ECONOMICS ASSOCIATION OF FIJI PANEL DISCUSSION

“SUGAR REFORMS: DO WE HAVE A CHOICE?”

Introduction

The Economics Association of Fiji hosted a panel discussion on 20th October 2004 on “Sugar Reforms: Do we have a choice?”. The Head of Economics Department of USP, Associate Professor Dr. Biman Prasad chaired the discussion. The panellists were:

- Mr Isikeli Mataitoga, CEO Ministry of Foreign Affairs and External Trade;
- Mr Gerald Barrack, Chairman, Fiji Sugar Commission; and
- Mr John May, Managing Director, Fiji Sugar Marketing Co. Ltd.

Summary of Speeches

Dr. Biman Prasad. According to Dr. Prasad, the sugar industry in Fiji is at the crossroads. There are a number of problems that beset the industry such as the impending expiry of preferential European Union (EU) sugar prices, the non-renewal of land leases and the milling and transportation inefficiencies. The belief that the sugar industry will collapse if existing problems are not addressed prompted the Asian Development Bank and the Fiji Islands Government (ADBFG) to draw a reform plan for the industry. “While we concur with the reform plan we find the projections of the ADBFG unrealistic” Dr Prasad said. The ADBFG is of the view that sugar production will not be affected despite the industry’s problems. It is difficult to reconcile their predictions for a 29 percent increase in sugar cane and 51 percent increase in sugar productions against the projections of a 38 percent decline in total productive farms and a 28 percent decline in hectares of cane harvested. This also goes against the projections of the Fiji Sugar Cane Growers Council (FSCGC) who predict a 30 percent reduction in sugar productivity. Dr. Prasad then cited some empirical results from a paper that he co-authored with Dr. Paresh Narayan entitled “Sugar Industry Reform in Fiji, Production Decline and Its Economic Consequences”.

The empirical results show that a decline in the sugar production will have a deleterious impact on Fiji’s economy. For instance, real gross domestic product (GDP) will decline by about 1.8 percent, negatively affecting government’s tax revenues. The decline in sugar production will also have a negative impact on the nation’s welfare. This is reflected in the declining levels of wages in other sectors of the economy as well. “The decline in wages in the informal sector by more than 7 percent is of particular concern,” Dr Prasad enunciated. The result can be explained by the fact that the contribution of the agricultural sector in Fiji declined from 22 percent in 1990 to 16 percent in 2000. However, the urban manufacturing sector’s contribution to GDP increased only marginally. Therefore, the informal sector has been the natural absorber of the labour released from the agricultural sector. “Within the sugar industry, it is expected that by the year 2008 some 5,000 families will abandon sugarcane farming if leases are not renewed,” Dr. Prasad said.
According to Dr. Prasad, the increase in unemployment in the informal sector signals a major social problem, which will be a burden on both government and community resources. In conclusion, Dr. Prasad said that it is dangerous to downplay the importance of the industry. Our study clearly shows that the sugar industry is still vital to the national well-being of Fiji. It provides evidence that a decline in sugar production is likely to have significant negative consequences on most sectors of the economy. The sugar industry reform must therefore be carefully implemented so that there are alternatives to farmers who, on current evidence, are likely to be forced out of the industry as a result of the reforms. A longer time frame will be required to allow the transition to a more urban-based manufacturing sector in a less painful manner.

Mr Isikeli Mataitoga opened his speech by pointing out that if Fiji was to benefit fully from European Commission (EC) proposals for compensatory arrangements then reforms in the sugar industry must be undertaken without further delay and the sugar industry reform was not optional. The sugar industry is too critical to Fiji’s social, economic, and political stability for any reform to be on a piece meal basis. Hence, all aspects of the sugar industry should be reviewed, including, milling, farming, regulatory, and the governance structure. Even the production of raw sugar for exports should be diversified into other products. Export of raw commodities is no longer viable for world trade. He stressed the importance of keeping the relevant stakeholders informed so that they had a clear picture of the end process. The reform must not be a trial and error process, it must be informed with the developments in the world trade market for sugar and experiences of countries in the south that have had to face this same reform process. The five reasons which demand that reform in the sugar industry is urgently needed were highlighted as:

1. Impact on the Fiji economy if no reform was undertaken;
2. Future loss of preferential price in the EU Sugar market;
3. Sustainable Development Issues;
4. World Trade Organisation (WTO) Issues; and
5. Product diversification.

