

**VERBATIM NOTES OF THE MEETING OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS HELD IN THE BIG COMMITTEE ROOM (WEST WING), PARLIAMENT PRECINCTS, GOVERNMENT BUILDINGS ON 5TH JUNE, 2018 AT 9.40 A.M.**

**Submittee/ Interviewee: Copra Millers of Fiji Limited**

In Attendance:

- |                   |   |                 |
|-------------------|---|-----------------|
| 1. Mr. Raj Sharma | – | Chairman        |
| 2. Mr. John Deo   | – | General Manager |

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DEPUTY CHAIRPERSON.- Honourable Members, Parliamentary secretariat staff and representative from the Office of the Auditor General and in particular, I welcome the resource personnel from Copra Millers of Fiji Limited. Sir, I welcome you and your counterpart this morning. We are here to discuss the audit issues in relation to Copra Millers of Fiji Limited on the Audit Report of State-Owned Entities and Statutory Authorities for 2015.

The Committee sent out certain questions which needed your clarification, in particular was the audit review of property plant and equipment. Certain anomalies were detected, I am sure there must have been reasons behind this and the issue must have been addressed by your entity but nonetheless we would like to hear from you. So without further ado, I would like to give the opportunity to you Sir, if you can introduce your team. According to the new format of the Audit Report, very little or no information was given about the entity itself. So perhaps a bit of background information on what the entity is all about and some of the ways in which the entity is progressing if there are any current reforms or planned reforms in place. Thank you.

MR. R. SHARMA.- Thank you, Sir. Honourable Deputy Chairman, and Honourable Members of the Public Accounts Committee, it is our pleasure to be here before the Committee this morning. My name is Raj Sharma, Chairperson for Copra Millers Fiji Limited and with me is the General Manager, Mr. John Deo.

Copra Millers Fiji Limited operates from Savusavu in the province of Cakaudrove and it is engaged in buying copra and producing crude oil, what it had been doing before. This really is exported mostly to countries in Malaysia and Singapore and also been sold in the local market. Over the years we have, in the last three years or so we have gone through or still in the process of transformation where we have extended the mill and have started with virgin coconut oil as addition to the products. It has its challenges and all these stakeholders are fully aware. The reason being because coconut only bears the fruit after five to seven years so we do not get immediate results out of it. We all are familiar with 2016 which has been a historic devastating year across Fiji because of *TC Winston* and so was the copra industry, we sustained a loss of around \$500,000 in 2016.

In 2017 their accounts are still in the progress of audit, we have narrowed down to \$100,000 or so. Year to date running we are around \$30,000 loss but last month we made a profit and this year, it is just unfortunate the world price of crude oil reduced from

USD\$1,200 to USD\$850 in the last two months or so. So basically it is a very fragile industry for us when we just depend on coconut oil. That is why the Board and the management are trying a more diversified approach. Virgin coconut oil is one of the products that we are looking at. We are also looking at this crude oil if it could be refined or become edible oil. So for that we had just sent a sample to a laboratory in Australia if they could confirm whether it could be used for cooking. This is just a background.

Copra millers also goes hand in hand with the Ministry of Agriculture because the Ministry of Agriculture is an agency that is driving the industry in terms of planting, in terms of extension services, in terms of research and development; we are the millers. In this year's budget we had requested the Government because it comes through as a social responsibility to the people, not only in Cakaudrove but to the maritime islands. We had requested if the Government could look at a very constructive planting scheme for coconut. So this is just in a nutshell the financials in terms of where we are and what we are looking at, but we are totally committed.

In the last three years we invested about \$700,000 from Government, in excess of \$300,000 inclusive of the bank loan from Fiji Development Bank. This included the extension of the mill, getting the new VCO factories, upgrading the mill at a cost of \$150,000 to have a cyclone certification after *TC Winston* and also invested in copra dryers. Thank you.

DEPUTY CHAIRPERSON.- Thank you.

HON. A.M. RADRODRO.- Deputy Chairperson, supplementary question. Can you just enlighten the Committee, the last time a representative from Copra Millers came here was from the Ministry of Agriculture, and at that time they said that Copra Millers' operation is looked after by the Ministry. What year's audit is this? It is 2015. When did the administration of the company go back to the Ministry of Public Enterprise?

