Changing Trade Regimes and Fiji’s Sugar Industry: Has the time run-out for reform or is there a plan and political will to sustain it?

Biman C Prasad
School of Economics
The University of the South Pacific
Suva, Fiji

No. 2007/24

November 2007

This paper presents work in progress in the School of Economics at USP. Comments, criticisms and enquiries should be addressed to the author(s).

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Changing Trade Regimes and Fiji’s Sugar Industry: Has the time run-out for reform or is there a plan and political will to sustain it?¹

Biman Prasad²
School of Economics
The University of the South Pacific
Suva, Fiji Islands


² Professor and Head of School of Economics, The University of the South Pacific, Suva, Fiji Islands.
1. Introduction

The changing global trade regimes have also led the European Commission (EC) to institute plans to change its agreements allowing preferential access to products from the ACP countries. The historical developments of these preferences are rooted in the colonial past of the ACP countries which were colonies of different members of the EC. These preferential arrangements have for the last 3-5 decades been the basis for development in many of the ACP countries. Many of them relied on single commodities as their export base and for development. Prominent amongst these commodities is sugar which has had a special place in the development of many of ACP states including Fiji. Many see the reform of the EU sugar regimes as part of an internal market reform which is unavoidable. This is part of EC’s reform of the Common Agricultural Policy. It has been clear to ACP sugar producing countries that this is not restricted to beet sugar and it is going to affect the sugar protocol under which many of the ACP cane sugar producing countries export their raw sugar at price levels above two to three times the world market price. These guaranteed prices provided a sustained flow of foreign exchange earnings for many of the ACP countries. The sugar industries in the ACP countries had become a backbone of the economies contributing significantly to their GDPs. All these are now under strain as ACP countries negotiate the economic partnership agreement (EPA) provided for in the Cotonou agreement, successor to the Lome Convention. It is important, however, to point out at the outset that while many of the ACP countries feel aggrieved about the prospect of losing the preferential price, they should have known that these preferences were temporary and could change as a result of the World Trade Organisation negotiations. Many of the ACP sugar producing countries cushioned by above the world market price did not move to improve efficiency and productivity so as to insure against a drastic fall in the preferential prices and remain profitable and competitive.

Fiji as a member of the ACP group of countries has probably been the slowest in responding to the challenges thrown at it to reform our sugar industry and put in plans for the restructure. Part of Fiji’s problem in handling the change has been its pre-occupation with the high level of political instability since 1987 and the inability of the political leaders and those in the sugar industry to move the industry towards change.

The next section provides a brief discussion of the sugar protocol and the EU market. Section three discusses the importance and state of the Fiji sugar industry at present. Section four provides an analysis of our preparedness for the eventual fall in prices. Section five concludes with comments on our future prospects.
2. Importance of Sugar Industry to Fiji’s Economic Development

For historical reasons, the sugar industry in Fiji has been a vital component in its economic development and the sugar quota to the EC market at above market prices provided significant export income to Fiji. In the 1970s the sugar cane growing was extended to Seaqaqa under a major World Bank funded initiative to increase production. The price boom in the 1970s and guaranteed sugar prices under the EC sugar protocol was a major driver of economic growth for Fiji and total investment as a percent of GDP was more than 20 percent in the same period. Currently, sugar export constitutes approximately 6 percent of gross domestic product (GDP) down from 11.3 percent in 1995. The sugar sector production has declined by about 30 percent in that period while cane production declined from 4 million tones in 1995 to about 3 million tones in 2005 (see table 1 for sugar industry production and prices since 1990). This decline in production can be attributed to farmers’ response to an anticipated decline of sugar prices and further non-renewal of leases in the future. However sugar still generates approximately 22 percent of total exports. It accounts for 8.5 percent of total foreign earnings and generates direct and indirect employment for about 51,000 people (Government of Fiji, 2002).

