

## ***Document***

### **The Fiji Sugar Industry**

#### **Fiji Sugar Corporation<sup>1</sup>**

#### **A Brief History of the Sugar Industry in Fiji**

##### *The Country*

Fiji is situated in the South Pacific approximately 3100 km north-east of Sydney, 2100km north of Auckland and 5100km south-east of Honolulu. Fiji consists of 332 islands of which the two largest are Viti Levu (10,429 sq km) and Vanua Levu (5,556 sq km). The capital of the country is Suva, a city situated in the south-eastern coast of Viti Levu. The other city is Lautoka, the centre of the sugar industry, situated on the north-eastern coast of Viti Levu. There is a population of around 840,000 of which about 50% are indigenous Fijians, with Indo-Fijians making up most of the balance.

##### **The Industry Today**

###### *The Mills*

The Colonial Sugar Refining Company Limited (CSR), an Australian Company, commenced operations in Fiji in 1882. Rarawai Mill was established at Ba in north-western Viti Levu in 1884, Labasa Mill in Vanua Levu in 1894 and crushing commenced in Lautoka in 1903. Penang Mill at Rakiraki in northern Viti Levu was founded in 1881 and acquired by CSR in 1926. All the cane grown in Fiji is crushed at these 4 mills.

The 4 mills are today capable of crushing about 4m tonnes per

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<sup>1</sup> Briefing Notes prepared by the FSC for the EU Commissioner for Development and Humanitarian Affairs, 2002. It is produced here to give a glimpse of the miller's thoughts on the industry.

annum, in a normal season which lasts from about June to November when the west season sets in. The balance of the year is taken up with maintaining the mills. 4 million tonnes of cane will yield 420-440,000 tonnes of sugar depending on the quality of cane. However, due to the problems associated with the slow or non-renewal of expiring 30-year native leases, production is down to 3 million tonnes.

The mills are old, overmanned, not automated, and expensive to operate and maintain. Further, they are not equipped to make the quality of sugar the market is increasingly demanding. An extensive capital programme is required to bring them to a standard where they can meet world's best practice.

### *The Growers*

The cane is grown by about 22,000 individuals farming an average 3-4 hectares, with the majority producing less than 200 tonnes per annum.

The small farms arose from the demise of the indentured Indian labour system in 1920. 3-4 hectares of land were leased to individual farmers, which was sufficient to support a farmer and his family working alongside him. With the effluxion of time, many farmers have moved on to better things. The small farms of today are farmed by the older generation, using hired help or by part-time farmers as a source of second income. The cutters are contracted and burn cane against the wishes of the grower because it is easier to cut. Burnt cane, unless it is processed quickly, deteriorates and produces poor quality sugar. Mechanical harvesting is in its infancy in Fiji. Coupled with this, the majority of the farms are located on 30-year native leases, many of which are expiring. This has meant that farmers are not re-investing in the cane assets.

### *The Transportation of Cane*

About 50% of the cane is transported to the mills on a rail system which is owned, operated and paid for by the miller at a cost of about \$12 million per annum. The balance of the cane is transported by a fleet of about 2,000 7-10 tonne capacity aged lorries, some of which are 50 years old and can operate only because the Land Transport Authority exempts them from complying with the axle loading requirements. There are no guarantees that exemptions will

be given in the future. The cost of transporting cane by lorry which is also about \$12 million per annum, is borne by the grower not the miller. This anomaly arose because the rail system was built to service the original growers. As time went by, others wanted to farm more distant land and the miller agreed to this on the basis that the transportation cost was to the account of the grower.

### *The Miller*

The sugar produced is sold domestically, regionally and exported to the rest of the world with the bulk going to Europe.

Presently, there are available to less and least developed countries preferential markets which will ultimately be phased out. The price for preferential sugar is approximately 2-2<sup>1</sup>/<sub>2</sub> times that of world price.

FSC's quota for preferential sugar is approximately 190,000 tonnes per annum. The balance is sold on the world market. The position on preferential sugar is clear until 2006 but thereafter it is less certain but prices and volumes will certainly decline.

If the Fiji Sugar Industry is to survive in the long term, it will have to be able to compete at world market prices.

### *Regulatory Framework*

The Industry is highly regulated and highly politicised. The relationship between the miller and grower has been the subject of a number of awards, which set out in great detail the rights and obligations of the two parties. By their own construction they are divisive with each party scrambling for their fair share of the "cake".