MR. R. SHARMA.- Currently it is under operation through the Ministry of Public Enterprise under the Public Enterprise Act. Maybe John might like to add on the background of the Coconut Industry Development Authority (CIDA) and then how it came in.

MR. J. DEO.- Thank you Chair. Just to answer the question, Honourable Member, in 2010, actually Copra Millers was a subsidiary of CIDA. Going back to history, Copra Millers was established in 1985. So, it was in private partnership with Mr. Hari Punja and Government, so Hari Punja was on management agreement. In 2000, Mr. Hari Punja sold his shares to Government, there was a change so the Ministry of Agriculture bought the shares so we were reporting to CIDA all along.

In 2010, CIDA was dissolved and its assets and responsibilities were transferred to the Ministry of Agriculture and the subsidiary was transferred to the Asset Management Unit at Ministry of Finance then. In 2013, we were transferred to the Ministry of Public Enterprise as our line Ministry from the Asset Management Unit.

DEPUTY CHAIRPERSON.- What was the main responsibility of CIDA and what is the main responsibility of Copra Millers of Fiji?

MR. J. DEO.- Copra Millers is a miller and CIDA was the regulator and responsibility on the grower's end.

DEPUTY CHAIRPERSON.- I hope Chairman you do not mind us asking you this, but this was an unresolved issue for Public Accounts Committee last year, the issue in relation to CIDA. So, being a regulatory body, why did it get dissolved? Was there any mismanagement or things like that?

MR. R. SHARMA.- Thank you. Honourable Chair. I would not have the records but what I am being told it was mismanagement. Actually Coconut Industry Board was supposed to regulate the industry, set the pricing, look at all those functions but it did not go well and as such at that point in time the Government decided to dissolve that. But we feel that there is a lack of that institution in the industry. Three weeks back we had the Annual General Meeting of the shareholders, the minority shareholders consist of around 3 percent of the estate owners in Savusavu and so was our sentiment for the Government to reconsider and get that body again so as to maintain that prudence and framework which it had before.

HON. A.M. RADRODRO.- Supplementary question again. Mr. Raj, the ownership is now 100 percent Government.

MR. R. SHARMA.- It is 98 percent. The 2 percent are estate owners. In fact there would be around 25 to 26 people, (farmers) who are minority shareholders. They are there.

HON. MEMBER.- (Inaudible)

MR. R. SHARMA.- Yes, around 2 percent.

HON. A.M. RADRODRO.- In terms of grants, are there any grants from Government?

MR. R. SHARMA.- Yes. Grants in the sense is not an operating grant but it is given for capital expenditure. Last year we received \$300,000. This current year is also \$300,000. Year before last was \$150,000 and this has been taken into capital works like extension of mills, getting the dryers up and all those. There is no operating grant at the moment.

HON. A.M. RADRODRO.- Can you just clarify OAG, last week some of the institutions regarding the treatment of grant. We hear from Copra Millers of Fiji Limited they are not operating grant. Regarding the treatment of grant in these particular instances, you have been highlighting it in other institutions except this one. Why is that so?

OAG REP.- Thank you, Honourable Member. That is because Copra Millers of Fiji Limited has met the recognition criteria as per the standards so they are disclosing the Government grant as per the requirements of the standards. They have received the capital grant which they have recorded as deferred revenue which is in line with the standards.

DEPUTY CHAIRPERSON.- Sir, just coming back to my concern because I believe Fiji CIDA was the regulator and they also decided about the market price and all that. Who does that for Copra Millers of Fiji now - the setting up of price and all that?

MR. J. DEO.- Currently it is done by the Coconut Unit in the Ministry of Agriculture. There is a Coconut Unit that handles that.

DEPUTY CHAIRPERSON.- So the price is determined by a special unit that is in the Ministry of Agriculture. How is Copra Millers of Fiji Limited associated with the Ministry of Public Enterprises then? What regulatory roles do they play when it comes to your operation?

