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**PARLIAMENT OF FIJI
PARLIAMENTARY DEBATES
HOUSE OF REPRESENTATIVES
DAILY HANSARD**

TUESDAY, 27 APRIL, 2004

***AD HOC* SELECT COMMITTEE ON SUGAR INDUSTRY
REFORM**

HON. L. QARASE.- Mr. Acting Speaker, Sir, I beg to
move:

That recognising the importance of the sugar
industry to all stakeholders, the national economy,
employment, and livelihoods;

Bearing in mind the problems and challenges
currently prevailing in the industry and requiring urgent
attention;

Acknowledging the challenge and desirability of
ensuring a vibrant self-sustaining, equitable and socially
responsible sugar industry; and

Realising that our global competitiveness and the
welfare of all our stakeholders can be improved by the
reform of the sugar industry:

this House agrees to establish a 15-Member *ad hoc* Select Committee on Sugar Industry Reform comprising eight Government Members, the Leader of the Opposition and six Members of the Fiji Labour Party, to consider the Indian Government Technical and Finance Mission report of March 2004 for the reform of the Sugar Industry, and other associated issues, and after wide consultation with all stakeholders, to report back to the House as soon as possible with recommendations, including proposed legislative changes, to implement these recommendations.

HON. M.P. CHAUDHRY.- Mr. Acting Speaker, Sir, I beg to second the motion.

HON. L. QARASE.- Mr. Acting Speaker, Sir, this motion is the first part of a momentous legislative and political initiative which gives the House an opportunity to address and reach agreement on two of the most complex and crucial issues facing Fiji. I speak of reform of the sugar industry and arrangements for leasing native land for agricultural purposes.

The decision to bring the motion to the House is based on a consensus reached between the Government and the Fiji Labour Party at the *Talanoa* Dialogue on March 14th and 15th. We put this motion on our agenda and the land motion that follows in the hope that co-operative spirit created by the *Talanoa* discussions will flow into the House and help us as we seek agreement on the thorny question of sugar and land.

Today's motion is to be followed by one to resolve the future of agricultural leases on native land. These measures do not stand in isolation, they are interconnected. You could almost

describe them as a package. If we approve them and the procedures that followed are successful, we will have jointly accomplish something for the benefit of all the people of Fiji. The economy will be further strengthened and so will the investment climate. Relationships between our ethnic groups will improve. We will have taken important steps towards national unity.

Mr. Acting Speaker, Sir, a number of studies and recommendations have been made to address the ailments of the sugar industry, the Government's position has always been that the industry must be transformed into a modern and productive enterprise, able to compete on the world market.

In short, the industry must function commercially. Productivity in the mills and on the farms must increase substantially. The industry must plan its future on the basis that the high prices it had enjoyed from the European Union (EU) are coming to an end.

We are told by the EU that these prices will be faced out from 2006. We can no longer rely on them and on the comfort and convenience of guaranteed market access. The future is about efficient production of high quality sugar and free market competition. For the time being, we still benefit from the sale of our bulk sugar at prices well above the open market price but as more of our sugar goes on to the world market, it will not be long before our only guarantee of access and good prices will be the quality of the product and the consistency of each production.

The industry's Strategic Plan of 1997 which had the support of all sectors warned that if key problems were not dealt with, there would be smaller earnings, bankrupt farms and job losses. That plan was overtaken by what happened in 2000 and by the clear need for a speedier solution.

The proposal the Government adopted in principle in 2002 envisaged a reduction in the number of farms and mill employees.

This was always going to be painful.

I must tell the House, Mr. Acting Speaker, Sir, that this aspect did give me some sleepless nights, along with the lack of unity in the industry. Another difficulty was that because the scheme had come initially from the Fiji Sugar Corporation, it was perceived as a plan to save the FSC rather than to help the industry. It was therefore, regarded with suspicion and there was resistance to it.

Mr. Acting Speaker, Sir, we have always recognised that the final decision on the reform should not be just the governments and that more discussions would be required. We did not, therefore, adopt a rigid position. It was necessary in a complex situation to remain flexible. That is why we kept the door open for further discussion, negotiation and adjustments.

Mr. Acting Speaker, Sir, in October, 2002, I appointed a Representative Independent Steering Committee, chaired by Mr. Charles Walker to take the reforms forward. I stressed at the time that the Committee should not be seen as an arm of Government or a tool of any particular sector of the industry.

In the course of last year, the Committee had 12 meetings of the stakeholders in its bid to get consensus among them. There was agreement on the need for change but unfortunately, no accord on the specifics. The divisions were too wide.