Table 1: Sugar Industry Production and Prices, 1990-2004

<table>
<thead>
<tr>
<th>Year/Season</th>
<th>Sugarcane production [000 tonnes]</th>
<th>Sugar production [000 tonnes]</th>
<th>Export of sugar quantity [000 tonnes]</th>
<th>Value [F$000]</th>
<th>Unit value [F$/tonne]</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>4,016</td>
<td>408</td>
<td>394</td>
<td>223,669</td>
<td>568</td>
</tr>
<tr>
<td>1991</td>
<td>3,380</td>
<td>389</td>
<td>357</td>
<td>220,400</td>
<td>617</td>
</tr>
<tr>
<td>1992</td>
<td>3,533</td>
<td>426</td>
<td>365</td>
<td>221,285</td>
<td>606</td>
</tr>
<tr>
<td>1993</td>
<td>3,704</td>
<td>442</td>
<td>439</td>
<td>230,666</td>
<td>525</td>
</tr>
<tr>
<td>1994</td>
<td>4,064</td>
<td>517</td>
<td>471</td>
<td>252,183</td>
<td>535</td>
</tr>
<tr>
<td>1995</td>
<td>4,110</td>
<td>454</td>
<td>445</td>
<td>276,112</td>
<td>620</td>
</tr>
<tr>
<td>1996</td>
<td>4,380</td>
<td>454</td>
<td>500</td>
<td>301,731</td>
<td>603</td>
</tr>
<tr>
<td>1997</td>
<td>3,280</td>
<td>347</td>
<td>308</td>
<td>213,449</td>
<td>693</td>
</tr>
<tr>
<td>1998</td>
<td>2,098</td>
<td>256</td>
<td>237</td>
<td>244,246</td>
<td>1031</td>
</tr>
<tr>
<td>1999</td>
<td>3,958</td>
<td>377</td>
<td>355</td>
<td>263,200</td>
<td>741</td>
</tr>
<tr>
<td>2000</td>
<td>3,786</td>
<td>341</td>
<td>317</td>
<td>237,523</td>
<td>749</td>
</tr>
<tr>
<td>2001</td>
<td>2,805</td>
<td>293</td>
<td>240</td>
<td>222,022</td>
<td>895</td>
</tr>
<tr>
<td>2002</td>
<td>3,423</td>
<td>330</td>
<td>289</td>
<td>234,971</td>
<td>813</td>
</tr>
<tr>
<td>2003</td>
<td>2,610</td>
<td>294</td>
<td>271</td>
<td>230,720</td>
<td>851</td>
</tr>
<tr>
<td>2004</td>
<td>3,001</td>
<td>314</td>
<td>230*</td>
<td>178,442*</td>
<td>776*</td>
</tr>
</tbody>
</table>

(Source: Fiji Island Bureau of Statistics; 2005)
* - Estimated

Narayan and Prasad (2006) studied the implication of the decline of sugar production by 30 percent and found a significant economy wide impact. Table 2 shows the macroeconomic impact of the decline. For example the decline in sugar production of 30 percent will have a
direct impact exports and tax revenue for the government by more than 2 percent. The results of the study point out that it is dangerous to play down the importance of the industry, as was the case after the military coups of 1987. The study clearly shows that the sugar industry is still vital to the national well being of Fiji. It provides evidence that a decline in sugar production is likely to have significant negative consequences on most sectors of the economy. This study should dispel the view that there are real alternatives already in existent that can absorb the resources released from the sugar industry in the short to medium term. Given the poor growth of the manufacturing sector, poor growth of other non-sugar crop sectors, there isn’t much for thousands dependent on the sugar industry and for this reason alone, the reform of the industry would be a difficult task for any government. Sugar industry reform must, therefore, be carefully implemented so that there are alternatives for farmers who, on current evidence, are likely to be forced out of the industry as a result of the reforms. A longer time frame will be required to allow the transition to a more urban-based manufacturing sector in a less painful manner and diversification into other agricultural crops.