MR. R. SHARMA.- Actually, Mr. Chairman, we have two line ministries. One is under the Public Enterprise Act, we report for the efficiencies and the operations of that, whereas the agricultural functions means if it has to do with price setting, this price again is done in conjunction with the Ministry of Agriculture and also Ministry of Economy in regards to the stabilisation fund. We have got two ministries and it is no different to any other institution but we fall under the Ministry of Public Enterprises. Also at our board levels and board sub-committee levels, there are representatives sitting on our boards from the Ministry of Agriculture as well as officers from the Ministry of Public Enterprise.

In addition to that, with the Copra Millers through the Ministry of Agriculture, there is a Coconut Taskforce Unit. The taskforce basically consists of stakeholders. They look at ways to revive the industry and the chairmanship sits with the Ministry of Agriculture. So this involves Copra Millers of Fiji, Ministry of Agriculture, Office of the Commissioner Northern, Agricultural Officer Northern and even the farmers of those areas.

HON. A.M. RADRODRO.- Another supplementary question in terms of accountability and transparency; the board makeup. What is the current board makeup of the Board?

MR. R. SHARMA.- There are four Board members at the moment and the Board reports to the Minister for Public Enterprise. The appointment of that comes through the Ministry of Public Enterprise and it consists of a diverse range of people in terms of agriculture experience as well as people with finance background. So those are the compositions that we have at the moment.

DEPUTY CHAIRPERSON.- Thank you. We will move on to the audit issues and if have some time after the submission, then we can continue with the general questions.

MR. R. SHARMA.- Thank you, Deputy Chairperson. For the audit issues before we go to the issues that has been highlighted, just to give you an update, we at Copra Millers are very prudent in our control checks and balances. After we have been appointed as the Board of Directors, in addition to what has been done by external auditors, we have also got internal auditors appointed, that is, Ernst & Young.

We ensure that good governance of the institution is paramount. There are certain things that we are looking at; to look at the restructure of the balance sheet, to have an optimum return. These are certain things that we also found, just like our Fixed Asset Register need to be updated. That is in order and correctly been presented. It can be further verified by the Office of the Auditor- General.

There are surplus to our requirement of assets that are not being used and whether it has a zero value, we are also looking at doing the cleansing of that, this even includes a

portion of the property that we have. We have put it in the market subject to Ministerial approval so that we can get the return out of it and invest it in the milling. The negative values of the books, it has been physically verified. We have also taken into consideration the things that are still usable, we are in the process of revaluing it. I will leave the rest for the General Manager to comment on.

One more thing with Copra Millers is some of the mill parts are very very old, almost 30 years old. We got these from London, United Kingdom and some of these are not usable, even to get a replacement is quite expensive. The Management and the Board has looked at to make it more cost effective, more innovative and easily accessible.

Another point is, we do not want to make a very huge investment in the milling and all those things because the sustainability of coconut need to be established first. That is another reason for gradually doing the investment of about \$500,000 or \$200,000 rather than having \$2 million to \$3million of investments and we do not have coconuts. That is another approach, as we move along then we are replacing the parts and so is the crude oil expellers that we are doing. We could have easily got a mill replaced at about \$2 million. There are quotes with us but here we are doing a replacement at about \$100,000 just to get the expeller.

The next point on the appendix is the Sale of Tanks. In 1970s or 1980s we had a growth of coconut and oil and we got storage tanks. Now it is a costly affair for us to maintain those tanks. We tried to sell it, we could not get much Expressions of Interest but it is still on offer because the repairs and maintenance of that cost us around \$10,000 to \$12,000 annually with no returns at all. So we are also looking at to sell that and get the optimum return on this.

The third point talks about the surplus land. We are looking at that to be sold, we had put it in the papers before, re-advertise in the *Fiji Sun* last week to see if there was any interest on this, subject to Ministerial approval.

MR. J. DEO.- The last one, these assets were physically verified and the written down value in fixed assets was zero. This was run past the Board and we had to identify what was the next step, either we revalue and put it in the Fixed Asset Register because it is currently idle so what are the options? These were the options that the management and the board had taken.

The fourth is the mooring system. Before the ships used to call direct to Savusavu to load coconut oil. With the drop in supply, now the mode of shipment is through container shipment. So, we have to bring the containers from Savusavu to the main port and then export from here. This facility is now no longer in use but it has been outsourced to our neighbour, Pacific Energy with a fee that they pay to us. The value of this asset was zero so since it is currently being used we have revalued it to \$5,000 in our Fixed Asset Register.

