



Submission for Sugar Price Review in the  
Domestic Market

12 JUNE 2021

*"Ensuring a Financially Viable FSC for Future"*

## Table of Contents

1.	Executive Summary.....	2
2	Overview .....	4
3	Fiji Sugar Corporation – Backbone of Fiji.....	4
3.1	History .....	4
3.1.1	Pre-Colonial Era .....	4
3.1.2	Independence and Post-Colonial Era.....	4
3.2	Alignment of FSC’s Strategic Objectives towards National Development Plan .....	5
3.3	Challenges.....	5
3.4	FSC Now.....	6
3.4.1	Changes Required to Rectify the Ailing Situation .....	7
4	Importance of FSC to Fiji’s Economy.....	7
5	Importance of FSC to farmers and industry dependence.....	7
6	FSC in Future.....	7
6.1	Future Capital Projects.....	8
6.1.1	Efficient Sugar Mill.....	8
6.1.2	Packaging, Sales and Distribution Centre .....	8
6.2	Cane Development .....	8
6.3	Milling Efficiencies.....	9
6.4	Financial Sustainability .....	9
7	Sustainability of Sugar Industry .....	9
8	Why the Need to Review Sugar Price.....	10
8.1	To Fund FSC’s Future Projects, Investments and Financial Stability .....	10
8.2	To Grow FSC and support Societal Livelihood.....	11
8.2.1	5 Year Return to Farmers.....	11
8.2.2	Support Fight Against NCD’s.....	11
9	FSC’s Request to FCCC .....	11
9.1	Regional Benchmarking for Sugar Price .....	11
9.2	Proposed Price.....	11
9.3	Proposed changes pricing scheme .....	12
10	Recommendation.....	12
11	Submission.....	12

## **1. Executive Summary**

### **1.1. Overview**

Fiji Sugar Corporation Limited (FSC) is Fiji's sugar milling company and the largest in the South Pacific. The Corporation owns and operates three sugar mills located at Lautoka and Ba on the main island of Viti Levu while Labasa mill is located on the second largest island of Vanua Levu. FSC produces direct consumption sugar for local domestic market and raw brown sugar for bulk exports which is later refined as white sugar.

### **1.2. Submission Objectives**

The Fiji Sugar Corporation does not currently have an appropriate level of return to run a financially sustainable business. These are effects of legacy issues that has riddled FSC with inefficiencies. Whether one focuses on the quota preferential pricing, the subsidies to farmers, the frequent breakdown of mills or the inability to maintain infrastructure, FSC has had these issues.

In reviewing the operations, the Board understood that only a competitive market or one that behaves like a competitive market will drive the most efficient outcomes for not just FSC but any other entity.

### **1.3. Issues**

In considering the drivers of inefficiencies, competition, and the correct pricing structure plays huge role in ensuring FSC is a financially sustainable Fijian entity. FSC has the ability to not only produce sugar but be a major exporter of finished sugar products into the Pacific and other international markets, unfortunately, the legacy issue of having a secure and guaranteed preferential price which was three (3) times the prevailing market price worked against the industry.

#### **1.3.1. Regulatory Pricing - The Approach**

The approach for regulation is important because it determines how the market will operate. Market regulation comes in play to address market failures. Market failures when considering FSC is two-fold, one FSC is the single buyer of all sugarcane in Fiji, thus a monopsony while on the other hand FSC is the single manufacturer of Sugar in Fiji, thus it could be argued that FSC holds a monopolistic position in both the supply and demand side of the market. However, this is not the full truth, in the supply side market, where FSC produces raw sugar, low barriers to entry exists in the market. Simply put anyone could import brown sugar and sell the same.

The argument is that regulations should only be used where the market failures exist. However, with low barrier to market entry the "Domestic sugar market" should not be treated as a market requiring high regulatory intervention. As such barriers to market entry does not exist, and albeit FSC is the manufacturer of sugar in Fiji, the current pricing structure does not allow for competition with overseas brands. As such, it is this absence of a competitive market that has driven a great degree of inefficiency into the FSC operations over the years. In effect, FCCC should consider the deregulation of price control of sugar in Fiji.

Deregulation would allow FSC at ex-factory levels to set its own prices which can be monitored by FCCC but allows flexibility to operations.

