



# AID-FOR-TRADE CASE STORY

FIJI



## CASE STORY ON FIJI'S SUGAR INDUSTRY





## **GOVERNMENT OF FIJI**

### **CASE STORY ON FIJI'S SUGAR INDUSTRY**

Date of Submission: 24<sup>th</sup> February 2011

Region: Pacific Region

Country: Fiji

Type: Reform of Fiji Sugar Industry

Contact Details: Sugar Unit, Office of the Prime Minister

P.O. Box 2353

Government Buildings

Suva

Fiji

Phone: +679 3211454

## **TABLE OF CONTENTS**

<b><u>Title</u></b>	<b><u>Pages</u></b>
Executive Summary	3
1. Issues Addressed	3-4
2. Objectives Pursued	4-5
3. Fiji Sugar Industry Restructure: Design and Implementation	5-6
4. Problems Encountered	6- 7
5. Factors for Success/Failure	9-8
6. Results Achieved	8
7. Lessons Learned	8-9
8. Conclusion (applicability to other programs)	9

## **EXECUTIVE SUMMARY**

The European Union's agreement with the African Caribbean and Pacific (ACP) Group on sugar, the Sugar Protocol, formally ended on 30 September, 2009. The sugar trade arrangements between the ACP and the EU are now part of either the Interim or Full Economic Partnership Agreements (EPA) which the parties have negotiated or are in the process of negotiating.

To help the ACP signatory States, like Fiji adapt to the new sugar regime, the EU had offered assistance in the form of the Accompanying Measures Support Program (AMSP), designed to support these countries adjustment needs as they face new conditions on the European Union's sugar market on the basis of each country's needs, related in particular to the impact of the reform on the sugar sector in the country concerned and to the significance of the sugar sector in the economy.

Fiji as a signatory to the Sugar Protocol from the Pacific was to have benefited from the EU Aid under the Accompanying Measures Support Programme.

The combination of 36% price cut in the EU and declining cane production in Fiji and events outside its control, such as the weather, sees the industry under considerable pressure. However, given the political will and vigorous implementation of the reform and adaptation strategy, the industry looks forward to the future with considerable optimism. This, in turn, will help with the security of supply to the EU buyer with which Fiji has a long term supply contract up to 2015.

Unfortunately, the political developments of December 2006 in Fiji has created a barrier between the Fiji's sugar industry and the financial and technical assistance under the Accompanying Measures Support Programme to the extent that the EU has suspended in line with the outcome of EU/Fiji consultations undertaken pursuant to Article 96 of the Cotonou Agreement with the EU citing "a clear roadmap to democratic elections" as the pre-requisite for the release of funds under the Accompanying Measures Support Programme. The dialogue between the Fiji Government and the EU on this issue is ongoing however the EU position has remained unchanged thus far. At the same time, Fiji wishes to express its appreciation to the EU for the disbursement of the 2006 AMSP funds which has been put to judicious use in the cane rehabilitation programme.

This Paper attempts to document the challenges that Fiji's sugar industry has faced in the absence of EU's assistance and seeks EU's strong support on the recommendation that the development assistance that has been previously agreed to mitigate the adverse impacts of the cumulative price cuts the EU imposed from 2006 through to 2009, be disbursed without political pre-conditions, given the indiscriminately destructive and irreversible damages that will be afflicted on a high number of Fiji' poorest communities that rely solely on sugar-based incomes for their livelihoods.

## **1.0 ISSUES ADDRESSED**

### **Adjustment/ Reforms of the Sugar Industry- Expiry of Lomé, Preferences**

Sugar has been exported from the former ACP colonies, like Fiji, to Europe under various preferential trade arrangements since the 19th century. The Commonwealth Sugar Agreement of 1951 formalised these preferential trading arrangements, and this was then succeeded by the ACP/EC Sugar Protocol in 1973 on the accession of the UK to the European Community (EC). The Protocol was then appended to the first Lomé Convention in 1975 and then subsequent Lomé Conventions and until 30 September 2009 the Cotonou Agreement.

The ACP countries have been beneficiaries of guaranteed prices for fixed sugar export quotas to the EU for the better part of two decades till the Sugar Protocol came to an end in 2009. Fiji had an agreed quota of 165,348.3 metric tons under the Sugar Protocol.

The EU sugar regime reform price cut which came into effect as from 1 July 2006 and cumulated into a 36% price reduction as from the 2009/2010 marketing year resulted in an annual loss of stable and predictable revenue of about 32.3 million euros for Fiji.

## **2.0 OBJECTIVES PURSUED**

The impact of the wholesale changes brought about by the EU sugar regime on the ACP was profound.