HON. A.D. O'CONNOR.- A supplementary question, Mr. Deputy Chairperson, you are now leasing it out to Pacific Energy?

MR. J. DEO.- Yes, Sir.

HON. A.D. O'CONNOR.- Does that leasing arrangement cover your R&M on the asset itself?

MR. J. DEO.- It is a hourly service fees that they pay to us. The R&M does not cover, it is just on usage that they pay us based on their ship coming in and the number of hours....

HON. A.D. O'CONNOR.- Do you not think that would be digging into your pocket - the RNM of that? What I am saying is, does the lease arrangement cover R&M? Because do not forget you have got weigh locks at the bottom of the ocean which is open to the environment, you have got chains right up to the mooring buoy itself. Do you involve an expert engineer when you carry out your evaluation?

MR. J. DEO.- Noted, Sir. We did an evaluation of that and an inspection was carried out by a surveyor of how much it will cost us to have it repaired. The figure was \$15,000. Since that asset was not giving us much revenue, it was shelved. It was not in a very bad condition, it is still was useable so we thought just to keep generating revenue whilst the asset was there.

MR. R. SHARMA.- Point taken, Honourable Member. I think that is something that we will have to relook at and see where we can get the optimum return out of it.

HON. A.D. O'CONNOR.- I would be inclined to sell it outright to Pacific Energy.

MR. R. SHARMA.- We did try, in fact they were not willing to. Even that plus the tanks, we advertised twice and had a discussion. Initially they intended to buy but later on they said they were not interested in buying those things. So these are some of the assets that we are keeping which is not getting us the returns.

HON. A.D. O'CONNOR.- Have you tried a competitor? Total or Mobil – just a thought.

MR. R. SHARMA.- Yes, we did advertise in the papers. The reason being is, Pacific Energy is just beside us (Copra Millers).

MR. J. DEO.- To continue, another area that was of concern was the major renovations that took place to the existing buildings. This was separately classified in the Fixed Asset Register but the grand total was tying in. We purposely did this because we wanted to separate the investment that Copra Millers does yearly so that there is a track of investment going into the building. One good example would be the upgrade of the cyclone cover and the construction of a new VCO factory. It is for management purpose to have the real cost invested in the separate building or addition to the current building.

MR. R. SHARMA.- Further to that, Deputy Chairperson and Honourable Members, this VCO Project just to give another supplementary background to it, a research was done which recommended that we set up a VCO factory at a cost of about \$11 million. An independent research was done around 2010 or 2012. We took an approach that we will do it progressively. When we started this in 2015 or so, the price of VCO was quite up and recently we also felt that the price of VCO had come down. Now to add to what the GM has said, we wanted it to be a separate item on the investment because we wanted to check as to what is the return on our investments. So, these VCO machines and the factory setup has cost us approximately \$600,000. We started with the sale of this mid last year. We have not

gone into advertising and marketing aggressively. Last year was a very nominal sale of about \$50,000. We intend to brand this VCO. We are waiting for the Ministerial approval from the Honourable Minister to use the word “Fiji” in the product and we are expecting to launch it by next month or so.

So, without branding, so far, within the last two months we have sold in excess of around \$50,000. We expect a good return on this one in excess of \$500,000. With this investment, we are looking at around two years to get our money back and it sets a platform. It is not only limited to VCO, we are also collecting VCOs from any community or women’s club, they get it to us, we filter it and buy it from them; we filter it and put it on the market.

In addition to that, the Government has also considered under this pilot project to look at biofuel projects that we are doing for two islands at the moment. One has just started which is in Rabi and the other one is to be considered in Lakeba because they were not to optimum use. We are trying to bring that change as a corporate social responsibility of the Government back to the communities.

DEPUTY CHAIRPERSON.- Honourable Members, any questions? I believe there are none, if any?

HON. A.M. RADRODRO.- Just another, supplementary question to the Chairman. Regarding the operations of the company, you said you received Government grants, what about the day to day operations of the company?