**1.3.2 Regulatory Pricing - The Methodology**

The FCCC, according to our limited understanding of regulatory pricing mechanisms, uses a 'Cost-plus' pricing approach. A review of methodology should be considered between cost-plus versus returns approach. This will set the tone as current pricing system does not allow for appropriate levels of returns for the business both as returns on investment and returns on capital employed.

FSC's sugarcane and sugar production trend started to decline from 1996 and did not improve since then. Despite the decline in sugar production, the cost of production and FSC's operational expenses remained the same.

**1.3.3 Proposal (Detailed Proposal Enclosed)**

While FSC has argued that regulatory approach and methodology needs reconsideration, it is imperative that a proposed Pricing Submission be made as well for FCCC to consider in the short-term or as an interim measure while systemic issues are considered.

FSC makes the following submission as outlined in the table below;

<b>SKU</b>	<b>Current Price Price \$ (VEP)</b>	<b>Proposed Price Price \$ (VEP)</b>
1 Kg	1.40	2.89
2 Kg	2.81	5.78
4 Kg	5.61	11.56
25 Kg	34.17	72.73

Note:

1. Ex-factory price should be de-regulated but FSC will follow the regulatory pricing models to set prices. FCCC could prescribe this model and monitor FSC's voluntary compliance. Open to all who can order a Minimum order quantity.
2. Wholesale Price - Price should be fixed as a percentage over the ex-factory price
3. Retail Price - this price should be set in range from urban to rural areas accounting for transportation and other logistic costs.

**1.3.4 Conclusion**

In considering this submission, the outcome sought is a fair mechanism through which FSC can operate a financially sustainable entity. Moreover, a timeline for this review is being sought so that FSC is able to plan its operations in-line with the best practice governance and regulatory systems.

## **DETAILED SUBMISSION TO FCCC**

### **2 Overview**

The Fiji Sugar Industry is one of the oldest industries in Fiji and has some significant footprints in our history books. The pivotal role of sugar in Fijian society and the island nation's economy dates back to the first harvest in 1882. FSC is responsible for the manufacture and sale of raw sugar together with molasses as a by-product. FSC owns and maintains a railway network which transports sugarcane to the mills.

It was incorporated by an act of parliament in 1972, to take over the milling activities from South Pacific Sugar Mills Limited (SPSM) and Colonial Sugar Refinery (CSR) Limited with effect from 1 April 1973. FSC has mills that are strategically located on the drier side of the two larger islands where conditions are more suited to cane growing.

During the crushing season, from May to December, FSC is the largest private sector employer with a workforce exceeding 1,700. The Packaging Plant also operates adjacent to the Lautoka Sugar Mill, producing FSC branded "Sugars of Fiji" retail packs of 1kg, 2kg and 4kg.

In order to maintain sustainable operations while FSC is undertaking its own expenditure review internally, FCCC is invited to consider the revenue requirements.

### **3 Fiji Sugar Corporation – Backbone of Fiji**

#### **3.1 History**

The Colonial Sugar Refining Company (CSR), a well-established Australian company, started in Fiji in 1880.

##### **3.1.1 Pre-Colonial Era**

CSR's first mill commenced operating at Nausori in 1882. In the following years four more mills were established which were:

- 1886: CSR's Rarawai Mill on the bank of the Ba River
- 1894: Labasa Mill on Vanua Levu
- 1903: CSR's largest mill commenced crushing at Lautoka
- 1926: Penang Mill, founded by the Wilmer brothers in 1881 at Rakiraki was acquired by CSR from the Melbourne state Company.

In 1961, CSR Company Ltd formed a Fiji subsidiary, South Pacific Sugar Mills Ltd (SPSM), which took over Fiji's Sugar Milling and commercial operations.

##### **3.1.2 Independence and Post-Colonial Era**

CSR's assets were purchased by the Fijian government in 1973, and the company was renamed the Fiji Sugar Corporation (FSC).

In 2006, the Fiji Sugar Corporation Act was repealed allowing the Corporation to be governed solely under the Companies Act. With this change, the Government of Fiji became the major shareholder to date owning 94% of shares while statutory bodies, local companies and individuals own the rest of the shares.