In 1969, Lord Denning, an imminent English Judge, arbitrated a dispute between the growers and CSR. The outcome was that CSR decided that the risks associated with operating in Fiji were too great and decided to sell. Government purchased their interest in 1973 for \$10 million and the Fiji Sugar Corporation Ltd took over the milling operations on 1<sup>st</sup> April 1973. The Government today holds 68% of the shares with the balance being held by statutory bodies, corporations and individuals.

Since the Denning Award, there have been two further awards, one in 1979 and the latter, which is still extant, in 1989. These two awards have further eroded the position of the miller which was ad-

judged to be untenable by CSR in 1969.

One of the fundamental provisions covered by the current Award is determination of the price to be paid to the grower for his cane. This is based on a formula whereby the grower, after certain deductions, receives 70% of the proceeds with FSC receiving the balance. Conventionally, in other countries which adopt the proceeds sharing formula, the growers receive about 60% and the miller 40%. In fact there was a Commission of Enquiry leading up to the 1989 Master Award which concluded that FSC was demonstrably entitled to 40% but on humanitarian grounds, the Commission awarded the growers 70% rather than 60%. This effectively deprived FSC of approximately \$20 million per annum, which if it had been invested wisely, could have meant that the industry would not be in the position it is in today.

FSC has lost \$37m over the last 2 years and is forecast to lose \$169m if it were to remain in business. Clearly, drastic action has to be taken if the industry is to survive.

### **The Place of the Sugar Industry in the Economy of Fiji**

The economy of Fiji was largely dependent on the production and export of sugar since pre-Independence days. However, with the advent of tourism in the 1960's and the Government's commitment to encourage private investment and economic growth, the dominance of the sugar industry in the economy has decreased. Nevertheless, the sugar industry is the main exporter. It exports 90% - 95% of the sugar produced, earning about \$230 - \$240 million annually, directly contributing 22% of the National Gross Domestic Product. It supports 25% of the country's active labour force. There are currently about 40,000 people directly employed in the industry, but these numbers will have to be reduced.

### **The Present Structure of the Sugar Industry and the Problems Associated with it**

#### *Sugar Industry Act*

The Fiji Sugar Industry is strictly regulated, under the umbrella of the Sugar Industry Act. The main objectives were to establish the various bodies which govern the industry and these are enumerated

below.

- *Sugar Commission of Fiji:* The main functions are to advise the Minister and co-ordinate the activities of all sections of the industry and promote the efficiency and development of it.
- *Sugar Industry Tribunal:* Critically, the Tribunal makes the Master Award which prescribes and governs all facets of the relationship between the growers and the FSC.

Other functions of the Tribunal are the resolution of disputes between the growers, represented by the Sugar Cane Growers Council and FSC and to hear and determine any question as to the interpretation of the Act and of any award.

- *The Sugar Cane Growers Council:* The Council consists of 38 elected members and 8 members nominated by the Minister for Sugar. The major functions of the Council are to take all steps as it may consider necessary for the protection and development of the industry and of the interests of registered growers.
- *Mill Area Committee:* There is a committee for each of the 4 mill areas, the major function of which is to resolve local problems arising between FSC and the growers.

## **A Proposal to Restructure the Sugar Industry**

In view of the problems confronting the industry as a whole, the Industry has made a proposal to Government to restructure the Industry.

### *Outline of the Proposal*

What is proposed is that the Industry be structured as a business. This would involve the setting up to 5 Independent Stand Alone Companies (SACs) which would have as shareholders all of the Industry stakeholders, namely, Landowners, Growers, Employees with Government having a small residual holding. The SACs and the Fiji Sugar Marketing Co. Ltd will acquire the assets and liabilities of FSC. Each of the stakeholders will be represented on the Board of the SACs. The objective is to establish a model whereby all the stakeholders have a unity of purpose and a common interest in the success of the Industry.

It is proposed, but it is not critical, that the Landowners lease

their land to Head Lessors for a period to be negotiated, [under] one Master Lease or more for each SAC. The Head Lessors will lease, under the Head Lease, the land required to grow cane in the relevant SAC cane growing area. The Landowner will have the option of being a shareholder in the SAC receiving dividends, based on the success of it, in addition to his lease rentals.

The SAC will sublease to the individual growers sufficient land to grow the contracted amount of cane. Thus the grower will have security of tenure and confidence to invest in the cane assets. The grower will receive initial payment(s) based on the cost of producing and harvesting cane. In addition he will receive dividends based on the success of his SAC. The fixed split of proceeds between the grower and miller is abolished. What the grower will receive will at the end of the day be related to what the sugar realises in the market place.

Under this model, all of the sugar-related legislation will be repealed and the SACs will operate as commercial entities.