<table>
<thead>
<tr>
<th>Variables</th>
<th>percent change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private savings</td>
<td>-2.6796</td>
</tr>
<tr>
<td>Balance of payments</td>
<td>-F$703,043</td>
</tr>
<tr>
<td>Total government consumption</td>
<td>-1.8761</td>
</tr>
<tr>
<td>Total government investment expenditure</td>
<td>-0.8924</td>
</tr>
<tr>
<td>Total government savings</td>
<td>-26.5760</td>
</tr>
<tr>
<td>Imports</td>
<td>-1.6652</td>
</tr>
<tr>
<td>Exports</td>
<td>-2.1434</td>
</tr>
<tr>
<td>Consumer price index</td>
<td>-1.0763</td>
</tr>
<tr>
<td>Investment price index</td>
<td>-0.8237</td>
</tr>
<tr>
<td>Private disposable income</td>
<td>-2.6796</td>
</tr>
<tr>
<td>VAT revenue</td>
<td>-1.0436</td>
</tr>
<tr>
<td>Income tax revenue</td>
<td>-2.9898</td>
</tr>
<tr>
<td>Company tax revenue</td>
<td>-3.0141</td>
</tr>
<tr>
<td>Production tax revenue</td>
<td>-6.2675</td>
</tr>
<tr>
<td>Excise tax revenue</td>
<td>-2.5254</td>
</tr>
<tr>
<td>Tariff revenue</td>
<td>-1.5425</td>
</tr>
<tr>
<td>Real GDP</td>
<td>-1.8467</td>
</tr>
<tr>
<td>GDP deflator</td>
<td>-0.7160</td>
</tr>
<tr>
<td>Real consumption</td>
<td>-1.6466</td>
</tr>
<tr>
<td>Real national welfare</td>
<td>-1.4690</td>
</tr>
</tbody>
</table>

Labour market effects for Fiji from a 30 percent reduction in sugar output

<table>
<thead>
<tr>
<th>Variables</th>
<th>percent change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net after tax rural wage rate for unskilled labour</td>
<td>-1.8776</td>
</tr>
<tr>
<td>Net urban wage rate for unskilled labour</td>
<td>-1.0763</td>
</tr>
<tr>
<td>Wage rate for informal sector labour</td>
<td>-7.1587</td>
</tr>
<tr>
<td>Aggregate demand for informal unskilled labour</td>
<td>3.7379</td>
</tr>
</tbody>
</table>

(Source: Narayan and Prasad, 2005)
Studies of other ACP sugar countries show that those countries that used their sugar proceeds effectively to change the structure of their economies and directed investment to other sectors are in a much better position. Laaksonen et al. (2006) show that Mauritius used the extra gain from the export revenues under the protocol to spur investment in other sectors whereas Jamaica in contrast did not do that. Hence, Mauritius achieved better economic growth compared to Jamaica. Similar conclusions have been drawn about Fiji (Prasad and Narayan, 2005). Fiji’s failure has been on two fronts. One it did not make appropriate investment in the sugar mills, transportation and research and therefore the competitiveness of the industry continued to decline. Two the government did not allocate its resources and profits derived as a result of the sugar exports to undertake reforms. Such a move would have led to the growth of other sectors such as tourism. Tourism has only received the attention in the last decade and despite that its full potential is far from being realized.

3. The Sugar Protocol and the EC Market Reform

The sugar protocol has been in force since the first Lome Convention was signed in 1975. Under this convention former colonies had access to UK and Canadian markets and later to EC markets. As shown in Table 3, 19 ACP countries are allocated guaranteed price quotas on an annual basis with Mauritius, Fiji and Guyana the three big ones. In addition to this there is what is called ‘Special Preferential Sugar’ and under this raw sugar is imported into the EC at 85% of the protocol price. Article 177 of the treaty establishing the EC included three objectives for development: (1) the sustainable economic and social development of the developing countries (2) the smooth and gradual integration of the developing countries into the world economy and (3) the campaign against poverty in the developing countries. These objectives are further confirmed in Article 1 of the ACP-EU agreement signed by the ACP countries as part of the Cotonou agreement in 2000.