As a snapshot, some of the major highlights and achievements of FSC till 2020 has been:

1. Establishment of Joint Venture Farms to increase sugarcane production
2. Mechanization of the sugar industry
3. Rebranding of FSC's "Sugars of Fiji" Product
4. New Markets for Bulk Sugar and Molasses exports
5. Boiler upgrades and mitigation of environment pollution
6. Implementation of Food Safety Programs

The FSC Board was also changed, and new Directors were appointed who were equipped with necessary skills and competencies in the areas of Finance, Operations Management, Manufacturing, Engineering, Technology and Agriculture.

### **3.2 Alignment of FSC's Strategic Objectives towards National Development Plan**

FSC worked with Ministry of Sugar to commit and align its strategic actions towards Fiji's 5 year and 20-year National Development Plan. The following table summarises the alignment:

<b>National Development Plan</b>	<b>FSC Strategic Actions</b>
Structural Reforms	Investment into modernizing mill operations
Sustainable Sugar Industry	<ul style="list-style-type: none"> <li>• Grow the Sugar Industry</li> <li>• Sugarcane Development Plan</li> <li>• Cane Cartage and Fertiliser subsidies</li> <li>• Debt restructuring and financially sustainable operations.</li> </ul>
A resource-efficient, cost-effective and environmentally sustainable energy sector	Explore to further develop renewable energy operations as a diversified arm of FSC

Over the course of the next 5 years, critical support from stakeholders such as the FCCC is required where mill throughput needs to increase.

### **3.3 Challenges**

The Fiji Sugar Corporation suffered from the abolition of EU Quota and Preferential Sugar Price arrangements that Fiji enjoyed since 1975 under the European Union Lomé Convention. This guaranteed that 200,000 MT of Fiji's sugar would be sold at up to three times above the world sugar price.

The resulting insecurity surrounding land tenure has led to falling investor confidence in the industry as a whole. Farmers were given a 30-year lease under the Agriculture Landlord and Tenant Agreement (ALTA). These holdings, normally run by families and extended families, are under contract to provide sugarcane to FSC. After the leases started expiring from 1998 (the largest number expired between 2000 and 2006), a number of landlords expressed their desire not to renew the leases. This resulted in a significant number of farmers exiting the sugar industry.

The sugarcane industry has been adversely affected because of climate change. For the past 5 years', large number of natural disasters such as cyclones and droughts have impacted farms across the country. Severe tropical cyclones/floods contributing to extensive damage to crops, infrastructure and mills.

A recent analysis conducted by field team of Fiji Sugar Corporation revealed that average age of ratoon crops is approximately 8-10 years when compared with the recommended age of less than 5 years. This has had a significant impact on yield per hectare.

The sugar mills are well over 100 years old, and their regular breakdown adds further increase to cost to FSC as well as the inefficiencies. This has always been a concern to FSC as considerable time and efforts are spent to ensure major breakdowns are mitigated as well making sure that sugar extraction efficiency is maintained. The recent high Tonnes of Cane to Tonnes of Sugar (TCTS) ratio is of concern to FSC.

Low productivity by farmers, sugarcane output per hectare which stood around 55-60 MT per hectare in late 90's, stand at current average rate of 44 MT per hectare. Developed countries such as Australia, India and Brazil have an output of approximately 90 MT per hectare.

The cultivation of sugarcane farming in Fiji is largely done manually. Farmers have traditionally used bullocks and horses to plough their farms. From the 1970s onwards, tractors were introduced in most areas, but most of the farmers continue to use traditional methods of farming due to lack of capital for investment.

### **3.4 FSC Now**

FSC has been experiencing extreme financial stress attributed to various uncontrollable factors such as natural disasters, abolition of EU Preferential Sugar Price, decline in world sugar price, expiry of land leases, inefficient and aged Sugar Mills, loss of skilled workers, declining sugarcane production and deteriorating cane quality. The debt commitments arising from legacy borrowings and combined with the current reduced revenue situation has created immense cashflow constraints.

For the continuity and viability of FSC, the management with the assistance of the Board, has developed appropriate action plans to stabilize the cane production and

overall mill operations while managing its debts through the support of the Government.

