



# **STANDING COMMITTEE ON ECONOMIC AFFAIRS**

## **Consolidated Report on the Review of Fiji Sugar Corporation 2007 – 2019 Annual Reports.**



**PARLIAMENT OF THE REPUBLIC OF FIJI  
Parliamentary Paper No. 28 of 2021**

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## **Chairperson's Foreword**

The Standing Committee on Economic Affairs is pleased to submit to Parliament, the Consolidated Review report of the Fiji Sugar Corporation Annual Reports from 2007 to 2019.

Fiji Sugar Corporation limited (FSC) is the largest sugar milling company in the South Pacific. It has a Board of Directors which is the policy-making and governing body. FSC was incorporated by an Act of Parliament in 1972, to take over the milling activities from South Pacific Sugar Milling (SPSM) and Colonial Sugar Refinery (CSR) in 1973.

FSC operates three sugar mills, two of which are in Viti Levu (Lautoka and Ba) and a third in Labasa in Vanua Levu. The fourth Mill which was the Penang Mill in Rakiraki ceased operations in 2017 due to its inability to cope from the devastations caused by Tropical Cyclone Winston. FSC is one of the largest private sector employer with a workforce exceeding 1,000 especially during the crushing season from May to December.

Earlier in 2020, the Committee conducted a Site Visit to FSC Headquarters in Lautoka as well as all the three Mills in the Western and Northern divisions in order to better understand its functions and operations. During the Visit, it met with the CEO and his team who provided a thorough update on the sugar industry as well as the various initiatives FSC had undertaken in recent times to ensure the sustainability of the sugar industry.

The Committee noted that FSC faced various challenges throughout the period under review which include but are not limited to decline in active growers, low yield, lease renewal issues including short term leases, damages and losses caused by the natural disasters, aging farmers and shortage of labor.

During its deliberations, Members of the Committee agreed that the significant decline in the number of active growers need to be addressed and would require a holistic effort from all stakeholders in the industry to formulate marketing strategies to revive inactive farmers as well as entice new farmers into joining the Industry.

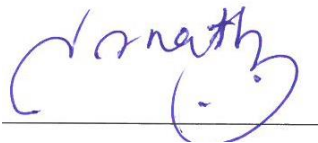
Committee Members were also made aware of the detrimental impacts of Climate Change on the Sugar Industry over the years with natural disasters such as Cyclones and floods destroying farms and infrastructure. Severe Tropical Cyclone Winston in 2016 as well as Cyclone Keni and Josie in 2018 are such examples of what the sugar industry have had to go through over the years.

Furthermore, the Committee would like to extend its appreciation to the Fijian Government for stepping in and assisting the sugar industry during natural disasters in its capacity as the largest shareholder in FSC. The Committee is of the view that other Stakeholders must closely work with FSC to identify potential opportunities for the organization. The Committee believes that Commercial banks must also be encouraged to develop incentive packages to assist farmers.

I would like to take this opportunity to extend our sincere appreciation to all Stakeholders for their valuable input. The Committee would like to especially acknowledge the CEO of FSC and his team members in the Western and Northern Divisions for taking out time from their busy schedule to give the Committee a tour of the Mills as well as for being prompt in answering the various queries and questions raised by the Committee.

Finally, I would like to thank our Committee Members who were part of the team that produced this report: - Deputy Chairperson Hon. Veena Bhatnagar, Hon. George Vegenathan, Hon. Inosi Kuridrani and Hon. Ro Filipe Tuisawau. I also take this opportunity to acknowledge and thank the Parliamentary Staff who have given us invaluable support.

On behalf of the Standing Committee on Economic Affairs, I commend the Review of the Fiji Sugar Corporation 2007 to 2019 Annual Reports to Parliament.

A handwritten signature in blue ink, appearing to read "Vijay Nath", is written above a horizontal line. The signature is stylized and cursive.

**Chairperson – Hon. Vijay Nath**

## **1.0 Introduction**

### **1.1 Background**

Fiji Sugar Corporation limited (FSC) is Fiji's sugar milling company and the largest in the South Pacific. It was incorporated by an act of parliament in 1972, to take over the milling activities from South Pacific Sugar Milling (SPSM) and Colonial Sugar Refinery (CSR) limited in 1973.