Table 3: ACP Sugar Protocol Quotas and SPS Quotas

<table>
<thead>
<tr>
<th>ACP Sugar Protocol Quotas</th>
<th>%</th>
<th>SPS* (av. 2000-2002)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tonnes, raw weight</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Barbados</td>
<td>50,312</td>
<td>3.9</td>
</tr>
<tr>
<td>Belize</td>
<td>40,349</td>
<td>3.1</td>
</tr>
<tr>
<td>Cong, Rep. Of</td>
<td>10,186</td>
<td>0.8</td>
</tr>
<tr>
<td>Cote d’Ivoire</td>
<td>10,186</td>
<td>0.8</td>
</tr>
<tr>
<td>Fiji</td>
<td>165,438</td>
<td>12.8</td>
</tr>
<tr>
<td>Guyana</td>
<td>159,410</td>
<td>12.3</td>
</tr>
<tr>
<td>Jamaica</td>
<td>118,696</td>
<td>9.2</td>
</tr>
<tr>
<td>Kenya</td>
<td></td>
<td>8,557</td>
</tr>
<tr>
<td>Madagascar</td>
<td>10,760</td>
<td>0.8</td>
</tr>
<tr>
<td>Malawi</td>
<td>20,824</td>
<td>1.6</td>
</tr>
<tr>
<td>Mauritius</td>
<td>491,031</td>
<td>37.9</td>
</tr>
<tr>
<td>St Kitts and Nevis</td>
<td>15,591</td>
<td>1.2</td>
</tr>
<tr>
<td>Suriname</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Swaziland</td>
<td>117,845</td>
<td>9.1</td>
</tr>
</tbody>
</table>

5
<table>
<thead>
<tr>
<th>Country</th>
<th>2018 (tonnes)</th>
<th>2017 (tonnes)</th>
<th>2007 (tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tanzania</td>
<td>10,186</td>
<td>0.8</td>
<td>2,374</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>43,751</td>
<td>3.4</td>
<td>8,011</td>
</tr>
<tr>
<td>Uganda</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zambia</td>
<td></td>
<td>13,264</td>
<td></td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>2,303</td>
<td>2.3</td>
<td>26,463</td>
</tr>
<tr>
<td><strong>Total ACP Sugar Protocol</strong></td>
<td><strong>1,294,700</strong></td>
<td><strong>100</strong></td>
<td><strong>231,589</strong></td>
</tr>
</tbody>
</table>

Source: Garside et al. (2005)

The estimates of income transfer under the sugar protocol for Fiji in 2004 was equivalent to about 4.7 percent of GDP amounting to about 7.3 percent of the total expenditure (Gilson et al, 2005). This is significant given that other export sectors in the economy are weak, particularly the declining trend of garment exports.

The prospects of a comprehensive negotiation under EPA is under a cloud and it is not likely to produce results for ACP states and more so for the Pacific ACP states. The Pacific position on EPA which was to have been concluded by the end of 2007 is now going to end up as an interim agreement on goods only because a comprehensive agreement that is WTO compatible is unlikely to be agreed. Pacific nations have five key negotiating objectives (Grynberg, 2006):

1. Improved market access for goods (a) rules of origin and (b) duty free and quota free access
2. Market access for Pacific ACP service suppliers which includes Seafarers; Carers and health sector service providers; Hotel and Tourism service providers and Construction service suppliers;
3. An agreement on Investment and help for the development of SMEs;
4. A multilateral fisheries agreement that includes access; and
5. An EPA adjustment facility

While the above negotiating positions make a lot sense and Pacific ACP states are justified in asking for this from the EC the prospect of getting any agreement on the above now seems even remote. Many doubt if the goods alone agreement is of any benefit for future negotiation. With respect to cane sugar exports to the EC the situation is again likely to affect future viability of the sugar industries in the ACP countries which produce cane sugar. If one were to look at the Common Agricultural Policy of EC one would find that many of the poor developing countries in the ACP region lose out because of massive subsidies that sugar producers in the EU receive. While the ACP countries under the sugar protocol receive a guaranteed above the world market price, they can only export raw sugar which is then refined in the EU. This has prohibited ACP countries from developing their own refining and processing of raw sugar facilities.