## **Implementing the Proposal**

### *Priority No. 1*

Government and the Industry to sign a Memorandum of Understanding which incorporates the following:

- Government resolve the issue of expiring leases.
- Government will purchase the minority shares in the Fiji Sugar Corporation Limited, at a price to be determined by Government. (Note: par value of the 32% shares held by the minorities is \$7m).
- Government will convert their loans to FSC into equity. At 31/03/03 these will total \$34m.
- Government will inject sufficient equity into FSC to eliminate the financial structural deficit which was \$19.1m at 31/03/03. The latest forecast is that the deficit will be in the vicinity of \$24m, i.e. an increase of \$5m.
- Government approve the establishment of 4 Stand Alone Companies (SACs) and the distribution of the assets and liabilities of FSC to the SACs and to Fiji Sugar Marketing.
- Government support the Industry in securing funding which is expected to amount to \$170m over a 5-year period.
- Government enact legislation which will enable the restructure of

the Industry.

- Government encourage appropriate co-operation between all the Industry Stakeholders.

#### *Priority No. 2*

- Government to form an implementation team to carry out Government's commitments under the MOU.
- Industry to form an implementation team to carry out Industry tasks.

#### *Priority No. 3*

- Industry to develop an implementation timetable for agreement by all the Stakeholders.

#### *Priority No. 4*

Industry to actively pursue EIB and secondary lenders to provide necessary funding for plant and equipment required to bring mills up to world's best practice. Establish covenants which lenders will require in their loan agreements in order that they can be incorporated into the relevant stakeholder and other agreements.

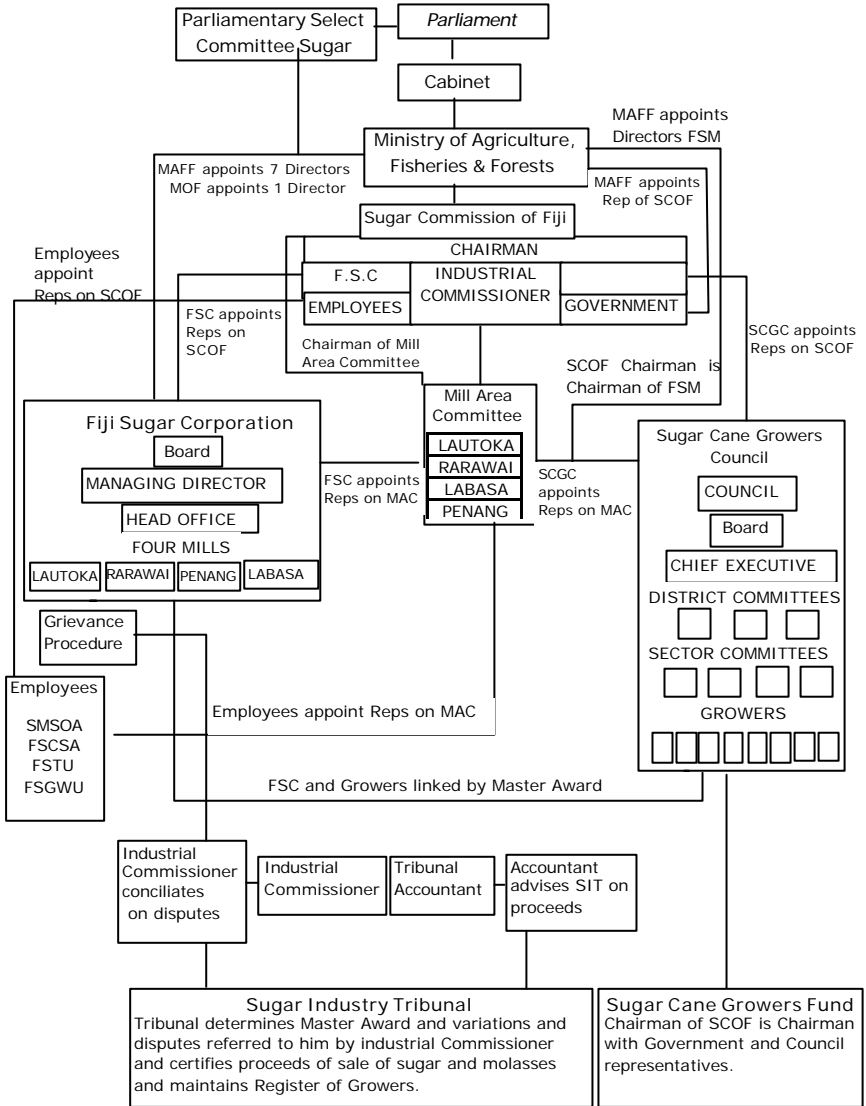
#### *Priority No. 5*

- Draft Shareholder Agreements setting out the rights of each of the shareholder groups including composition of the Board.
- Draft and negotiate Lease Agreements with NLTB.
- Draft Cane Supply and Mill Service level contacts.
- Draft Agreement on relationship with SACs and Fiji Sugar Marketing Co. Ltd.
- Agree formula for sharing of sugar proceeds among SACs.
- Progress the incorporation of the Independent Research Institute.
- Separate the FSC Information Systems Centre and draft service level agreements with 4 SACs.
- Progress FSC manpower rationalisation programme.