### **3.4.1 Changes Required to Rectify the Ailing Situation**

It has become clear that there is a need to review the adequacy and status of the sugar industry in Fiji to develop a robust and resilient industry set to survive and prosper for the long term. This process will be strategized to move from the current stabilization efforts to grow more cane supply across Vanua Levu and Viti Levu and settle FSC financially to a model that would streamline the supply chain, introduce modern technology, consider current and new manufacturing assets in the right locations to support the marketing of Fiji Sugar locally and internationally for best value, and to consolidate the human capital skills required for the future.

## **4 Importance of FSC to Fiji’s Economy**

FSC is one of the largest private sector employers with a workforce of around 1,700 during crushing season, there are many indirect employments as other income generating activities related to the sugar industry. The sugar industry is integral to Fiji’s economy as it contributes significantly to the export earnings. The table below shows the export volume of sugar for the past 5 years;

<b>Sugar Export</b>					
Season	2019	2018	2017	2016	2015
Quantity (MT)	154,411	111,844	144,398	113,265	186,643

## **5 Importance of FSC to farmers and industry dependence**

The Sugar industry is very dear to Fiji as a significant portion of the population (over 200,000 people) directly or indirectly rely on this industry. Not only the sugarcane farmers rely on the Sugar Industry but people such as lorry owners, lorry drivers, cane cutters, farm laborers and other members of the community who are linked. From the sugar sale proceeds by FSC, a 70 percent proportion is going directly to the farmers.

During the current Covid 19 Pandemic, the Sugar Industry was (and is) heavily relied on as it provides source of revenue to farmers when majority of other revenue streams were impacted adversely. The income from Sugar Industry is very significant to drive economic activities from Sigatoka to Rakiraki and in Vanua Levu.

## **6 FSC in Future**

FSC has been experiencing extreme financial stress attributed to various uncontrollable factors such as natural disasters and volatility in the world sugar price. Sustainability of FSC can no longer be dependent on world sugar and molasses prices. Due to EU preferential price structure, the bulk sale prices of sugar and molasses were three times higher than the current world market price and this windfall has ended leaving the entire sugar industry in an untenable position. FSC will have to derive



operational efficiency, invest in new technology to become competitive in the world market, and improve crop to generate more income in order to become self-sufficient.

## **6.1 Future Capital Projects**

FSC is compelled to focus on and implement decisive Capital Investments over a ten year period that will ensure sugar industry sustainability and generate more revenue for the Corporation. Some of these projects are:

### **6.1.1 Efficient Sugar Mill**

The urgent need for FSC is to construct a highly efficient sugar mill that will bring about required productivity levels based on crop volume. The two sugar mills in Viti Levu are more than hundred years old and now requires significant investment in repair and maintenance and component upgrades to maintain operational efficiency. Also, technology integration is technically challenging in the current mill setup. With the estimated crop size in future, FSC requires only one sugar mill in Viti Levu with high crushing capacity, productive systems, and less labor-intensive operations. The new sugar mill will bring the required productivity and efficiencies to steer Sugar Industry to become self-sustainable.

This is a long-term project and FSC needs to commence capital investment planning now. Since the investment is significant, FSC would require sound financial position to increase its borrowing capability from financial institutes for the new sugar mill project.

This is a long-term investment that requires FSC to operate at full and efficient capacity, this is where we aspire to be, however, and to reach this goal FSC will need to start working towards improving current operations to enable a forward looking / future CAPEX model to fund this new mill. Moreover, the current technology used is archaic and does not allow FSC to get its 'bang for the buck' simply put, the current mills which are old with aged infrastructure are using over a 100-year-old technology and has been neglected for upgrades, such upgrades are needed to improve throughput thus increasing output and reducing per unit cost, (this means reducing per unit costs over the long term). Finally, this will mean a more stable pricing structure for all Fijians in the long term.

### **6.1.2 Packaging, Sales and Distribution Centre**

Due to the high demand of FSC's "Sugars of Fiji" Product locally and regionally, FSC will need to invest in constructing a fully integrated and automated Packaging Plant having Sales and Distribution Centre under one roof closer to the sugar storage sheds. This new facility will be fully automated and comply with relevant national and international food safety standards.