As part of the reform of the EC policy on sugar, the EC has stated clearly that this is part of their internal market reform. As a result it will reduce the price paid to ACP countries by a total of 36% by 2009.
According to the ACP group of countries the EC proposals are not going to resolve the issue for many of the ACP countries. While they accept the need for reform they have expressed concern about the adjustment costs and whether the time is enough to make the transition to a situation where ACP sugar producing countries can become efficient.\(^3\) Despite many of the counter proposals and request for further consideration about the speed of reform by the EC and for bigger adjustment funds the EC has moved on to reform the sugar protocol in a phased manner.

The EC market offer to ACP countries includes duty free and quota free treatment of all imports except sugar and rice. For sugar the duty free and quota free treatment will be phased over a transition period and the plans are as follows (EC, Brussels, 4 April, 2007):

### First Phase: 01/01/2008 – 30/09/2009
- Continuation of the Sugar Protocol until 30/09/2009 with guaranteed prices
- Substantial improvement of LDC market access for marketing year 2008/2009 through quantities additional to the quota foreseen under the ‘Everything but Arms’ initiative
- Initial Market Access for ACP non-LDCs not parties to the Sugar Protocol
- Additional Market Access for ACP non-LDCs not parties to the Sugar Protocol

### Second Phase: 01/10/2009- 30/09/2015
- Free access for ACP sugar subject to an automatic volume safeguard clause. This safeguard would only be applied to non-LDCs, allowing for substantial increase of export levels
- Until September 2012, importers of ACP sugar would be required to pay not less than a certain price level. After 2012, a price information system based on the current system would provide for transparency of the market
- A limited number of processed agricultural products with high sugar content would be subject to an enhanced surveillance mechanism in order to prevent circumvention of the sugar import regime

### Third Phase: From 01/10/2015
- ACP sugar would be duty-free, quota-free subject to a special safeguard clause for sugar. This safeguard clause would be based on the regular EPA safeguard, adjusted to take into account of the sensitivity of sugar

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\(^3\) See *Critique of the EC’s Action Plan for ACP countries affected by EU sugar reform.*

If one were to accept this transition time table then the issue is can the ACP countries restructure their industries in time to ensure that they do not lose out completely? For countries like Fiji which has not undertaken serious reform of the industry the question is will the industry collapse and if does not collapse completely what would be the adjustment costs and whether we can afford it.

The ACP ministers meeting on 14 of September, 2007 agreed on the following in response to the April 2007 offer by the EC. From the response below it is obvious that ACP countries are very concerned about their ability to adjust without a certain amount of support until 2015.

i. Price

The minimum price should not be less than the reference prices fixed under the current EU sugar regime, and must apply for the entire life of the EU sugar regime till 2015. To this end, it is essential that the EU gives firm written assurances that it will take specific measures and maintain the market balance between supply and demand so as to stabilise market prices at a minimum of the reference prices currently fixed until 2015.

ii. Minimum access quantities

There should be minimum access quantities which build on the acquis and individual market access should be improved.

iii. Safeguards

There should be no safeguard measures applicable to market access quantities as referred to in paragraph 9 above.

iv. Transposition of the SP benefits into EPAs

The final agreement on the specific issues (i) Prices, (ii) Minimum access quantities, including additional Market access provisions, and (iii) safeguard measures should be annexed to the EPAs of the SP States, signifying the transposing of the core SP benefits to the EPAs.