#### *Priority No. 6*

- Improve the cane and sugar quality and yields.
- Reduce field and transportation costs.
- Introduce field mechanisation.
- Add value to end products.

## Sugar Industry Structure



- SMSOA - Sugar Milling Staff Officers Association
- FSCSA - Fiji Sugar Clerks and Supervisors Association
- FSTU - Fiji Sugar Tradesman Union.
- FSGWU - Fiji Sugar General Workers Union.



## Export Sugar Net Proceeds for Seasonal Sugar Production

	UK/EEC - Sugar Protocol			UK/EEC - SPS			USA			World Market			Total Export		
	Ton. Delivered	Net.Val. \$Fm	Val. Per Tonne	Ton. Delivered	Net.Val. \$Fm	Val. Per Tonne	Ton. Delivered	Net.Val. \$Fm	Val. Per Tonne	Ton. Delivered	Net.Val. \$Fm	Val. Per Tonne	Ton. Delivered	Net.Val. \$Fm	Val. Per Tonne
1990	157,891	137.26	869.31				18,979	11.80	621.95	190,892	67.02	351.08	367,762	216.08	587.55
1991	182,799	163.86	896.53				14,800	9.40	635.33	157,547	52.94	336.05	355,146	226.23	637.01
1992	197,740	187.54	948.42				15,702	8.37	532.92	177,761	59.23	333.19	391,203	255.14	652.18
1993	182,033	155.83	856.04				8,403	5.58	664.42	210,483	72.32	343.61	400,919	233.73	583.00
1994	169,055	149.86	886.43				11,106	6.84	615.97	291,011	105.59	362.85	471,172	262.29	556.68
1995	191,420	167.53	875.21	55,112	42.93	778.89	10,197	6.44	631.84	155,282	57.26	368.73	412,011	274.16	665.42
1996	137,554	124.16	902.66	30,151	23.27	771.87	19,930	12.67	935.79	222,237	80.92	364.10	409,872	241.02	588.05
1997	145,566	132.66	911.32	33,733	23.55	697.99	18,980	12.47	656.83	104,839	39.25	374.37	303,118	207.92	685.93
1998	189,180	210.03	1,110.20	31,932	28.15	881.57	0	0.00	0.00	31,946	9.38	293.66	253,058	247.56	978.27
1999	201,206	195.78	973.02	38,448	34.23	890.38	18,513	16.02	865.38	78,270	20.34	259.81	336,437	266.37	791.73
2000	176,471	166.14	941.48	20,331	15.62	768.44	9,083	6.58	724.11	102,398	42.04	410.56	308,283	230.38	747.31
2001	172,493	168.73	978.20	15,700	14.27	910.68	9,065	8.47	934.91	46,615	19.74	423.51	243,873	211.25	866.22

### Export Sugar Nett Proceeds for Seasonal Production

	UK/EEC			USA			MALAYSIA			NEW ZEALAND			CHINA		
	Ton.Out.	Net.Val. (\$FM)	Val./Ton.	Ton.Out.	Net.Val. (\$FM)	Val./Ton.	Ton.Out.	Net.Val. (\$FM)	Val./Ton.	Ton.Out.	Net.Val. (\$FM)	Val./Ton.	Ton.Out.	Net.Val. (\$FM)	Val./Ton.
1990	157,891	137.26	869.31	18,979	11.80	621.95	109,866	35.39	322.08	19,028	7.30	383.57	14,649	7.33	500.16
1991	182,799	163.89	896.53	14,800	9.40	635.33	87,629	29.85	340.68	NIL	NIL	NIL	25,180	10.50	417.03
1992	197,740	187.54	948.42	15,702	8.37	532.92	117,347	41.24	651.41	NIL	NIL	NIL	15,000	4.59	305.97
1993	182,033	155.83	856.04	8,403	5.58	664.42	106,255	37.61	354.00	NIL	0.00	NIL	NIL	0.00	NIL
1994	169,055	149.86	886.43	11,106	6.84	615.97	112,213	36.52	325.41	NIL	NIL	NIL	NIL	NIL	NIL
1995	191,420	172.79	902.66	10,197	6.14	602.20	89,883	30.72	341.79	NIL	NIL	NIL	15,734	71.79	4,574.36
1996	137,554	124.16	902.66	19,930	12.67	635.79	90,216	30.32	336.09	NIL	NIL	NIL	20,000	8.49	424.71
1997	145,566	132.66	911.32	19,980	12.47	656.83	59,717	22.46	376.07	NIL	NIL	NIL	0	0.00	0.00
1998	195,514	213	1,089.41	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	0	0.00	0.00
1999	201,206	195.78	973.02	18,513	16.02	865.38	0	0.00	0.00	NIL	NIL	NIL	0	0.00	0.00
2000	176,471	166.14	941.48	9,083	6.58	724.11	21,910	5.02	229.03	NIL	NIL	NIL	0	0.00	0.00
2001	172,493	168.73	978.20	9,065	8.47	934.87	0	0.00	0.00	NIL	NIL	NIL	0	0.00	0.00