MR. R. SHARMA.- The Government funding, I would say is coming for the capital expenditure. So, far we have not received Government grant for operations. We have been going through varying challenges at the moment and being on our own, we have requested Government this time to give us part subsidy for buying of nuts from the farmers. One of the things is, AMA is not a competitor but it is complementing again to its objective which is to the rural dwellers. We are no different to them because we are dealing with the same commodity. They are being funded by Government where they buy nuts from 30 cents to 40 cents mostly in the maritime islands. Periodically they would go to Savusavu. We are buying at around 20 cents a nut. So the Vanua Levu would be disadvantaged for the sale of those. We had difficulties, just recently, you would have seen and read in the papers because the oil price was US\$1,200 is reduced by 33 percent or so to \$800, we had to pass that to our raw material which were the farmers. So, we reduced our price from 20 cents to 18 cents a nut, initially it was 25 cents. We spoke to the Ministry of Economy just last week and I must thank the Government for stepping in to stabilise the price. So we have gone back to 25 cents a nut; that just started last week.

HON. A.M. RADRODRO.- In terms of your product, now that Government owns majority, who is your other competitor in terms of your ....

MR. R. SHARMA.- There would be private companies, Punjas is one of them. Actually we do not take them as very serious competitors, they have their niche markets and all that. They use the coconut oil within that or even at times they buy from us too. That is something that we are also looking at to have it refined and put it in the market and get a premium price for our farmers.

In terms of efficiency, now you will be thinking that we are passing this down to the farmers, we are also looking at cost reduction in our operations. Last year we had about 22 staff or so with the natural transition it has come down to around 18 or so. We are not replacing but getting the maximum use of the people. That is other thing that we are looking at.

There is also responsibilities that we felt was, with no extra cost to the farmers, we are going to areas of Namuka and all those areas to pick up copra and nuts. It had become a challenge after the cyclone because the dryers that individual farmers had in Cakaudrove or even the outer islands were destroyed. So we ended up either getting nuts or getting dry copra from them so that we can facilitate. We extended the copra dryers and helped them to get the copra dried at our level.

HON. MEMBER.- (Inaudible)

MR. R. SHARMA.- Vanua Levu, majority but we also looking at maritime islands like Lakeba.

HON. A.M. RADRODRO.- Your other product is coconut oil?

MR. R. SHARMA.- Coconut oil and VCO and the copra mills that we have. We supply to Vanua Levu and also to the dairy co-operative here. There are some other pipelines of products that we do have but the challenge has been over the last two years is the sustainability of copra. The market is huge but also the fragile because of the price; there is so much demand for coconut oil.

HON. A.M. RADRODRO.- Looking at the answers you have given us, I am looking at selling of surplus land. That is basically to try to create giving you surpluses?

MR. R. SHARMA.- That land currently, Honourable Member, is not being used for any purpose. If you go to Savusavu, in front of the mill, so we thought that if we get that money, we are looking at hot air dryer processing or even further set up our own refinery. Crude oil is being sold at around \$2 to \$2.50 a litre. The same oil is being refined and sold in the supermarket say about \$4.75 for 750 millilitres. So that is the value that we want to give back to the farmers. Eventually we will make money and also pass it to the farmers. We have got the valuation of this property but we are looking at getting the optimum of this.

DEPUTY CHAIRPERSON.- Any more questions? No?

Thank you Chairman and Mr. Deo for your comments and indulgence in answering and giving us more insight into the Copra Millers of Fiji Limited. Definitely it is a challenge, we know that the market is based in the rural and maritime areas and apart from the corporate responsibility your entity has, there is also a social responsibility attached to that, that is, providing a market to all these remote, rural and maritime islands. We thank you for the responses that you have given. We do acknowledge that the demand for coconuts is increasing but at the same time we do take note that the investment that Copra Millers of Fiji Limited is doing. It is sustainable investment. On that note, all the best to your entity for future operations and for all the developments that you are aiming to achieve.



MR. R. SHARMA.- Thank you very much, Deputy Chairperson and the Honourable Members. I must thank the team from OAG for providing us oversight on the operations. It gives comfort to the Board as well as the Government of the day as to what is required of us. It also significantly adds value to us.

The Committee adjourned at 10.16 a.m.