In December, 2003, I decided that we needed to bring in an independent expert group from overseas in a final attempt to break the deadlock. Its job would be to audit the industry and make recommendations for each improvement.

I approach the Government of India through the Indian High Commission in Suva for assistance. India has one of the world's largest sugar industries with 45 million growers producing 380 million tonnes of cane on 4.3 million hectares of land. It is milled in 541 factories which make 20 million tonnes of sugar a year.

The Indian Government responded quickly and favourably, and an audit team led by Mr. J.J. Bhagat arrived in the country on January 25th. It surveyed all facets of the industry and had consultations with the stakeholders. Before the team left Fiji, Mr. Bhagat made a presentation with recommendations to me and other Parliamentarians, including Ministers, the honourable leader of the Fiji Labour Party (M.P. Chaudhry) and the honourable Leader of the Opposition. This was followed by a full written report.

The Indian Government also responded quickly to my additional request for two analysts to provide a new evaluation of the financial position of the FSC and the capital needed for each modernisation.

Mr. Acting Speaker, Sir, I can report that the response from all sides of the House is supportive of the Indian Road Map for the industry's revival. That support developed further during the recent *Talanoa* consultation.

Last year, I said that if the industry could not reach an agreement, then the House would have to grasp the cane by the stalk and do what is necessary. We have now reached that point and are doing what is necessary. The Indian team's plan is integrated and comprehensive, dealing with milling, cane production, cane varieties, extension services, transport, human resources, infrastructure and other issues. It recommends a three-year programme of change, envisaging expenditure of some \$58 million for cane and farm development and upgrading the four mills.

Mr. Acting Speaker, Sir, if Parliament endorses the decision already taken by the Government to accept in principle the Indian recommendations, the proposed action plan calls for the implementation to start from June this year, with completion in 2007. This will mean we will have to negotiate a contract for

India to provide management of the mills for three years. We will also follow up an offer from India to provide a 12-year soft loan to fund the approximately \$58 million needed for cane development and upgrading of the four mills. If we are to keep on track with action plan, the Select Committee will have to do its work with great urgency.

Mr. Acting Speaker, Sir, the Indian approach is radically different from previous options. It does not call for a shrinking of the industry and for fewer farmers and mill workers. Instead it calls for an expansion with area under cane to increase by 25 per cent. Production would be targeted between four to 4.5 million tonnes of cane in a year, in contrast to the 2.5 to 3 million tonnes favoured by the FSC.

Earlier proposals talked of cutting the number of contract cane growers from about 21,000 to 15,000 or 14,000 but the Indian team members have assured us that this will not be necessary. In their view, neither will redundancies have to take place at the mills.

Obviously, we welcome this, just as we welcome the recommendations for expansion. An aspect of the Indian recommendations requiring further consideration by the Select Committee relates to the transport system. The Indian team had recommended the scrapping of rail transport.

Mr. Acting Speaker, Sir, the report proposes increasing yields and farm incomes through a variety of husbandry techniques and planting new crops to supplement cane. There are plans for reducing cane burning and improving harvesting and cane quality.

The report has proposals for widening stakeholders' shareholding in the FSC, investments in the mills and cutting manufacturing costs. Surplus electrical power from the mills will be sold to the Fiji Electricity Authority.

The Corporation's variable overheads above production of 300,000 tonnes of sugar would be deducted from the industry's earnings before dividing the proceeds between millers and growers in accordance with the present percentage of 70/30. This will strengthen FSC's financial position and give it an incentive to keep production above 300,000 tonnes.

I make this point; even if we were to keep our guaranteed preferential market, we would still have to sell more sugar on the open market to cater for our increased production. We are reminded again that it is imperative to improve the quality of our sugar.

Skills of the FSC employees are to be developed with hands-on training at modern mills in India.

Mr. Acting Speaker, Sir, these are the key parts of the Report. It is for the Select Committee on Sugar to now consider it in detail, make the recommendations and report back to the House for the meeting starting on 7th June, 2004.

Let me paraphrase what I had said in this House in May 2003. We politicians have often been blamed for the ills of the industry. So let us demonstrate to the people that this House and the Members have the vision and commitment to guide sugar into a long season of prosperity. We must do this for the sake of all those who depend on it for their livelihoods.