v. Types of sugar and buyers

The ACP countries should be free to sell any type of sugar to any EU buyer from the start of the EPAs.

vi. Information sharing and coordination

The various regions will keep the group fully informed of developments in their respective negotiations. In this respect, Ministers agreed that each region will designate a contact point in order to facilitate the information sharing process.

vii Implementation of Accompanying Measures

The Ministers received an update from the EC on the implementation status of the accompanying measures and the allocation of the agreed multi-annual resources. They agreed
that the resources for the financing of accompanying measures should be adequate, predictable and front-loaded and the delivery constraints currently being experienced should be addressed forthwith with a view to expediting disbursement.

viii  **Intra ACP projects on sugar research**

The Ministers were informed by the EC and the ACP Secretariat on progress in the implementation of the intra-ACP sugar research projects as well as the monitoring mechanism in place. They decided that the Secretariat would submit a report on progress in the implementation of the projects.

ix  **Campaign to create awareness of the ACP Position**

The Ministers agreed to urgently initiate a public relations campaign, as well as to lobby Member States, the EU Presidency and the European Parliament to canvass support for the ACP stance. The support of NGOs should also be enlisted.

The responses by the ACP ministers are based on the fact that it would not be possible for many of them to survive if the EC’s plans for phasing the preferences are followed. Their request for the transposition of the Sugar Protocol into the EPAs is important. However, the current uncertainty in concluding the EPA presents even bigger difficulties. Judging from the response from the EC it appears that ACP sugar countries are on the path to losing the preferential treatment forever and quicker than many might have anticipated. This takes many of them back to the drawing board. Perhaps that is what they need to do and spend more time restructuring their industries. The next section, therefore discusses the plans and strategies for restructuring the industry in Fiji and appropriateness and feasibility given the time frame for the withdrawal of EC preferences.

4.  **Plans for our restructure and the adaptation strategy and are the goals achievable?**

The problems of the sugar industry should have been clear to our leaders and industry players for sometime. The expansion of the sugar industry in the 1970s was based not only on the guaranteed price and our obligations to supply the allocated quota but also to expand beyond our quota to sell sugar in other markets as well. In the 1970s and to a large extent in the 1980s, the sugar industry was the leading sector in the economy. The problems of inefficiency and bad management crippled into the industry especially in the milling sector after the military coups of 1987. The deregulation policies pursued by the subsequent government had led to the withdrawal of support and lack of strategies to develop the agricultural sector. The sugar industry suffered as well due to lack of attention to the agricultural sector as a whole and the
impact of land tenure uncertainty on the efficiency of the sugar industry.⁴ In addition the leaders in the sugar industry failed to direct the attention of the government to the inefficiencies in the industry and the impending erosion of preferential prices. While subsequent governments have indicated plans to restructure the industry none had the political will to implement plans to do that. The need for restructuring is summarised by the ADB (ADB, 2003a: 1) as follows:

The combination of deteriorating world sugar market prices, declining efficiencies in all sections of Fiji’s sugar sector, and the adverse effects of the Master Award¹ which result in an inequitable distribution of Fiji’s sugar proceeds that does not permit reinvestment in the sugar sector’s infrastructure, has resulted in a situation that dictates an immediate restructure of the Fiji sugar sector. Without immediate restructuring, either the Fiji Sugar Corporation (FSC) will have to cease production due to its technical insolvency and declining credit rating or the government of the Fiji Islands will have to provide an immediate cash injection to FSC of up to F$33 million to ensure continuing operation of the four mills for 2003-2004. Future annual cash injections can be expected to rise as the deteriorating sugar sector infrastructure maintenance and replacement costs escalate.

The ADB’s observation in 2003 was a timely reminder for serious intervention. Essentially these intervention should have included (1) improving the cost effectiveness of the sugar milling, (2) ensuring the supply of appropriate labour, (3) rationalizing the farm sizes and cane growing areas, (3) looking at raising income by producing other products such as ethanol and more immediate task of producing more energy from bagasse, (4) reducing institutional costs, (5) sugar research development to produce better varieties of sugarcane and crop improvement, bio-technology, by products and biomass utilization to raise sugarcane yield (6) resolving the land issue.