In order for the Industry to survive and weather the proverbial storm caused by the price cuts and the withdrawal of EU assistance offered under the Accompanying Measures Support Programme, the industry had to look inwardly to make an assessment of the various institutions and identify where it could save costs and remove barriers that do not add value or contribute to building a revitalized sugar industry.

The main institutions that make up Fiji's sugar industry are as follows:

- Sugar Commission of Fiji
- Fiji Sugar Marketing Company Limited
- Fiji Sugar Corporation Limited (FSC)
- Sugar Cane Growers Council
- Sugar Industry Tribunal
- Sugar Cane Growers Fund
- Sugar Research Institute of Fiji
- South Pacific Fertilizers Limited

Generally, three areas were identified as requiring either strengthening or removal. The FSC Senior Management lacked capacity and needed strengthening. The industry overhead costs needed to be reduced and politics was something that the industry could ill-afford,

particularly at this critical juncture in its development. Resulting out of these assessments, consultants were recruited to strengthen executive management and operational functions at the FSC. An executive chairman, two consultants and two experienced milling personnel were recruited in early 2009.

In March 2009, the Government decided to dissolve the Sugar Commission of Fiji and the Fiji Sugar Marketing Company Limited whose joint annual operational budget amounted to approximately \$1.2 million which is funded by the industry. Party politics was so entrenched in the day-to-day running of the industry that it was unapologetically used as a political football wherein promises for better things were made to the electorates in return for political support. For a number of political parties, cane growers have been used as their political power base and manipulated as an influential lobby group.

Although the Sugar Cane Growers Council's annual operational budget is funded by the growers themselves through a levy and not by the industry, the Government decided to terminate the services of the 38 councillors elected to the Board of the Council on party lines, but left the administrative arm of the Council to remain in operation and to continue to provide advisory services to growers. This particular reform brought about a savings of approximately \$250,000 per annum to the Council.

### **3.0 FIJI SUGAR INDUSTRY RESTRUCTURE: DESIGN AND IMPLEMENTATION**

In late 2009, it became apparent that the survival of the sugar industry was dependent on the financial stability of the Fiji Sugar Corporation Limited itself. Although Government had provided a Loan Guarantee to the Corporation, the latter was not able to secure short term borrowings because the money market was not convinced on the Corporation's ability to pay. The FSC was insolvent. This posed a real challenge to Government in that its Loan Guarantee to FSC, which by April 2010 stood at \$120 million, was no longer contingent but a real liability.

Following a submission by FSC to Government in April 2009 in which FSC declared inability to service its debts, Government engaged Deloitte of New Zealand, an international consultancy firm, to undertake a comprehensive review of the sugar industry in Fiji including the restructure of the FSC finances and to make recommendations on the way forward.

Deloitte recommended that Government take over all debt (except overdraft facility) of the Fiji Sugar Corporation Limited and 100% ownership and control of FSC. FSC would also be delisted from the South Pacific Stock Exchange with its losses to be absorbed by the Government and for Government to continue to reform the sugar industry and return FSC to profitability.

In September 2010, the Government approved these recommendations and appointed the Sugar Task Force consisting of the following members to implement these recommendations:

- Permanent Secretary for Sugar (Chair)
- Permanent Secretary for Finance
- Permanent Secretary for Strategic Planning
- Governor of Reserve Bank of Fiji
- CEO for Fiji Islands Revenue & Customs Authority
- Chairman, FSC

The implementation of these recommendations has started in October 2010 with changes at the executive level of the FSC with the appointment of a new Chairman and CEO. A more flat organization structure has been put in place and advertisements for a new CEO and executive management group positions have been placed in the media which should be filled by June 2011 at the latest. The FSC debt takeover by Government also started in October last year and the Government has set aside \$110 million in 2011 to meet FSC commitments as and when they fall due.

The reforms in other areas of the industry are in progress. The target is for these reforms to be completed and for FSC to be self-financed by 31 December 2012.

#### **4.0 PROBLEMS ENCOUNTERED**

Apart from climatic conditions, tropical cyclones and others the real problems that face the Fiji sugar industry for the last five (5) years from our observation would be:

- Mill unreliability and inefficiency
- Declining cane production
- Insolvency of the miller (FSC)

All four sugar mills are over 100 years old making them unreliable with frequent breakdown/stoppages and inefficient - the latter leading to the inability of the sugar mills to extract maximum sugar from raw sugar cane. Declining cane production is attributed to a number of factors which include:

- aging farmers where the children have opted for white collar jobs, in lieu of the cane farm leading to a lack of continuity
- loss of confidence to invest in new plant cane owing to uncertainty of renewal of leases when they expire
- declining sugar prices from the EU
- rising costs of production
- unreliable sugar mills, and
- political influence that has not contributed positively to the development of the industry.

