

BRIEF ON THE JAMAICAN SUGAR INDUSTRY

Trading Relationships

Jamaica's major sugar trading relationship over the past 25 years is based on preferential treatment in the European and United States markets.

The European Market

The Lome Convention was the basis for the preferential treatment in this market. It originated in a European Community decision of 1957 to set up a European Development Fund (EDF) worth \$581 million to be used over a five-year period to make development grants to their predominantly African overseas countries and territories.

By 1963 many of these had become independent and a more formal agreement in the first Yaounde Convention was concluded to specify the nature of trade preferences and development assistance that the Community was prepared to offer its partners.

When Britain formally achieved EC

membership in 1973 some of the developing countries of the Commonwealth decided they would join with the Yaounde Convention participants and some other African countries to form a group of African, Caribbean and Pacific States that would approach the Community as a common negotiating body and seek a wider Convention. The ensuing negotiations resulted in a five-year Convention that was signed at Lome in 1975.

Under this Convention the ACP States were offered the opportunity to export sugar at guaranteed prices to the European Union. Jamaica's quota under this regime is 126,000 tonnes per annum.

The United States Market

The United States sugar industry is protected from foreign subsidised sugar imports. Since the 13th century the mechanism for protection went through a number of legislative changes culminating in Tariff Rate Quota (TRQ)

system of 1991 which places a limit on the amount of sugar that can be imported in any year from specified countries at nominal or zero duty. This limit, which is variable, allows for a balance of supply of and demand for sugar in the USA and operates through a stock-to-use ratio. Quotas are allocated on a country by country basis.

Last year Jamaica exported over 16,000 tonnes of raw sugar to the United States at a premium price.

Changes in the Jamaican Sugar Industry

The Jamaican sugar industry has gone through a number of changes over the past 25 years and one of the reasons for its survival is the stability provided by these two markets.

In the 1960s all sugar estates were privately owned and the estates occupied a position of leadership in the industry with government playing a minor role. This changed in the 1970s with the government playing a greater role through regulatory and ownership structures.

Regulation

The Sugar Industry Authority (SIA)

was established as a statutory body in 1970. It was vested with powers to regulate and monitor the industry, including the functions of arbitration, planning, research and development and marketing of sugar and molasses.

The role of the SIA still remains the same with the exception that the commercial functions relating to the selling of sugar and molasses, together with the distribution of proceeds and the granting of loans to the industry. are under contract to Jamaica Cane Products Sales Limited.

Government Ownership

Government ownership and direct involvement in the industry began in 1971 with the acquisition of the cane lands at Frome, Monymusk and Bernard Lodge estates from their overseas owners. These lands were vested in a new holding company, The Frome Monymusk Land Company which leased the lands back to their original owners.

By 1974 rising oil prices and the

international economic situation imposed severe pressure on the sugar industry and many owners were resigned to liquidating their factories.

Against this background the National Sugar Company (NSC) was formed by government to acquire from private ownership the failed operations that would otherwise have closed.

Between 1975 and 1978 NSC acquired 8 of the 12 factories operating at that time. By 1982 NSC had accumulated significant debt and so the industry needed further restructuring. This took the form of a new debt-free government holding company, Jamaica Sugar Holdings which was managed by the multinational firm, Tate and Lyle.

Three factories were closed, thus reducing the number in operation to nine.

Privatization

By 1993 Jamaica Sugar Holdings accumulated significant losses and the industry required so much overhaul, modernization and capital restructuring that the government decided to divest itself of the factories that it operated. It

was envisaged that the new owners, based on their business plans, would have brought an appropriate level of investment and management to the industry, which in turn would have ensured viability in the shortest possible time.

Government Re-acquisition

Following five years of operations and huge losses the government had to re-acquire the Sugar Company of Jamaica which owns the Frome, Monymusk and Bernard Lodge factories and in addition had to give financial support to the Tropicana, Long Pond and Hampden factories. This action, together with a US\$100 million loan support provided by the government to the industry, prevented its collapse and protected our export preferential markets. Some of these measures were seen as short term and transitional pending more lasting solutions to the problems besetting the industry.

There are currently eight factories operating. They are Frome, Monymusk, Bernard Lodge, Appleton, Long Pond, Worthy Park, St. Thomas Sugar Estates

and Hampden.

Industry Performance

Data on the performance of the industry over the past twenty-five (25) years are presented in the appended table. The trend has been a declining one, both in terms of volume and efficiency, since 1975 when the industry produced 366,411 tonnes of 96o sugar at a TC/TS ratio of 9.77. Production reached a fifty-year low of 186,133 tonnes in 1997/98 but recovered to 204,188 tonnes in 1998/99.

The 1999/2000 crop performance has been very good to date as at March 9, 2000 sugar production of 107,220 tonnes was 52.8 % higher than the production 70,163 tonnes for the comparative period in 1998/99 and extraction rate has improved from 11.71 to 9.67. The major constraint on the magnitude of increase in sugar production this year will be the availability of cane for processing.

Over the past five years sugar production has not been adequate to satisfy the export and domestic markets and has required imports of raw sugar to

supplement the amount going to the domestic market from local production. This measure is a short term one as continuation of this practice could jeopardize our preferential export markets.

Development Programme

The industry has embarked on a programme designed to generate and sustain a high level of productivity and eliminate the need to import raw sugar.

Industry Problems

The problems of the industry have been identified as follows:

- High cost of production
- Inefficient factory operations
- Low cane production and cane yields
- Poor cane quality
- Poor employee morale
- Poor management and supervision
- Declining sugar and cane prices
- Increasing debt burden
- High interest rates

Policy Document

In order to address these problems an industry Policy Document has been developed and presented to all stakeholders. The process of formalizing this into an industry plan is almost completed. The major elements of the programme to address the problems outlined above are included in the following plans and objectives.

- Preserve market access at current levels
- Produce 3,110,000 tonnes of cane per annum from 42 hectares at 75 TC/Ha
- Produce 3000,000 tonnes of sugar per annum
- Accelerate the replanting programme to replant a minimum of 16.6% each year
- Reduce cropping time to 24 weeks at 85% operating time efficiency
- Implement a factory development plan to upgrade factories at minimal cost
- Rationalize factory over the medium term
- Address human resources and people problems by negotiating and signing a Memorandum of Understanding with the Trade Unions which will feature the following:

- a working partnership between management and workers
- visible commitment to change
- greater emphasis on communication, training and skills development
- implementation of appropriate work standards and industrial discipline
- a structured programme of sports and welfare services

The above is predicated on the assumption that the industry will only experience growth and vitality with a well-trained, disciplined and motivated work force, working with enlightened and progressive management.

Regional and International Organizations

The international sugar community consists of many organizations that provide a number of services which facilitate the development of the sugar industry in different countries and maintain order in the trade in sugar, over 70% of which is sold by contracts. Some of these services include the provision of

technical and trade information and lobbying on issues when it becomes necessary.

Over the years the Jamaican sugar industry, through the SIA, has had membership in many of these organizations at the regional and international levels. These include The Sugar Association of the Caribbean, The Caribbean Basin Initiative (CBI) Group, The Group of Latin American and Caribbean Sugar Exporting Countries (GEPLACEA), The African Caribbean

Pacific (ACP) Group, The London Sugar Group. The Brussels Sugar Group and The International Sugar Organization (ISO). In addition, it subscribes to the International Sugar Journal, publications by ED & F Man, F.O.Licht, C.Czarnikow. and Sucden UK Ltd.

It therefore shares information with many countries and benefits from research and other activities which take place in those countries.