FSC operates three sugar mills, two on Viti Levu in Lautoka and Ba and a third in Labasa in Vanua Levu. During the crushing season, from May to December, FSC is the largest private sector employer with a workforce exceeding 1,000. The mills are strategically located on the drier side of the two larger islands where conditions are more suited to cane growing.

FSC works with the vision to transform sugar cane farming to a sustainable and profitable Farming activity for cane growers with sugar as a world-class brand, now and into the future.<sup>1</sup>

### **Committee Remit and Composition**

The Committee is made up of five (5) Members of Parliament, three (3) of which are Government members and two Opposition members. According to Section 109(2) (a) the Standing Committee is responsible to look into matters related to economic development, finance, banking and taxation.

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<sup>1</sup> <https://www.sugarsoffiji.com/our-brand>

## 2.0 Findings and Recommendations

1. The Committee noted that due to various reasons including the decline in active growers, low yield, lease expiry issues, damages and losses caused by the natural disasters, aging farmers, shortage of labor, lack of adoption of best farm management practices and unfavorable exchange rates, FSC's financial position and the company's productivity was not favorable over the period of the report.
2. The Committee noted, in addition to (1) above, that the Sugar Protocol Preferential Price was reduced by 5.1% from 1<sup>st</sup> June 2006, 9.2% in 2008 and 21.7% in 2009 bringing total reductions to 36% by October 2009.
3. The Committee noted a significant decline in the number of active growers during the period under review due to factors including but not limited to tenure of lease being too short, not enough modern farming practices and lack of training. The Committee recommends that FSC together with various stakeholders in the industry as well as commercial banks formulate more effective strategies and incentives to revive inactive farmers and entice new farmers into joining the industry.
4. The Committee is of the view that FSC needs to diversify its product ranges such as Icing Sugar, Sugar Syrup, Ethanol and Jaggery to boost its revenue generation in the local and international markets.
5. The Committee is aware that Climate Change has had detrimental impact on the sugar industry over the years with natural disasters such as Cyclones and floods destroying farms and infrastructure and noted that while the Sugar Industry was still recovering from the brunt of severe Tropical Cyclone Winston in 2016, it had to deal with the repercussions of Tropical Cyclone Keni and Josie in 2018.
6. Further to the above, the lowest cane production of 1.39 million tonnes and sugar production of 139,503 tonnes was recorded in 2016 due to devastation caused by the TC Winston. The Committee recommends for FSC to implement cash flow strategies and setup contingency funds to cater for damages caused by natural disasters.
7. The Committee noted that the Mill upgrade project of the three Mills did not meet its objectives and recommends for FSC, as the owner of any projects of such nature to ensure that effective project management structures and disciplines are in place and observed.
8. The Committee in its finding noted that the work of FSC is heavily technical in nature and would require specific skillsets. The Committee recommends for FSC to develop a robust training and development plan as well as Performance Management System that could improve organizational productivity and also address skills gap in the organization.

9. The Committee recommends FSC to strengthen its collaboration amongst all Stakeholders and also improve on its Monitoring and Evaluation mechanism. Further to this, the Committee also encourages FSC to achieve a practical farmer to field officer ratio.

### **3.0 Gender Analysis**

The Committee, during its Site Visit pleasantly noted that there were women working not only in the administrative division of FSC but in the technical division as well. The Committee would like to encourage FSC to ensure that they have a gender friendly work environment which would inspire more women to join the industry.

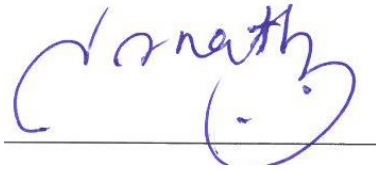


## **4.0 Conclusion**

To conclude, the Committee is well aware of the important roles played by the Fiji Sugar Corporation. However, due to various reasons and contributing factors, FSC's performance over the period has not been very encouraging, as such all necessary support must be extended to FSC to ensure the long term sustainability of the Sugar Industry.

