



MINISTRY OF FORESTRY

HON. OSEA NAIQAMU
MINISTER FOR FORESTRY

Venue: Parliament

Date: Wednesday, 15th May, 2019

WRITTEN QUESTION – 116/2019

Hon. Ratu Tevita Navurelevu to ask the Minister for Forestry – Can the Minister inform Parliament on the reasons for the closure of Fiji Forest Industries Mill in Malau, Labasa, number of workers affected and plans (if any) to revitalize the economy in the North.

Written Response:

FFI's Acquisition – A Bad Decision!

FFI was never established as part of the Pine Industry. It was a company purchased in 2002 and has turned out to be a bad investment. A decision that should not have been made at the first place as it resulted in millions of dollars drained out from Pine Landowners in the form of inter-company subsidies that other group entities within the Pine Industry made to keep FFI afloat.

An independent study was carried out by Jaakko Poyry Consulting in 2001 that clearly highlighted that there was considerable pressure on the native specie resources with other mills opening up and specifically stated that *"in a situation like this, companies generally propel into a downward spiral from which recovery is more and more difficult to achieve."*

Board papers of 23rd October 2002, which was immediately after acquisition of FFI by Tropik, noted serious issues faced by FFI. It stated – *"Cashflow problems continued to plaque the Company. This serious cash deficiency need to be urgently addressed as it has the potential to seriously threaten this company's ability to undertake its business."*

It is a sad reality that despite these reports and the evident poor financial status of FFI, the then board and management of Fiji Pine Group went ahead to acquire FFI.

It is important to note that the then Government (SDL) failed in its responsibility or lacked business acumen that resulted in such bad decision being made. They need to take full responsibility for

the millions lost by the pine landowners over the last 17 years in keeping FFI afloat.

Reason for FFI's Closure

FFI has been continually at an insolvent state. This has been continuously raised by the external auditors. FFI is a native specie plywood and veneer mill and the main reason for its insolvency state is the non-availability of native specie logs. Since 2011, FFI has been operating mainly considering the social responsibility aspect towards the workers and this has been through financial support provided by the related companies.

The shareholders of FFI's parent company, Fiji Pine Limited, are the Government and Fiji Pine Trust. Government is non-dividend earning shareholder. The pine landowners through Fiji Pine Trust hold 100% dividend rights. The money that the parent company pumped in FFI over the years to keep it afloat was money taken from pine landowners and put in FFI. Pine landowners could not continue to deprive themselves of benefits to run FFI, a loss making entity.

As at 31st December 2018, FFI had deficiency in equity of \$5,602,380 and accumulated losses of \$30,995,903. No company

can continue to operate with these results. We attach draft audited financial statements of FFI for 2018 financial year.

Without continuous support from Tropik and Fiji Pine, FFI struggled to pay wages and meet statutory payments e.g. FNPF, PAYE, insurance, etc. Non-payment of such statutory obligations is a criminal offence. There were suppliers who have been owed money for lengthy periods and as such FFI was exposed to winding up action by these external parties at any time. The Company Law does not allow an insolvent company to be operating. Each day FFI operated, it accumulated further losses and debts.

If FFI had gone to Winding Up (which could have happened at any time), the liquidation process would involve selling or recovering money from company assets and then meeting payments to parties (suppliers, employees, banks, etc.) in order of priority determined by the liquidator. Considering the state of FFI, there would have been no money left for the employees.

A tender was also called for sale of FFI (either by way of sale of assets or as a going concern) however, the bids were below

satisfactory. There were some comments made on social media that FFI is being sold to Chinese.

For clarity, we inform that there were no Chinese bidders. One of the bids received was from Hon. Nawaikula's law firm on behalf of one of his clients. Correspondence was sent to Hon. Nawaikula's law firm to provide financial backing of the client which remained unanswered. To the contrary, Hon. Nawaikula then took a political stunt by going around in Labasa with a board stating, "Don't Sell Malau". This is very irresponsible of a Parliamentary Member who without checking facts tries to see personal political gain on each and every issue.

Considering the continued insolvency status and after over 9 years of exploring several options, a decision was taken to close FFI. Through widespread consultation undertaken by Fiji Pine Trust, the trustee of our landowners, we received a directive to close FFI. This was to avoid further losses, avoid further accumulated debts; avoid further losses to the pine landowners; avoid winding up by suppliers and most importantly to comply with the law by not operating an insolvent company.

Employees and Packages Paid

It is important to note that if FFI had gone into winding up, no money would have been left for workers. However, in line with our policy of care towards all our workers, we honored the redundancy package as stipulated in the collective agreement through support from FFI's parent entities. The collective agreement stated as follows:

"An employee whose employment is made redundant for reasons set out and justified in the preceding paragraph of this Clause shall be entitled to no less than 3 months' pay plus 2 weeks for each year of service or part thereof. (This provision shall be negotiated on the 1st week of September 2016 and shall not be applicable until agreed.)"

The above entitlement is substantial and surpasses the minimum required under the law. Discussions were held with the employee unions, National Union of Workers, and a Memorandum of Agreement was signed. We attach the signed MOA. Employees were further given the option of voluntarily leaving 30 days early by getting paid that 30 days' pay as required under the law. All employees took this.

The package amount paid out by FFI's parent company is summarized as follows:

Number of Employees	Gross Redundancy Package	Employer Contribution FNPF	30 Days Notice Pay	Employer Contribution FNPF	Total Payout
220	\$2,193,694.62	\$219,369.46	\$340,898.77	\$34,089.88	\$2,788,272.73

In addition to the above, total leave payout amounted to \$196,245.13 (including FNPF). Therefore, the total payout amounted to **\$2,984,517.86**.

This is a substantial amount. While legally the parent company, Tropik had no obligation towards financially supporting FFI since they are separate legal entities, considering our social obligation Tropik made this payment. This is in addition to around \$8m that FFI owes Tropik plus supplier liabilities. Simply put, Tropik's accumulated losses arising out of FFI's insolvency will be in excess of \$12m, money that would otherwise have been paid to pine landowners.

Plans for Fiji Forest Industries Limited

FFI will not operate ply wood and veneer mill in future. The company is in the process of selling its factory and mobile assets by way of tender. With the aged mill, the amount, if we are successful in getting buyers, will be insignificant compared to \$3m paid in redundancy packages. The parent company will still need to contribute towards paying off the external suppliers who have been owed money for lengthy periods of time.

FFI also holds native concession agreements in Vanua Levu. A decision will be taken on these concessions after carefully studying the concession agreements. It is too early at this stage as the key priority now is to clear off all external debts. Hon. Nawaikula, as usual, posted on social media that all native concessions need to revert back to the resource owners. Hon. Nawaikula is advised that there is a process to follow and not to be irresponsible to impair that process. If things were that easy as posting things on social media, we would not have closed FFI, a big mistake that the Government and the Board made back in 2002 when it was acquired by Tropik. This decision resulted in millions of dollars taken away from the pine landowners over the last 17 years. The decision was taken by landowners themselves through widespread consultation to stop this in their best interest - over 20,000 pine landowners who have leased their land to Fiji

Pine Limited. All workers have been paid the redundancy packages – some got as much as \$50,000.

FFI is strategically located for a port facility for Vanua Levu, in particular the Labasa area. FFI will explore further into developing this property into a port facility mainly to receive barges and other smaller size vessels bringing cargo and other supplies from Viti Levu to Vanua Levu. At present a lot of challenges are being faced in transporting items from Nabouwalu Jetty to Labasa. This in turn affects prices of items in Vanua Levu.

[End]