The Fiji (SDL) government in its 2007-2011 strategic development plan had put forward its policy objectives as ‘to restructure the sugar industry into a commercially viable, profitable and sustainable industry’ (Government of Fiji: 109) and includes some of the intervention identified earlier.

<table>
<thead>
<tr>
<th>Strategies</th>
<th>Key Performance Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation of sugar industry reform plan</td>
<td>Yield per ha increased from 61mt/ha in 2006 to 80mt/ha by 2011</td>
</tr>
<tr>
<td>Encourage dialogue and consultation to ensure land availability for the industry</td>
<td>TCTS ratio improved from 11 TCTS in 2006 to 8 TCTS by 2011</td>
</tr>
<tr>
<td>Promote milling efficiency and cane quality payment system</td>
<td>Extraction rate of sucrose increased from an average of 72% in 2006 to 85% by 2011</td>
</tr>
<tr>
<td>To improve efficiency and</td>
<td>Reduce milling costs from $280/mt</td>
</tr>
</tbody>
</table>

⁴ See for example Prasad and Tisdell (1996, 2006) for detail discussion of the impact of land tenure on the sugar industry.
productivity of cane production in farms through improved extension and research services
- Review of the cane transportation system with the objective of making it cost effective and practical
- Increased range of crops produced (including aquaculture) in the sugar belt through the support of the Alternative Livelihood Project
- Design and Implement sugar product diversification such as ethanol production
- Implement measures to address the social impact of the industry restructuring

(Source: Government of Fiji, 2006: 109-110)

These objectives and interventions remain relevant even now under the Interim Government. The imperatives for reform are the same. If we undertake an analysis of the key performance indicators we can find that the time is not only too short but it may have virtually run out to achieve reforms with minimum pain to the thousands of people directly dependent on the industry. For example the target for raising the yield per hectare by 25 percent by 2011 is overly optimistic given that there is really no solution to the land lease uncertainty. Other targets set for Fiji Sugar Corporation also assumes that there would not have been any disturbances to the plan like what we have now in terms of the military coup. In a thorough and well researched analysis, Lal and Rita (2005) point out that on account of the current costs in the industry and costs at the farm level the sugar industry will face a serious crisis in order to survive as a viable industry. They conclude with the following:

Time is running out on the Fiji sugar industry. In the short term, there will be many casualties of trade liberalisation. Many cane farmers will lose their source of livelihood, and many of those who remain financially viable will fall below the poverty line. Their only salvation will be in finding other sources of income. Urban drift will be inevitable, placing additional pressure on already stretched infrastructure. Unless economic and technical efficiency are improved, farmers will experience a decline in their net incomes by one-half to two-thirds. Landowners will see a significant decline in their rental income. The reduction in the incomes of growers, cutters, and landowners will have flow-on effects in the cane belt and the economy as a whole. Urban centers in the cane belt, which are mostly reliant on sugar revenue, could become ghost towns. Unemployment in rural and urban areas could be expected to increase, as may the social problems associated with unemployment.

The conclusions drawn by Lal and Rita have been similar to those drawn by several other studies including those by global NGOs like Oxfam. Figures from the 2007 provisional census report, the results from the 2002/2003 household income and expenditure survey all show that urban population has increased together with more poverty and unemployment, landowners income has declined which has given rise to associated social ills such as crime have also increased. The situation has been further worsened because of the political situation since
2000 and more recently in 2006. The 2007 census shows that urban population increased by 61,591. In addition, it shows that Indian population in the rural areas has declined by 36,708 between 1996 and 2006 (Fiji Islands Bureau of Statistics, 2007).