## **6.2 Cane Development**

The fundamental improvement needed to grow and sustain the sugar industry is to increase sugarcane production. FSC will undertake an aggressive focus on cane production by reviewing and increasing the area under cane and improving average cane yields to acceptable targets. The targeted areas of focus will be to:

- Review and increase Area under cane, focus on farm productivity, and introduction of an effective Ratoon Management Program. Emphasis will also be on enhancing sugarcane quality
- Effective Farming Programs such as Joint Ventures, Share Farming, establishment of FSC State Farms, and motivating farmers to enter into large scale farming
- Introduce Incentive Programs to motivate farmers into producing more than their Farm Basic Allotment (FBA)
- Review of Sugar Industry Regulations such as Sugar Industry Act and Master Award to support collective sugar industry initiatives.

### **6.3 Milling Efficiencies**

While planning for a new high productivity focused sugar mill in Viti Levu, FSC is focusing on targeted investments in its sugar mills to increase reliability and improve throughput. Investments in Labasa Sugar Mill will be primary focus and the other 2 sugar mills in Viti Levu will be secondary as it will be decommissioned in due course with a new sugar mill. The core areas of focus will be:

- Efficient Milling Operations to reduce mill breakdowns, improve TCTS, implement Good Manufacturing and Hygiene Practices, and enhance sugar quality
- Focus on harvesting and transport operations to optimize delivery of fresh green cane and reduce foreign matter in mechanically harvested cane
- Implement a Structured Capital Works and Preventative Maintenance Program

Further improvements in the mills will include:

- Improving Feeding Stations
- Improve Crushing Stations
- Improve Boil Stations
- Upgrade the Power House
- Improve Clarification, Evaporator, Pan and Fugal Station
- Upgrade sugar and molasses loading facility

### **6.4 Financial Sustainability**

With improvements in sugarcane production, milling efficiencies, proposed local sugar price, and growth in cane production, FSC is working towards restructuring its debt, and deploying various cost cutting initiatives to ensure financial prudence and sustain FSC in future.

## **7 Sustainability of Sugar Industry**

Fiji's sugar industry has brought about revolutionary socio-economic changes in the cane belts particularly in the rural areas, by way of facilitating entrepreneurial activities, employment generation in small and medium enterprises, establishment of

market vendors, cash crop farming, and the provision of educational, health and credit facilities.

Fiji's sugar Industry contributes considerably to the socio-economic growth of the country. Approximately 200,000 Fiji's population is directly or indirectly dependent on the industry. When sugar is sold, the money goes directly in the hands of the farmers, cane cutters, lorry drivers, mill workers and a whole spectrum of people who are involved in the sugar industry.

The industry has changed the social economic life of the population living in the cane belt areas, it has facilitated commercial agriculture and generated employment in small to medium business.

The effect of COVID 19 on the Fijian economy is enormous, especially in the tourism sector. Most of the hotel workers lost their job due to closure of our borders which resulted in closure of hotels and resorts. A sizeable number of these hotel workers have engaged themselves in sugarcane farming for their survival and livelihoods.

## **8 Why the Need to Review Sugar Price**

### **8.1 To Fund FSC's Future Projects, Investments and Financial Stability**

The significant decline in sugarcane production is due to lower prices, high production costs (including fertiliser, transportation, and harvesting cost), decline in hectares under cultivation because of non-renewal of land leases, shortage of laborers', and farmers' increasingly negative attitudes towards the industry. New Generations does not show interest working in the sugarcane farms therefore FSC is going to strategize and focus on revenue optimization for farmers. FSC would like to illustrate higher return from sugarcane farming in order to attract young, new and returning farmers. With better returns, enticing former farmers to return to sugarcane farming will require less efforts as they already have the know-how of the industry. For FSC to optimize its revenue, significant targeted investment is needed in its mills with key focus to increase reliability and improve throughput.

FSC has the intention to construct a new sugar mill in Viti Levu which will help achieve targeted operational efficiency and decrease the cost of production. FSC needs to bring its cost of operations below the average revenue (per MT) in order to be financially viable.

FSC has been continuously relying on Government for financial assistance to mitigate its financial shortfalls. With the additional revenue and returns from the planned capital investments, its successes will allow FSC to work with Government and setup a stabilization fund which would be used to fund grants for farmers and Government's sugar industry stabilization initiatives.