Given that FSC undertook various projects over the period under review and will continue to do so, it is imperative that strong project governance procedures be implemented for all major projects to ensure effective management structures and disciplines are followed.

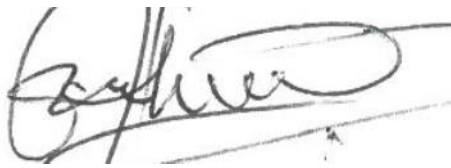
**Members Signature**



**Hon. Vijay Nath (Chairperson)  
Chairperson)**



**Hon. Veena Bhatnagar (Deputy  
Chairperson)**



**Hon. George Vegnathan (Member)**



**Hon. Inosi Kuridrani (Member)**



**Hon. Ro Filipe Tuisawau (Member)**

## THE FIJI SUGAR CORPORATION LTD

### COMMENTARY ON FSC'S ANNUAL REPORT FROM 2007 TO 2019

#### Brief update

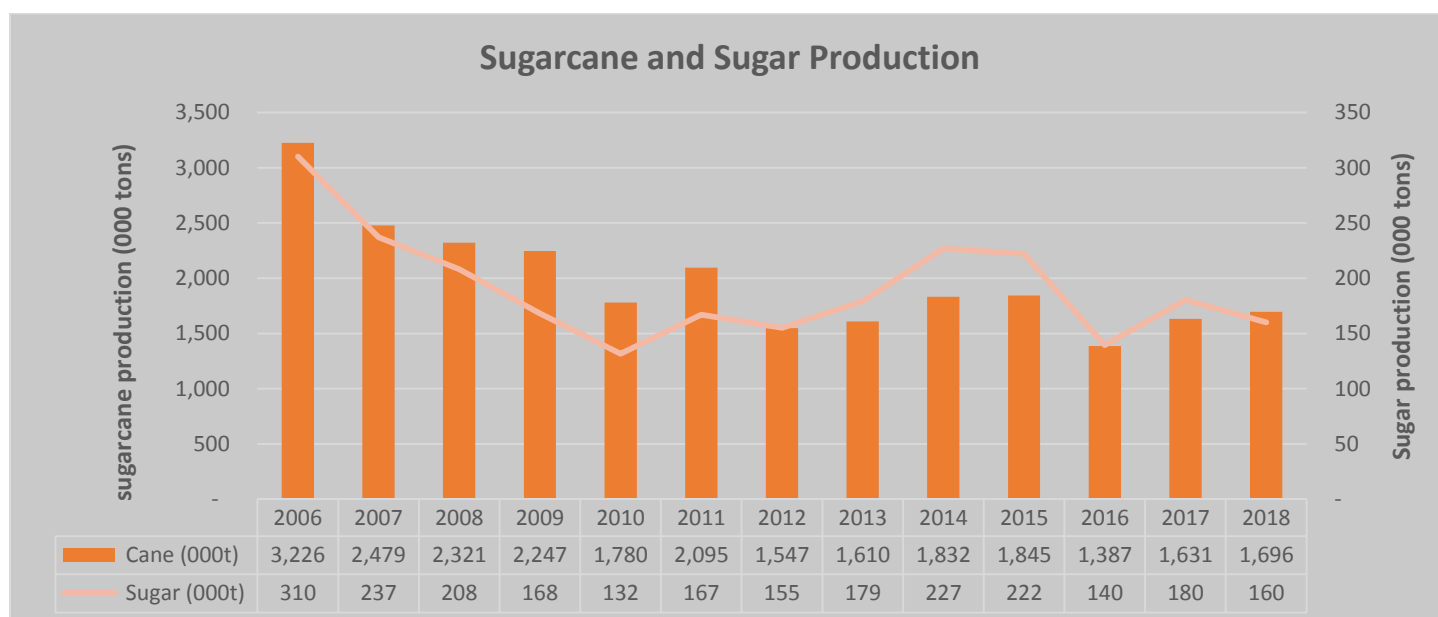
The cane production has declined by 47% from 3.2 million tonnes in 2007 to 1.7 million tonnes in 2019. For the same period, the decline in area under cane was from 55,438 hectares to 37,105 hectares. This was mainly attributed to decline in active growers, low yield, lease expiry issues, damages and losses caused by the natural disasters, aging farmers, shortage of labor, lack of adoption of best farm management practices. The lowest cane of 1.39 million tonnes and sugar production of 139,503 tonnes was recorded in 2016 due to devastation caused by the TC Winston.