The financial difficulty of FSC was triggered by the mill upgrade programme when it had to invest its working capital requirements of approximately F\$30 million to meet the local component of the mill upgrade which costed F\$86 million (US\$50.4million) and financed by the Exim Bank of India for equipment upgrades. The low cane production which resulted in low sugar production meant low revenues and subsequently additional borrowings from the Government. Government assistance was in the form of providing loan guarantees to FSC to facilitate its domestic borrowings for short term cash requirements. In 2008 the loan guarantee government provided to FSC was \$25 million. This was increased to \$70 million in March 2009 which was increased further to \$120 million in March 2010. Deloitte of New Zealand was engaged by Government at the time to carry out its comprehensive review, at the instigation by the International Monetary Fund (IMF).

There is no reservation that had the currently withheld EU funding being disbursed as agreed and kept outside of the political spectrum, the funds would have being utilized to at least increase cane production and other areas under the component of 'sustainability of the sugar industry'. Furthermore, some necessary relief would have been provided to affected industry stakeholders under the other two components of the AMSP viz. 'agriculture diversification support' and the 'social mitigation support'.

The Government recognizes that the decision to withdraw €60 million Accompanying Measures Support funds under MIP 1 was made through the EU's implementation of Article 96 of the Cotonou Agreement. This led to the Government having to fund most of the reform programs for the industry. This decision has unavoidably left in its wake a much bigger problem in the diversion of scarce financial resources of government from equally important socio-economic priorities that have a much higher multiplier effect and wider redistribution of economic benefits on Fiji's low-income population. The effect of shouldering the burden of FSC's liabilities has been such that Government's debt to GDP ratio has increased from 53.2% to 56%. Furthermore, 200,000 people, which is approximately a quarter of Fiji's population, depend directly or indirectly on the industry for their livelihood.

In the face of the overwhelming challenges faced and the skepticism of some of Fiji's development partners, the Fiji Government was steadfast and unmoved in its resolve to support the sugar industry at any cost. This speaks volumes of the Government's commitment to reviving this industry and clearly demonstrates its unshaken confidence in rebuilding this important industry that has already contributed significantly to Fiji's initial and critical phase of economic development since its independence, and which it firmly believes still has the enormous potential to continue to do so in the future. In the Finance Minister's 2011 Budget Address to the nation, he reaffirmed what has been publicly stated as Fiji' official position on the sugar industry which is: that it is here to stay. There is an abundance of political will to see the sugar industry through to its successful re-emergence as once again, a major player in Fiji's economic and social development.



## **5.0 FACTORS FOR SUCCESS OR FAILURE**

The Government believes that once the mills' technical problems are fixed, the confidence of the farmers will gradually be recovered to the extent that they will be willing to invest in the industry namely through planting of new cane by ploughing out un-economic ratoons. The current FSC executives, headed by its Executive Chairman, are working around the clock with Tate & Lyle engineers and re-engaged FSC retired engineers during this mill maintenance period/ off-peak season to make sure that the mills are fixed before the beginning of the next crushing season at around July/August. The cost of this maintenance work will be funded by the F\$130 million that Government has budgeted for FSC this year.

The FSC will be negotiating with Tate & Lyle in the near future for an increase in the sugar price in view of the current buoyant world sugar price at least for the period till 30 September 2015 when the Long Term Sugar Sales Arrangement with Tate & Lyle expires.

A recent briefing by our International Sugar Brokers (Czarnikow) showed that sugar demands would surpass production for the next 30 years. In fact by 2016 it is estimated that there would be a shortage of 30 million tonnes.

The reforms being put in place as a result of the Deloitte review will ensure that the new FSC and the revitalized sugar industry will be well placed to surge ahead come 2013.

## **6.0 RESULTS ACHIEVED**

While it is early days yet in the implementation of the recommendations of the Deloitte Report (October 2010), we can look forward with great optimism after receiving the outcome of the Committee of Better Utilisation of Land (CBUL) initiative in the renewal of ALTA (Agricultural Landlord and Tenant Act) leases and new lease offers which as at August 2010 have registered 74.5%. Of the 6,622 ALTA Leases for cane production that expired since 1997 only 1,688 reverted to *i-Taukei* (indigenous) landowners.

With regard to cane development, last year Government provided \$6.0 million grant for cane development which led to 6,000ha of new cane being planted representing 12% of the total crop (51,000ha) of cane for harvest this year. The Government has again set aside another \$6.0 million for 2011. The new owners of Tate & Lyle Sugar, American Sugar Refineries from Florida, USA are also assisting FSC through technical support to reform the sugar mills.

