23,194,730	2,575,430	29,860,346	-	-22,697,684	4,238,694	9.3	9.3	11.2	13.4	11.2	36.0
1963	6,389,030	27,226,730	4,652,958	34,513,304	1,090	-27,351,732	17,782,766	12.8	12.8	14.2	25.8	18.7	65.0
1964	7,663,688	32,065,130	5,458,400	39,971,704	-	-32,810,132	14,349,654	15.2	15.2	16.5	28.4	20.2	76.2
1965	6,908,013	36,903,530	5,571,208	45,542,912	-	-38,381,340	10,848,058	12.9	12.9	14.5	24.4	19.6	77.8
1966	8,799,159	41,741,930	5,851,980	51,394,892	-	-44,233,320	10,525,535	14.5	15.3	17.3	28.1	18.7	81.7
1967	9,118,225	46,580,330	5,931,688	57,326,580	3,125	-50,168,133	12,550,574	12.6	14.7	16.7	26.5	17.2	82.9
1968	5,606,768	50,209,130	5,032,260	62,358,840	-	-55,200,393	12,205,882	6.1	7.5	10.0	16.0	14.4	70.3
1969	5,304,934	53,569,130	4,782,700	67,141,540	44,460	-60,027,553	13,086,516	4.8	6.8	9.3	14.9	13.5	67.2
1970	5,150,813	56,929,130	4,575,394	71,716,934	1,150,000	-65,752,947	10,185,552	5.1	6.8	8.9	14.7	13.1	76.7
1971	6,720,043	61,176,530	5,656,441	77,373,375	1,150,000	-72,559,388	9,647,728	10.1	9.0	11.5	19.3	16.2	117.5
1972	8,283,169	66,423,530	6,647,000	84,020,375	-	-79,206,388	7,232,263	13.3	11.4	13.8	22.7	18.2	138.1
1973	9,530,797	72,422,530	7,399,000	91,419,375	-	-86,605,388	5,992,880	14.9	12.9	15.1	24.7	19.2	153.7
1974	9,170,298	78,354,530	7,342,000	98,761,375	-	-93,947,388	2,643,389	11.7	12.1	14.3	22.7	18.2	152.5
Total	130,002,568				10,321,826								

Notes:

*	indicates estimate.
Col. 1	Capital Employed, consists of fixed assets at book value and inventory up to 1958 as declared by the branch. After the constitution of HVA (Ethiopia) the figures are for paid up capital and reserves. The capital employed for HVA(E) and HVA(M) are added together.
Col. 2	Indicates VHVAM's share in capital employed. During the branch period, the Dutch parent of course held 100%. Afterwards, it held 80% of HVA(E) and 42.45% of HVA(M) either directly or through HVA(E)'s holding.
Col. 3	There is an element of double counting in the simple summation of capital employed between the two subsidiaries, since part of HVA(E)'s capital employed represents HVA(M)'s capital. Hence we have adjusted column 2 by limiting the HVA(M) stake of the Dutch company to their direct holding of 7%.
Col. 4	Effective capital is an estimate of VHVAM's effective capital contribution, made up of an effective foreign capital contribution (Col. 5) and reinvested earnings, (Col. 6).
Col. 5	Effective foreign capital contribution is stated foreign capital inflows minus: (a) overpricing of the initial machinery at Wonji by 9.1m.E$ (b) capital repatriations - see column 17. (c) overpricing at Shoa of E$3m. (d) foreign contribution of E$5m. for Shoa in 1962 of which no record exists in the foreign exchange records. (e) foreign contribution of E$2.3m. for Matahara for which insufficient evidence exists in the exchange control department for the money actually having been passed over the exchanges. (f) overvaluation of branch assets in 1958 through revaluation and under depreciation (3.35mE$).
Col. 6	Accumulated reinvested earnings consists or the sum of the difference between VHVA's share of profits and the dividend paid abroad.
Col. 7.	Total profits for both companies simply summated as for Col. 1.
Col. 8	The share of profit is based on the same principle as Col. 3, i.e. it nets out HVA(E)'s share in HVA Matahara.
Col. 9	Re-invested earnings: see Col. 6.
Col.10	Dividends to VHVAM as declared in the books. The share paid out abroad during the period of the branch is determined by the assumption that all new capital investment in Wonji between 1955 and 1958 is paid for out of accumulated profit. The pay out therefore is residual.
Col. 11	HVA International have only filed their accounts with the National Bank for certain years. Accordingly we have filled in the intervening years with what are probably underestimates.
Col. 12	We have estimated management fees for the years for which we have no figures. For HVA(E) the management fee was 2½% of the factory price of all output sold, for HVA(M) 300,000 for years up to September 1970, then 2½% of net proceeds up to 10% of annual net profit but not less than E$390,000 p.a. We have figures for sales price and output, but from this it is necessary to deduct distribution costs. We have therefore adjusted the ratio of fees to income to 2.2% to take account of this and averaged the results over the 1959-64. For the later estimates we do not have satisfactory income figures and therefore have assumed an annual figure in line with the trend (it almost certainly understates the true proportion because of the high prices that ruled in the latter years).
Col. 17	Capital repatriations are taken from exchange control records, save for the early period. The figures for 1956 and 1957 are estimated as a result of a portion of the overpricing of equipment which we have assumed was paid for from reinvested earnings. The overpricing we have taken as equivalent to a capital repatriation.