The continuous declining trend since year 2000 in the cane production, deterioration in milling efficiencies, loss of preferential sugar price, and old milling, rail networks and industry related infrastructure and poor financial performance, triggered upgrade of 3 large Mills.

Project works were undertaken between 2006 to 2009, with the funding facility of US\$50.4 million from EXIM bank of India in order to pay the Indian contractors appointed to complete the project works. The Mill upgrade program failed to meet its objectives and technical evaluations of the project were carried out by Indian consultants which concurred that significant rectification was required.

The milling inefficiencies between 2008 to 2012 and consequent financial issues were mostly prompted by failure of mill upgrade project, which required government injection of \$173.8 million as financial support and provide Government guarantee of \$120.0 million to enable FSC to borrow from financial institutions. Further, the Corporation booked impairment loss of \$173.4 million in 2010, which were partially reversed based on the better performance of the Corporation between 2012 to 2014 financial years.

In order to stabilize the financial position of the Corporation, FSC is currently embarking on a balance sheet restructuring programme including Government debt to equity conversion and capital optimization. The Government of Fiji as the major shareholder of FSC is actively involved in these discussions. To further reform FSC's balance sheet, improve liquidity and ensure FSC's ongoing viability, the Corporation resorted to disposing of unproductive land and properties. The Corporation's cost cutting initiatives such as cut back in procurement to essential items only, tighter control on maintenance spending and a reduction in head count has been ongoing program. Revamp of cane production and mill efficiencies is a continuous process.



**SWOT Analysis**

**Strengths**

- **Government Support** – the Fijian government is rendering a lot of support to the sugar industry as a significant proportion of the population is dependent on this industry.
- **Domestic monopoly and market protection-** FSC has a competitive advantage over competitor suppliers of sugar in regards to duty/ licencing. Competitors pay high import tax which makes it difficult to match FSC's price.
- **Strategic Position** – Fiji's location is very favourable to serve the Pacific Island Countries. Fiji also takes advantage of favourable trade agreements to do business in the Pacific. The spread of 3 sugar mills in Viti Levu and Vanua Levu ensures operational continuity in times of mill closure (mitigates operational risk).
- **Positive rapport** – Despite FSC's Financial and operational lethargies, FSC still has positive rapport locally and internationally.
- **Good Employee Benefits** – FSC is considered as one of the better employers in the country and provides staff benefits such as housing, amenities, medical program and professional development.

**Weaknesses**

- **Poor HR Development** – FSC has a poor training system in order to gauge training needs and developing competencies accordingly.
- **Weak Organisational Culture** – Staff have low sense of ownership and commitment and poor Work Ethics
- **No Performance Management System** – FSC needs to implement a vibrant PMS. An organisation wide Succession Plan and Retention Plan also need to be looked into.
- **Aging Infrastructure** – old mills, bridges, rail network, and relevant machineries are a big constraint to meeting modern day operational efficiency requirements.
- **Inherited financial impairments** – the vulnerable financial health of FSC has been a result of past management inefficiencies. Negative equity and heavy debt burden the company. Working capital and cash flow constraints.

## THE FIJI SUGAR CORPORATION LTD

### Opportunities

- **Change Management and Communication** – FSC has embraced a new operational and strategic dimension and this needs to be rolled out in a structured way so that it is accepted by staff, growers and other key stakeholders. This will be implemented by effective internal and external communication.
- **Increase Sugarcane Production** – FSC to introduce programs to increase yields and also become a large Grower.
- **Repair, Upgrade and Refurbish** – 3 sugar factories to sustain installed capacity. Construct a new mill using grant finance.
- **Improve Productivity** – FSC needs to focus on improving the operational efficiencies such as sugar production, milling, sugar packing, workforce productivity and automation
- **Diversification** – FSC needs to diversify by introducing new pack sizes, and new products such as Jaggery, Icing Sugar, and Sugar Sachets. Also, to increase revenue from power generation and other value add opportunities.