With the projected assured market for sugar in the foreseeable future, coupled with the positive commitment by the Government, Fiji's sugar industry could have a sustainable future despite the setbacks that are currently faced by its stakeholders.

## **7.0 LESSONS LEARNT**

While there is a general support for the current structures, objectives, principles, institutions and processes relating to Aid for Trade Initiatives, it is imperative that certain criteria of assessment for the disbursement of pledged funds undergo review for their relevance and practicality. If Aid donors are genuine in their commitment to help the people lift their standards of living through international trade, then non-compliance to certain political ideologies should not be accorded a generic response via a blanket withdrawal of development assistance. In this case, the objective of such a decision (punitive action against the Fiji government), while respecting the sovereignty of those responses, have not achieved the desired results. In fact, the withdrawal of pledged Aid for Trade funds have only led to greater socio-economic challenges faced by the very communities that it was designed to alleviate through the necessary re-channeling of scarce budgetary resources from non-core activities to higher priorities such as the current efforts to salvage an industry that continues to be a source of livelihood and survival, both directly and indirectly, for more than a quarter of Fiji's population.

The practice that Aid should go only to those with "politically correct" governments ignores the fact that it is the people and not Governments, who need help. In all probability, it is the people, who have little impact on political events are the very ones who bear the brunt of the withdrawal of assistance. Ironically, such decisions are made by decision makers who are far removed from the realities that confront the common people who struggle to survive every day.

It is unfortunate that politics has been used to deprive Fiji's sugar industry of the much needed assistance that was originally offered by the EU to cushion the adverse impacts of the 36% cumulative price cut imposed by the EU itself as a result of its CAP reforms. This has impacted negatively on approximately 200,000 people who derive their livelihoods from this industry in Fiji.

## **8.0 CONCLUSION**

If Aid for Trade is to be meaningful and accomplish its objective of helping countries develop by instituting competitiveness in trade, then access to Aid should be apolitical and based purely on merit and not upon compliance to a prescribed norm unrelated to trade.

The sugar industry in Fiji is a classical example of this where aid has been withdrawn because of Fiji's perceived non-compliance with the pre-requisites placed on it by the donor country. The pre-requisite in this case was to provide "a clear roadmap to elections". This has been addressed with the Fiji Government's announcement of a Strategic Framework for Change (SFC) on 1 July, 2009 that subscribes to clear timeframes of the various activities and economic and political milestones that will lead to elections in 2014.

The withdrawal of the EU's Accompanying Measures Program has made it much more difficult for Fiji's sugar industry to implement its reform program in order to remain viable and sustainable. Even under I-EPA, while Fiji has been given the security of market access, it has not reaped the full benefit of this new arrangement as our sugar production and therefore exports have been indirectly affected by the EU policy to withhold sugar funds under the Accompanying Measures Support Program, which Fiji is entitled to as a signatory state of the ACP-EU sugar protocol. These measures were meant to offset the impact of the EU Sugar policy reform, which entailed a cumulative 36 percent price cut that was progressively implemented from July 2006.

This decision has far-reaching and detrimental impact on the Fijian economy, the lives of the poor farmers and many more who are directly and indirectly associated with the industry, their families, and the productivity of our sugar industry. This in turn, affects supply to a major EU traditional cane sugar refiner, Tate & Lyle based in London. Without adequate supply from Fiji, Tate & Lyle would suffer even more as a result of a lack of access to raw sugar.

It is to be emphasized that the very reason for initialing and signing the Interim EPA, in the main, was to ensure, at least the continued access to the EU sugar market. This, in turn, would ensure maintenance of stability and viability of the sugar industry, which is so crucial to the socio-economic development of Fiji.

It is unfortunate that the Government of Fiji's relentless efforts in the face of unqualified criticism and skepticism to create a new Fiji for all has not been shared by some of its development partners. This has led to the unfortunate scenario where the very people that have been put at the forefront of government policies to benefit from Aid for Trade assistance have been deprived. This raises a lot of serious questions on the fundamental rationale and principles behind the Aid for Trade Initiative and its core objectives.

Fiji maintains, therefore, that Aid Donors should be apolitical in their assessment of the development assistance needs of recipient countries and their decision should be based on the merits, needs of the recipient country and the positive impacts of aid rather than on political ideologies. While we respect its importance in the foreign policies of development partners, it has often been proven to be counter-productive in terms of its impacts on the ground and at grassroots level. It also muddies the waters on the important assessment criteria that will need to be applied to ensure that the core objectives of mainstreaming trade into the development policies and strategies of national governments are successfully achieved.

---