HON. M.P. CHAUDHRY.- Mr. Acting Speaker, Sir, I was pleased to second the motion because what we see here today is the product of detailed discussions and consensus. I would like to emphasise certain parts of the terms of reference of the Parliamentary Select Committee and wish to lay emphasis on the wide consultations with all stakeholders (so that the Select Committee is indeed expected and required to hold wide consultations with all stakeholders in the industry) and to take their views into consideration in making its report to the House as

soon as possible.

Mr. Acting Speaker, Sir, problems in the sugar industry started recently. As a matter of fact, it was in 1997 and 1998 that it became known that the FSC had begun its cycle of losses. In 1999, it made a small profit of \$3 million, but ever since 2000, it has been operating at a loss that has now accumulated to something like \$60 million.

I must inform this House that before this, the FSC (since 1974 up until 1996) had been making handsome profits. The only years of losses during this long period from 1974 to 1996 were in the years 1984 and 1986, and there were reasons for it. The loss in 1984 was due to a severe drought the country experienced in 1983, which flowed on to 1984. This was, of course, a loss both to the millers as well as the farmers. Then in 1985, the loss was attributable to the three cyclones that struck us in 1985 and severely damaged the mills and the cane crop during that season.

Apart from those two years of losses, which can be explained due to natural catastrophes, the FSC had been maintaining constant profit and the highest profit it made, Sir, was in the year 1990 (\$29.7 million). So, what went wrong from 1997 onwards? Why is the Corporation now constantly making losses? This will have to be very carefully examined by the Select Committee and I am glad that the honourable Prime Minister has also commissioned a financial study of the Corporation and a team of experts from India is doing just that. We have yet to receive a Report, but I think there will be interesting revelations when it is submitted.

At this stage, I must also say that we are grateful to the Sugar Technology Mission of the Government of India for doing a very thorough job, in my view. Their recommendations are very practical. I think they have hit the nail on the head, Mr. Acting Speaker, Sir, so to speak and their recommendations vary substantially from what the FSC had recommended in its

restructure proposals. There are, of course, areas of reservations concerning their Report and the two areas of reservations that we have on this side of the House relate to their recommendations on transport and quality assurance systems.

They are of the view that transport by rail should be ceased and all cane should be brought to the mills by lorries. This recommendation, of course, has other implications and it requires a holistic review, bearing in mind that we have road users also from other major industries. Primarily, the one that I am referring to is tourism. We would like to see that we do not clog up our roads with cane lorries, because even now, some 1.5 million tonnes of cane are hauled to the mills by rail and if we transfer all this onto lorries, it will create severe stress on our roads and on our road transport system. So, this needs to be looked at very carefully, both from the point of view of road safety, as well as environmental concerns.

The other reservation relates to quality assurance systems. This has been discussed with the members of the Mission and we, of course, will pay some attention to this in our discussions in the Parliamentary Select Committee.

One other point I want to emphasise here is that we all seem to think that the Sugar Protocol will go in 2006. I do not think we should give up on that. I think the ACP countries have a legitimate concern here. I think the people who want to remove these subsidies are doing so from a very selfish point of view and we should negotiate on this very forcefully as an ACP group at the WTO level because to give up on it and accept that as a fait accompli, will not be in our best interests. So, I would suggest that we engage in a very pro-active manner, ensuring that the benefits under the Sugar Protocol are not taken away as early as 2006. Maybe the ACP countries need a longer period of adjustment because the WTO still has not settled on a number of scores. Until all these things are settled it will not be fair, particularly on developing countries in the Asia-Pacific and

Caribbean region where sugar industries are a major component in their economies, to be affected in such a manner as to lead to the demise of these industries.

Mr. Acting Speaker, Sir, the other point that I wanted to make in relation to the Report relates to co-generation. I have seen that we have a motion in the House to be moved by the honourable Minister for Finance to guarantee \$53 million to the National Provident Fund on borrowing by the FSC for the co-generation project.

If I remember correctly, Sir, in the presentation that was made to the *Talanoa* talks, the head of the Sugar Technology Mission, Dr. Bagat, did say that the cost estimates of FSC for its co-generation project were substantially higher than what they thought it would cost and I must admit that we must re-examine that. That is why I would urge the honourable Minister for Finance, at this stage, to perhaps not put the motion to the House because we need to look at whether it is going to cost \$53 million if a team of experts tell us that the costs should be substantially lower. We must hold back and examine the matter thoroughly, so that we are not taken in for a ride by some of these people who may have made these recommendations for personal gain.