### Threats

- **Human Resources upheaval** - Union Activity and expectation, Loss of Skilled Labour, and employee demands
- **Climate Issues** - Natural disasters and climate change
- **Political instability** – Change of government may result in change of laws and incentives. The focus to revive the sugar industry may change.
- **Loss of Sugarcane Farm land** - Land loss to commercial development and to other agricultural ventures such as cash crops
- **Aging farmers** – the sugarcane farms being owned and managed by old farmers due to low interest from younger generations due to urban migration, white collar jobs etc.
- **Notorious and unethical acts** – such as Sabotage, burning of cane, pilferage and theft, corruption, nepotism etc.
- **Fluctuation of sugar price** – the world market price has been inconsistent and at a declining trend. The exchange rates are also unfavourable.

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	<b>Strengths</b> <ol style="list-style-type: none"> <li>1. <b>Government Support</b></li> <li>2. <b>Domestic Monopoly and Market Protection</b></li> <li>3. <b>Strategic Position</b></li> <li>4. <b>Positive Rapport</b></li> <li>5. <b>Good Employee Benefits</b></li> </ol>	<b>Weaknesses</b> <ol style="list-style-type: none"> <li>1. <b>Poor HR Development</b></li> <li>2. <b>Weak Organisational Culture</b></li> <li>3. <b>No Performance Management System</b></li> <li>4. <b>Aging Infrastructure</b></li> <li>5. <b>Inherited Financial Impairments</b></li> </ol>
<b>Opportunities</b> <ol style="list-style-type: none"> <li>1. <b>Change Management and Communication</b></li> <li>2. <b>Increase Sugarcane Production</b></li> <li>3. <b>Repair, Upgrade and Refurbish</b></li> <li>4. <b>Improve Productivity</b></li> <li>5. <b>Diversification</b></li> </ol>	<b>Convert Opportunities to Strengths</b> <ul style="list-style-type: none"> <li>• Lobby with Government and other donor agencies to increase grants to increase sugarcane production.</li> <li>• Use market protection advantage to diversify and introduce new product in the market</li> <li>• Use Government support to improve milling facilities</li> </ul>	<b>Use Opportunities to mitigate Weaknesses</b> <ul style="list-style-type: none"> <li>• Develop a robust training and development system that could improve organisational productivity. This would also address skills gap in the organisation</li> <li>• Implement preventive maintenance program and upgrade facilities as per FSC's priority ranking to improve operational efficiency.</li> <li>• Implement Change Management Program and good communication strategies to strengthen organisational culture.</li> </ul>
<b>Threats</b> <ol style="list-style-type: none"> <li>1. <b>Human Resources Upheaval</b></li> <li>2. <b>Climate Issues</b></li> <li>3. <b>Political Instability</b></li> <li>4. <b>Loss of Sugarcane Farmland</b></li> <li>5. <b>Aging Farmers</b></li> <li>6. <b>Notorious and Unethical Acts</b></li> <li>7. <b>Fluctuation of sugar price</b></li> </ol>	<b>Build on Strengths to mitigate Threats</b> <ul style="list-style-type: none"> <li>• Acquire government support to prevent loss of sugarcane farmland</li> <li>• Roll on marketing drives/road shows to lure new farmers into farming sugarcane. Provide awareness on incentives for new farmers.</li> <li>• Introduce positive reinforcements to gain support and build strong organisational culture that would steer FSC to the new Vision.</li> </ul>	<b>Minimise Weakness to avoid Threats</b> <ul style="list-style-type: none"> <li>• Implement a good training program and Performance Management System to mitigate skills gap.</li> <li>• Implement cash flow strategies and setup contingency funds to cater for damages caused by natural disasters</li> <li>• Work on building a good organisational culture to minimise notorious acts in the mills</li> </ul>