

Document

Dark Clouds on the Sugar Horizon

National Farmers Union

The crisis in the sugar industry looms as a major challenge in the coming months. On the continued viability of this crucial industry hangs the health of the entire national economy and the livelihood of close to one-fifth of the population either directly or indirectly.

The main liability on the sugar industry is the incompetent and financially troubled Fiji Sugar Corporation. The industry is paying the price for the politicisation of FSC, which began after the 1987 coups. Management appointments based on political affiliation and ethnicity rather than merit have given rise to financial mismanagement and abuse, technical incompetence and a lack of corporate discipline. These factors, combined with a high exodus of skilled technicians, engineers and middle level managers, have taken a heavy toll on the competence and efficiency of a once thriving commercial entity.

Milling problems are now chronic with frequent factory breakdowns which in turn have adversely affected the cane harvesting programme, resulting in protracted crushing seasons and heavy losses to farmers as well as the industry.

Today the FSC is technically insolvent. Consequently it is totally dependent on government guaranteed bank loans and grants to stay afloat. It doesn't even have money to buy this year's cane to process - that's how bad FSC's financial position is. The corporation has been running at a loss since 1997. The only notable exception in this seven-year span was 1999 when the People's Coalition Government was in office. Otherwise, its position has deteriorated each year. Table 1 gives some key industry statistics.

Table 1: Industry Statistics 1997-2003

Year	Cane Crushed	Sugar Produced	Earnings	Farmers' Share \$/tonne	FSC Profit/Loss
1997	3.3m T	347,000 T	\$275.3M	\$44.82	-\$20m
1998	2.1m T	256,000 T	\$232.2M	\$50.07	-\$11.1m
1999	4.0m T	377,000 T	\$245.1 M	\$81.79	\$3m
2000	3.8 m T	341,000 T	\$282.0M	\$50.76	-\$5.3m
2001	2.9 m T	293.134 T	\$236.6 M	\$44.01	-\$21m
2002	3.1m T	295.000 T	\$230.0 M	\$55.00	-\$16.3m
2003	3.4m T	330,405 T	Na	na	-\$15.7m

(Source: Sugar Commission of Fiji)

For the year ending 31st March 2003, the corporation registered a loss of \$16 million, resulting in accumulated losses of more than \$70 million. In a bid to keep the FSC afloat, in 2002 government wrote off a \$34 million loan to FSC. It then facilitated \$75 million in loan funds from the ANZ Bank, provided on a government guarantee, to enable the corporation to continue to operate.

FSC is now gambling on a new lease of life through an industry restructure programme with technical assistance from the Asian Development Bank. But the restructure, scheduled for implementation in April 2003, had to be postponed to 2004, following rejection of the proposal by the National Farmers Union and sugar industry unions.

FSC's mill performance in the 2002 season was appalling. The Lautoka Mill was the worst offender. Plagued by almost daily breakdowns, crushing capacity at this mill fell from a norm of 50,000 tonnes to an average of 33,000 tonnes a week. This is despite additional capital investment of \$10 million in a new C² mill. The mills TCTS ratio, tonnes of cane taken to manufacture a tonne of sugar, dropped sharply from an average of 8.5 to 11. Table 2 gives the TCTS performance of the mills.

This is an absolutely appalling performance resulting in millions of dollars lost to the industry. Mill malfunction of this magnitude is of critical concern to growers because 70% of monetary loss resulting from such inefficiency is borne by them.

Table 2: Deteriorating TCTS Performance 1996-2002

Year	Cane	Sugar	Molasses	TCTS
1996	4.4m T.	454,000 T	186,000 T	9.65
1997	3.3m T	347,000 T	139,000 T	9.44
1998	2.1m T	256,000 T	96,000 T	8.21
1999	4.0m T	377,000 T	159,000 T	10.5
2000	3.8m T	341,000 T	164,000 T	11.1
2001	2.8m T	293,000 T	106,000 T	9.57
2002	3.4m T	330,000 T	-	10.36

(Source: Sugar Commission of Fiji)

The Labasa Mill performed no better during the season. It also faced frequent breakdowns. Of the four factories, only the Rarawai Mill performed to satisfaction in the 2002 season. Table 3 provides some data on mill performance during the 2002 season.