Mr. Acting Speaker, Sir, at this stage also, I would like to thank Mr. Charles Walker who has, I know, worked tirelessly for a number of months trying to get an amicable agreement on the reforms to the sugar industry. His was not an easy task because of the varying views held by different stakeholders in the industry and it was almost impossible for his committee to bring about unanimity of view, but he did not give up. He carried on and I think in the end, it was largely through his efforts that we are able to see all sides coming together in a genuine effort to try and discuss this particular pressing problem and arrive at an agreed solution.

Those were some of the points I wanted to make. I think

the rest of what we have to say will have to be fully considered at the Select Committee level, Mr. Acting Speaker, Sir, and I do sincerely hope that we will approach this task in a thorough manner and in a spirit of co-operation, so that we are able to get the reforms implemented at the latest, by the next season.

On the farming side, of course, the recommendations go a long way in trying to enhance the income of the farmers. This is something that will have to be taken seriously by the farmers themselves and also by the industry and the Ministry of Agriculture, to see that the recommendations are implemented and that adequate resources are made available for their implementation. We have seen in the past that a number of inquiry and investigation reports, et cetera, had been received and then put away, their findings not implemented on account of a lack of funding. We hope that these recommendations, which will really lead to enhancement of incomes of the rural people, are implemented and that the Government ensures provision of adequate resources for such implementation.

Before I conclude, I would like to thank the conveners of the *Talanoa* talks, the East/West Centre and the Pacific Island Development Programme Director (Dr. Sitiveni Halapua), and the President of the East/West Centre (Dr. Charles Morrison), for funding the *Talanoa* talks and for ensuring that there was a way found to resolve two of the most crucial problems or issues facing the nation today (sugar industry and land issues). Their contribution to the agreement that we have reached in those talks has been quite significant and we should, I believe, officially thank the two gentlemen, as well as the institutions that they represent.

With those few words, Mr. Acting Speaker, Sir, I support the motion before the House.

HON. L. QARASE.- Mr. Acting Speaker, Sir, I will be fairly brief. I just want to comment on the possibility of market access into the European Union being phased out or terminated after the

year 2006. I want to assure this House that Fiji is in the forefront in the negotiation for a new Sugar Protocol, to replace the current one that will terminate in about 2006 and 2007.

Our honourable Minister for Foreign Affairs and External Trade, as we all know, is thoroughly well-versed with the sugar problems and so on and he is out there on a regular basis with his colleagues in the ACP group, negotiating very strongly with the European Union's officials to get a better deal for our sugar farmers come 2006 or 2007. Let us all hope that they will be successful and that rather than terminate the Sugar Protocol, we will have a new one that will renew this market access or at least give us a lot of breathing space.

On the question of Government guarantee for funds to fund the co-generation project, I will not comment on that at this stage. There is a motion in the House on that issue.

I would like to thank the honourable leader of the Fiji Labour Party for his contribution and support for the motion before the House. I would also like to take this opportunity to thank a few people. Firstly, the Indian Team that did the study and I would like to express our sincere gratitude to the Government of India and in particular, the Indian High Commissioner to Fiji, for the very prompt response to our request which we made late last year. Some of you may not be aware of the background of Mr. Bhagat and his team, they are among the best in the sugar industry in India. So, in a very real sense, we are very fortunate in Fiji to have had the services of the members of that team that did a great job here only a few months back.

I would also like to express our sincere gratitude and join the honourable Member for Ba Open (M.P. Chaudhry), in thanking Mr. Charles Walker, who was appointed Chairman of the Sugar Restructure Steering Committee in October, 2002. As I mentioned in the introduction of the motion, he held 12 meetings with the stakeholders, the Committee met 12 times but

unfortunately, they could not agree on the important issues affecting the sugar industry. They did agree, of course, that there was a need to restructure the industry and that the restructure should take place as early as possible.

I would also like to inform the House that we have decided to disband that Committee because we are now taking a step further in bringing the issue to the House and then to a Select Committee, but I have retained Mr. Charles Walker as advisor to me, in particular in relation to this project because of the vast knowledge that he has acquired over the last couple of years on the sugar industry problems.

I also want to express our thanks to the East-West Center, the Pacific Islands Development Programme and in particular, to Dr. Sitiveni Halapua, Dr. Charles Morrison and his team, for the role they have played in bringing the parties together through the *Talanoa* dialogue which has enabled us to get to this point. In the next motion on the land issue, the same people were very much involved in facilitating the discussion on that issue and that is why we have reached that stage today.

With those few words, Mr. Acting Speaker, Sir, I commend the motion to the House.

Question put.

Motion agreed to.