From a macroeconomic perspective, if Fiji was to be successful in implementing the reforms and follow through the sugar adaptation strategy even though we may already be behind, there is a possibility that an efficient sugar industry could be part of the overall restructured Fijian economy. However, the danger we face is that if the actions defined in the planned restructure and the adaptation strategy is not coherently undertaken we could end up with a lot of problems. Achievement of one target is important for others to be successful as all of them are intertwined. A failure on one part could impede other actions (domino effect).

Apart from the actual implementation, there are highly sensitive social and political issues that need to be addressed if the sugar reform plans are to produce results. Because of its historical and ethnic structure, issues such as expiring land leases for mainly Indo-Fijian tenants and the unwillingness of mainly ethnic Fijian landowners to lease land or the controversy about land rents and rent arrears will present special challenges. In addition, the social problems and compensation for those who want to move out of the industry or who are forced out as a result of new demands for lower cost at all levels will require substantial adjustment funds. These include mill employees; cane cutters, and inefficient low production farmers. These are all sensitive issues and a transparent strategy to deal with them will be vital for a harmonious transition of the industry.

5. Concluding Comments and Recommendations

Time has already run out for Fiji to effectively reform the industry. Whatever reform that is successful from now onwards would still be painful but the extent of the pain to the households’ dependent directly on the industry and the macroeconomic impact could be cushioned if the reform is undertaken with urgency and with unity. This dire situation has arisen partly because of political instability in the last two decades and partly because of the failure of the sugar industry institutions and leaders to understand the impending changes to the sugar price regime and difficulties arising out of our inability to resolve the land lease issue.

The Interim Government and the sugar ministry should not consider expanding the industry. It makes no sense to talk about bringing the ‘glory’ days back, as realistically speaking, this is economically not viable. If the ‘glory’ days mean expanding the industry then it is misplaced for several reasons. The current situation is that cane production is on the decline because farmers in the industry are not interested in cane farming. There is a systematic move by sitting farmers to get out of the industry. Research shows that the children of farmers are moving out to the urban centres- the shift in rural population to the urban centres is a direct evidence of

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that\textsuperscript{7}. There is evidence already in parts of the sugar growing areas and in particular in Vanua Levu, that there is shortage of labour and the cost of labour which includes harvesting is going up and the trend is likely to continue. What this indicates is that the farmers have lost confidence in the industry and are moving out of it. The second reason, is the lack of certainty on the native land lease renewals. In this case the current political climate does not inspire any confidence amongst farmers that it would be resolved.

If the Interim Government is serious about implementing the strategy and its plan to restructure the industry then it ought to take some drastic measures now. The only way this could be effectively done is for it to establish a new institutional mechanism to steer the reform of the industry. There is too much suspicion, doubts and disunity with the present institutional arrangement. In addition there are some institutions such as the sugar commission which should be abolished as they unnecessarily increase the cost to the farmers in the form of levy.

The Interim Government should appoint an independent team to steer the restructure and the adaptation strategy. This independent committee made up of experts and non-politicians should manage the restructure and the main committee could further appoint independent sub-committees to direct specific components of the industry. Specific tasks of the independent committee would include a proper assessment of the adjustment costs and how these costs could be met from appropriate aid funding and borrowing or investment from the private sector.

At the farm level, an immediate strategy should be to motivate the farmers to continue farming and to attract new ones if the old ones are leaving. For Vanua Levu it would make sense to provide income tax relief to farmers and support for new farmers through appropriate cash and kind grants for a set period of time.

For the land lease problems, the government should re-look at the issue of leasing the land from NLTB and subleasing it to the tenants. This is likely to reduce the tension between land owners and tenants and create better prospects for the Native Lands Trust Board (NLTB) in terms of lower administrative costs and guaranteed income from the tenants (Prasad, 2006).

Finally, the government would have to look at alternative overseas borrowing for the adaptation strategy as it cannot afford to wait for the EC funding as it is still in doubt given the condition that the full aid package to Fiji will only restored once elections are held.

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