Table 3: Mill Performance 2002 season

Mill	Cane Crushed (Tonnes)	Sugar Produced (Tonnes)	TCTS Ratio	POCS %	Length of Season (Weeks)	Mill Stoppages (Hrs/week)
Lautoka	1.094M	100,839	10.85	10.47	33.5	38.3
Rarawai	1.114M	116,364	9.58	11.29	29.9	22
Labasa	938,511	88,647	10.59	11.42	25.1	25.6
Penang	275,970	24,555	11.24	11.16	24.4	29.7
Total	3.423m	330,405	10.36	11.05	-	28.9

(Source: Sugar Commission of Fiji)

The 2003 crushing season began with little promise of performing any better. The Lautoka mill broke down two days into the start of the season. The Penang Mill has also been working on a stop-start basis. Under the sugar master award, FSC has an obligation to run its mills efficiently.

It must be held accountable for its inability to fulfil its obligations under the Master Award. Farmers who incur losses on account of

FSC's negligence are now being encouraged to claim compensation through the Small Claims Tribunal.

Land Problem

On an industry-wide level, the problem caused by non-renewal of native leases has taken its own heavy toll. Cane production has declined drastically, falling by a million tonnes from an average of 4 million tonnes a year to barely 3 million.

Leases began expiring in September 1997. Until 2002, some 4000 families had been displaced and made homeless overnight.

When it became increasingly obvious that a political solution to the land problem was not foreseeable in the near future, the Labour-led People's Coalition Government introduced a rehabilitation grant of \$28,000 per displaced farmer to alleviate the suffering in the cane field caused by evictions. But this scheme was withdrawn immediately after the coup when the illegal interim administration led by Laisenia Qarase took office.

With no state assistance, most displaced families have drifted to the fringes of urban centres to settle as squatters. This has manifested itself in a mushrooming of squatter settlements in towns around the cane districts and in the outskirts of Suva with Indian squatters outnumbering other races by an overwhelming majority in the cane towns. This same racial discrepancy is not obvious in the squatter settlements around the Suva-Nausori corridor. Table 4 shows the racial breakdown of squatters.

Table 4: Squatter Statistics, Racial Breakdown (2002)

Ethnicity	Western Division	Northern Division	Suva-Nausori Region	Total
Fijians	837	180	3640	4657
Indian	3316	579	2675	6570
Others	15	38	-	53
Total	4168	797	6315	11,280

(Source: Ministry of Local Government, Housing and Squatter Settlements)

The crisis in the cane fields has resulted in a corresponding explosion of poverty levels and related social problems. Government sta-

tistics reveal that at March 2002, 18,146 families were receiving the state welfare assistance. This is close to 100,000 people or 12% of the population and is quite apart from hundreds more who are receiving rations provided by charitable organizations. The latter claim that they are unable to cater for growing queues of desperate people turning up to them for assistance.

Faced with Fiji's record high unemployment levels, it is obvious that the job market is unable to absorb displaced farmers in search of alternative sources of employment. Add to this the hundreds of children forced to drop out of schools due to financial hardship in the cane areas caused by the non-renewal of leases, one begins to get a picture of the socio-economic calamity that has shaken the cane belt.

Sugar Export Tax

The SDL government's decision to raise the sugar export tax from 3% to a massive 10%, has further stoked the simmering resentment in the cane belt. Farmers led by the NFU raised strong objections to this, warning of a harvest boycott in the 2004 season, should the increase not be withdrawn. Government has since given a commitment to the Sugar Steering committee that the increase will be withdrawn in the 2004 Budget; it did so when the budget was presented in November 2003.