## **8.2 To Grow FSC and support Societal Livelihood**

### **8.2.1 5 Year Return to Farmers**

Sugarcane farming needs to be a viable venture for farmers. Farmers should be able to generate revenue that allows them to support their families and improve their standard of living.

For FSC to execute the improvement initiatives, it requires Capital investment. With the current financial status of FSC, it is impossible to implement the improvement initiatives. With the review of sugar price in the domestic market, FSC will be able to implement these measures in a shorter duration of time. The benefit gained from the above measure will also be realized by the farmers. According to the Master Award, 70% of the revenue generated through sugar sales is given to the farmers.

### **8.2.2 Support Fight Against NCD's**

NCD'S has become the major risk to our population and the biggest killer in Fiji, killing thousands of Fijians every year. There are many risk factors that make individuals vulnerable to NCD'S. One of the risk factors is the unhealthy living styles.

Diabetes is very common in Fiji and every year the number of people diagnosed with diabetes are increasing. Currently almost 1 in every 3 Fijian is diagnosed with Diabetes i.e., almost a third of our population. Diabetes has now led to an increasing number of people affected with kidney diseases and the Ministry of Health is investing millions of dollars to set up centers to fight diabetes and kidney related diseases.

With the intent to demotivate Fijians to consume excessive sugar, FSC can support Ministry of Health fight against Diabetes by increasing the price of the sugar.

## **9 FSC's Request to FCCC**

### **9.1 Regional Benchmarking for Sugar Price**

The below table compares the price of 1 Kg retail pack raw sugar sold in the domestic market in regional countries.

<b>Country</b>	<b>Fiji</b>	<b>Australia</b>	<b>NZ</b>	<b>PNG</b>	<b>Vanuatu</b>
<b>Price FJD\$/Kg</b>	1.53	4.73	3.36	4.54	7.60

*(Source: May 2021 Respective domestic market survey by FSC)*

The price request by FSC is justified as the cost of sugar sold in Fiji when compared with countries mentioned in the above table is significantly lower.

Fiji and PNG are sugar producing countries in the Pacific. The price of sugar per Kg in these 2 countries has significant disparity as indicated in the table above.

### **9.2 Proposed Price**

In view of FSC's future commitments, providing better financial support to farmers, and supporting FSC's development strategies, including demotivating consumers on sugar consumption to fight against the NCD's, the following price is proposed:

<b>SKU</b>	<b>Current Price Price \$ (VEP)</b>	<b>Proposed Price Price \$ (VEP)</b>
1 Kg	1.40	2.89
2 Kg	2.81	5.78
4 Kg	5.61	11.56
25 Kg	34.17	72.73

*The above prices are Vat Exclusive and Ex-warehouse basis.*

### **9.3 Proposed changes pricing scheme**

FSC requests to FCCC to also relook at the pricing structure granted to supermarkets and implement a systematic approach in deriving to retail consumer price.

The negative social impact of high consumption of sugar needs to be disincentivized by a higher price structure. Furthermore, FSC requests FCCC to remove sugar from the basic food item list and also from the price-controlled list. FSC further requests that in future, FSC be granted provision to self-regulate price of FSC's product, "Sugars of Fiji", in the domestic market.

If the sugar price is not reviewed urgently, FSC will have ongoing adverse financial and operational difficulties.

### **10 Recommendation**

It is recommended that the proposed price be implemented from 30 June 2021, or at least allow an interim increase on 30 June 2021 while the due process is in progress. Furthermore, FSC proposes that sugar be removed from basic food item list and price-controlled list.

### **11 Submission**

Considering the dire need to review the price of sugar in the domestic market, FSC is willing to work with FCCC and diligently follow all due processes in order to fast track and complete the price review exercise in the shortest time frame.

FSC is also seeking a 'high-level meeting' to discuss the abovementioned issues and present our case to the FCCC Board and Management Team on the business case for this price review request. Such a meeting will enable a positive discussion in considering the plight of one of Fijis' most important industry.

Submitting this request for your review and approval.

Bhan P Singh

Chief Executive Officer

Fiji Sugar Corporation Ltd