### Export Sugar Nett Proceeds for Seasonal Production... Continued.

	JAPAN			CANADA			SINGAPORE			KOREA			INDONESIA			TAIWAN			SPS		
	Ton.Out.	Net.Val. (\$FM)	Val./Ton.	Ton.Out.	Net.Val. (\$FM)	Val./Ton.	Ton.Out.	Net.Val. (\$FM)	Val./Ton.	Ton.Out.	Net.Val. (\$FM)	Val./Ton.	Ton.Out.	Net.Val. (\$FM)	Val./Ton.	Ton.Out.	Net.Val. (\$FM)	Val./Ton.	Ton.Out.	Net.Val. (\$FM)	Val./Ton.
1990	47,349	17.0	359.2	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL							NIL	NIL	NIL
1991	44,738	12.6	281.4	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL							NIL	NIL	NIL
1992	31,435	9.0	285.5	13,979	4.4	316.7	NIL	NIL	NIL	NIL	NIL	NIL							NIL	NIL	NIL
1993	46,152	14.9	322.1	37,829	12.2	321.9	NIL	0.00	NIL	20,247	7.7	378.7							NIL	0.00	NIL
1994	92,926	35.4	281.0	35,855	13.5	376.5	NIL	NIL	NIL	50,017	20.2	403.4							NIL	NIL	NIL
1995	31,678	12.3	389.0	17,986	7.0	390.0	NIL	NIL	NIL	0	0.0	0.0							55,112	42.9	778.9
1996	77,045	28.8	373.6	0	0.0	0.0	19,995	7.75	387.9	14,981	5.6	371.3							30,151	23.3	771.9
1997	45,122	16.8	372.1	0	0.0	0.0	NIL	NIL	NIL	0	0.0	0.0							33,733	23.6	698.0
1998	16,946	5.6	327.8	0	0.0	0.0	NIL	NIL	NIL	15,000	3.5	233.4							31,932	29.0	906.9
1999	48,270	12.1	250.8	0	0.0	0.0	0	0.00	0.00	30,000	8.2	274.4							38,448	34.2	890.4
2000	18,238	6.4	353.3	0	0.0	0.0	NIL	NIL	NIL	14,600	4.9	335.1	20,000	10.6	531.2	27,650	15.1	544.8	20,331	15.6	768.4
2001	51,615	21.9	423.5	0	0.0	0.0	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0.00	0.00	0.00	15,700	14.3	910.7

**Export Sugar Nett Proceeds for Seasonal Production... Continued.**

	TOTAL EXPORT			LOCAL CONSUMPTION		
	Tonnes	Net Value (\$m)	Value per Tonne	Tonnes.	Net Value (\$m)	Value per Tonne (\$)
1990	367,762	216.1	587.6	37,709	12.2	323.9
1991	355,146	226.2	637.0	31,743	10.3	323.2
1992	291,203	255.1	652.2	33,217	10.9	328.5
1993	400,919	233.7	583.0	40,779	14.1	344.5
1994	471,172	262.3	556.7	42,449	14.6	344.9
1995	412,011	343.9	834.7	40,964	14.1	344.5
1996	409,872	241.0	588.1	42,621	14.7	344.9
1997	303,118	207.9	685.9	42,653	14.7	345.0
1998	259,392	251.0	967.7	NIL	NIL	NIL
1999	336,437	266.4	791.7	37,697	13.1	348.0
2000	308,283	230.4	747.3	32,813	11.6	351.9
2001	248,873	213.4	857.3	45,000	15.8	350.0