On the impact on the Fiji economy, Mr Mataitoga mentioned that Fiji’s socio-economic and political fortunes are closely linked. Sugar is the bedrock of the economy and its future prospects will have diverse ramification on the economy. It contributes 12-15 percent of the GDP and about 40-50 percent of Agricultural GDP. As a revenue earner it is still fourth for Fiji and the industry is still the country’s largest employer outside the state sector. Direct employment in the industry is about 40,000 and indirect employment is estimated to be about three times that. The impact zone of the industry collapsing would mean that approximately 250,000 people, who directly or indirectly depend on the sugar industry for their livelihood, would have nothing to sustain them. The services that have grown to support the sugar industry will also be severely impacted, with many likely to close as well. The geographic spread of the industry has ensured that a substantial portion of the revenue derived from the sales of sugar is also widely distributed throughout rural Fiji - the one factor that no other industry in Fiji has been able to replicate.
In terms of the future loss of preferential price for Fiji sugar to EU, Mr Mataitoga stated that these were new developments arising from the WTO Panel Decision on the EC – Export Subsidies on Sugar, and the European Union (EU) review of its sugar regime. Jointly, these two developments will result in a reduction of the price for Fiji sugar exports to the EU from its current level of Euros 529 per metric tonne to Euros 329 per metric tonne, a reduction of approximately 36 percent in the five years. At the current cost of production of sugar, that is, without the reforms, Fiji would simply be unable to supply the EU market on a commercial basis.

On sustainable development issues, Mr Mataitoga pointed out that the reform of the sugar industry provides the best opportunity to review the sustainable development issues that has been identified in the recent past but not been given time for implementation. He also mentioned that food security of people living in the sugar cane growing area must be addressed in any future reform. This, he said, would require new farming practices that focus not only on income generation but also the whole needs of the people involved. In addition, alternative livelihood programmes should be carefully developed with all stakeholders involved.

With respect to WTO Issues, Fiji can still export its Sugar protocol quota allocation of 163,600 tonnes but with decreasing price (initial reduction by 25 percent) to come into effect from year 2006/2007 and a further 11 percent from 2007/2008.

Mr Gerald Barrack focussed his speech on the work of the Indian Technology Mission Team (ITMT), and some of the plans they hoped to carry out in the mid-term. In his opening remarks Mr Barrack stated that Fiji didn’t have a level playing field – the sugar industry was furthest away from the major markets, that we are in the cyclone belt, and need to comply with WTO requirements.

On the question of what is currently been done, Mr Barrack highlighted that the ITMT report contained a number of recommendations that were common sense and logical. All reports that have been prepared for the industry over the years as far back as 1990-1991, the recommendations were basically the same in terms of what we needed to do and how to do it. The problem lay rather with the implementation phase. When the time came for action by all sectors of the industry - there was a reluctance to invest money.

The Fiji Sugar Corporation (FSC), he said, was constrained with financial cash flows because of two reasons, namely funding capital expenditure out of current cash flow, and this year’s proceeds didn’t allow them to do what they wanted to do.

On the progress of the ITMT, Mr Barrack said the ITMT produced a report, which went to parliament and an Ad Hoc Sugar Committee has been established.

On the milling side, ITMT has identified weaknesses and are prepared to assist in implementing their recommendations. The amount of money identified is around $86 million. The ITMT will also prepare an action plan, which they will try and implement with FSC, starting mainly in the slack season (i.e after crushing is finished) with the intention of introducing new equipment and systems in the mills.

Mr Barrack highlighted that there were many reasons why the production and
quality of cane also had declined. He stressed the need to invest – to increase the yield and productivity of the industry because of competition from Brazil, Australia, and Thailand. Fiji’s sugar production on average equals 5 tonnes, whereas in Swaziland, and other countries, it is 13 tonnes. So in terms of productivity, there is still a long way to go.

The ongoing uncertainty and expiry of land leases was also discussed by Mr Barrack. With the expiry of leases, farmers are not willing to put inputs into the farm also, for some new tenants, or whole new cycle of learning has to be undertaken. Moreover, some farmers were moving off the farm before the expiry of their lease. This is a human tragedy not only for farmers, but landowners as well. Landowners are now finding that their rental income is declining.

In concluding, Mr Barrack said that the industry needed to concentrate on improving the sugar yield and production, and reduce production costs, which he felt was still very high.

Offering remedies, Mr Barrack recommended providing financial assistance to the new and existing farmers. The ITMT, he said, recommended we replant 25 percent of the crop each year. Thus, every year we would have new cane coming through. This he said would improve yields and cane productivity.

Mr Barrack pointed out that within 3-4 years, the mills can be brought back to acceptable standards. It will take longer to bring the fields back to what they used to be because that is a largely educational attitudinal situation. Behind all this is the land issue. In his opinion, until a tenant or farmer knows he has security of tenure and reasonable conditions of rental, he will not invest.

That issue has to be resolved very quickly.

- **Mr John May** started off his speech by posing questions on sugar reforms:

  - Do we have a choice?
  - Can we become more efficient and competitive?
  - Can we survive the supposed price reduction?
  - Can we change?

He answered all of the above questions in the affirmative. Mr May then went on to outline some of the issues preventing change, the main one being complacency. This, he said, was based on the mentality that we have the sugar protocol and high prices, which are guaranteed for a long period. The reform of the EU would change all that. In highlighting the implications of this, Mr May stressed the need for change to ensure survival of our sugar industry. There is no other option, Mr May said. He rounded up his comments by stating that we are at the bottom of the trough in terms of our industry performance and we could only improve from the present situation.