National Harvest Quota

FSC has not helped ease the rising tide of resentment among growers, by attempts to impose arbitrary decisions on farmers in the 2003 season, notably its move to reduce the national harvest quota to 68% of the 2003 crop and to introduce the quality cane payment system, both of which have met with strong opposition. It was forced under pressure to rescind its decision to reduce the harvest quota to 68% of the 2003 crop.

Drought

The current prolonged drought, particularly in the western and northern divisions have added to farmers' woes. In the worst affected areas, particularly in the hilly areas of the cane belt, the 2003 crop has suffered 60% damage levelling out to between 25%-30% devastation

in other areas.

According to current estimates, the 2003 crop is down by 500,000 tonnes and is declining every week as the drought continues to wreak havoc. Next season's crop is also in danger with the drying up of the ratoon crop in the worst affected areas.

An urgent motion by the Fiji Labour Party in Parliament for special government assistance to victims of the drought and a crop rehabilitation programme for cane and other crops, was rejected by the SDL government. However, it is hoped that a meeting of the Sugar Select Committee expected to be held in November will realise the seriousness of the situation and recommend State assistance to rehabilitate next year's crop and provide cash assistance to drought-stricken families.

Sugar Industry Restructure

Frustrated by all these internal problems, cane farmers are not going to take kindly to government efforts to unilaterally impose what amounts to a rescue package for the financially stricken FSC, disguised as an industry restructuring proposal.

Faced with strong warnings from growers led by the National Farmers Union, and from sugar industry workers' unions, government backed off on plans to impose the restructuring from April this year. It has, however, now made known its intention to table in Parliament next April amendments to the Sugar Industry Act that envisages far-reaching changes to the industry.

Farmers and the unions have made it clear that any proposal that fails to consult them in its formulation, will be rejected. Their stand has received support from the consultants to the Asian Development Bank who have advised that restructuring be shelved until all stakeholders, including farmers and landowners, have been consulted and a consensus achieved.

The restructure as presently envisaged, makes drastic changes to the entire industry set up, much of which, if implemented, will be highly detrimental to the interests of canegrowers. The proposal:

- ?? intends to replace FSC with four restructured milling companies
- one for each mill- with landowners, farmers and mill workers as equity partners. Cane farmers, as shareholders, are guaranteed a cane price of \$32 a tonne compared to an average \$55 they

receive currently. Anything above this will depend on whether the company makes a profit.

- ?? Industry institutions – the Sugar Commission, the Sugar Cane Growers Council and the Sugar Industry Tribunal - to be scrapped;
- ?? the existing Sugar Master Award to be replaced by individual contracts with growers
- ?? The conversion of rail to lorry transport; and the introduction of a quality cane payment system
- ?? All cane to be grown on land under a master lease to the milling company which would then sublease individual farms to cane growers
- ?? Under the plan, 9000 small growers, producing under 200 tonnes of cane, will be eliminated.

A Government-appointed steering committee led by former Agriculture Minister Charles Walker, and composed of industry representatives, was expected to present a report on the restructuring to the Prime Minister some months ago but has been unable to do so because of wide differences between the various stakeholders.

Government therefore appears to have decided to proceed unilaterally in imposing the FSC-drawn up restructure on the rest of the industry.

Such a dictatorial position spells trouble for the future. Farmers and workers may have to resort to strong action to fight such an imposition, particularly if an industry restructuring plan is implemented unilaterally.

The National Farmers Union has made it clear that farmers may be forced to withhold planting next year if government goes ahead with the restructure without consultation with farmers. The NFU is particularly incensed by the move to scrap the existing award and replace it with individual contracts.

Such a move smacks too much of exploitation and a return to the injustices prevalent during *Girmit* and the days of CSR (Colonial Sugar Refining Company).

The NFU sees rising instability in the sugar sector in the coming year or two should government not take steps to consult all stakeholders in formulating changes to the industry.