

Private Notice Question

7 December 2007

PNQ *To ask Dr the Hon. Minister of Agro Industry & Fisheries:-*

- (a) **the details of the agreement reached between Government and the Mauritius Sugar Producers Association;**
- (b) **how disbursement of the European Union accompanying funds is now expected to evolve;**
- (c) **when the St Félix workers will receive their Blueprint benefits; and**
- (d) **if he has been made aware of the recent report made by Mr Paul Goodison, Director of the European Research Office and Adviser of Ms Glenys Kinnock, on sugar industry of the African Caribbean Pacific countries, including Mauritius?**

Mr Speaker, Sir,

I wish to inform the House of the details of the Agreement reached between Government and the MSPA. This Agreement is a living witness of the stewardship of the Hon. Prime Minister and bears testimony to his unflinching commitment to the sugar industry and all its stakeholders. It equally underscores the understanding and collaborative spirit of members of the MSPA in the course of the negotiations. This Agreement is a milestone in the history of the sugar industry. We are getting land of an extent of some 2000 Arpents which would enable us to facilitate the social acceptability of the economic reform. We are nearly doubling the shares of planters and employees in the sugar cluster from 20% to 35%. This is a further example of democratization. In general, each and every stakeholder of the industry is being catered for under this Agreement.

The Agreement is in response to the many challenges lying ahead of the sugar sector, in particular the drastic price cut arising from the EU Sugar Reform and the full implementation of the Everything But Arms (EBA) initiative as from 2009. Mauritius has chosen to engage into a profound restructuring of its sugar sector. This reform, which is a viable option for constructing a sustainable sugar cane cluster, is also a key component for the successful economic transition of the whole economy of Mauritius. Accordingly, the Multi-Annual Adaptation Strategy: Action Plan 2006-2015 (MAAS), which was prepared in consultation with all the stakeholders of the industry, defines the strategic orientations and key measures that need to be undertaken.

Mr Speaker, Sir,

A. I now turn to the details of the Agreement:

The terms and clauses of this Agreement constitute an "All inclusive Package" that will enable the implementation of the Sugar Reform.

(i) **Land**

A total area of 2,000 arpents of land will accrue to the Government of Mauritius through the Empowerment Programme and will be released as and when required over the whole duration of the Agreement. The land will be used for the needs of the implementation of the Empowerment Programme including social purposes and agricultural diversification. Land required by Government for infrastructural development will, as in the past, continue to be discussed directly by Government with the owners concerned on a case by case basis.

The land to be obtained will be used expeditiously and we expect to use the 2,000 A in a short period.

(ii) **Metayers**

A joint Ministry of Agro Industry/MSPA Committee will be immediately set up with a view to establishing within a period of 3 months a framework with regard to the situation of metayers so as to ensure that the most appropriate solutions are defined so that they are also part of the Sugar Reform. Amongst the solutions to be considered are:

- The possibility of sale of non strategic land to metayers; and
- The positive review of the rental formula.
- I am calling a meeting on this issue shortly.

(iii) **Equity in Milling, Refining and Distillery Entities**

With a view to ensuring that all stakeholders benefit from the implementation of the reform, the share of planters and employees or of any entity designated by Government, and presently standing at 20% in the sugar milling entities will be increased to 35% of the total shareholding. The valuation of the existing entities will be the subject of an independent valuation on current value before the reform, commissioned jointly by the parties. Investments in new projects will be at par value.

The same share ratio will apply across all activities in the value chain, inter alia refineries and distilleries. A mechanism will be put in place that ensures a fair market price for all by-products except bagasse which will be reviewed within the evaluation framework set out for energy.

(iv) **Energy**

- Agreement subject to Lenders approval where necessary, to jointly appoint an independent expert of international repute to:
- determine whether the balance of risks between CEB and the IPP's is in accordance with international norms;
- give its assessment of a fair return commensurate with the risks taken by each party; and
- cover all aspects of PPAs, power generation process of IPP's and their competitiveness when compared to local and international power generators.
- make any appropriate recommendation.

The parties will have the right to make submissions and the expert shall deliver his report within a strict time frame.

(v) **Centralisation of Milling Operations, ERS and VRS 2**

As provided for in the MAAS, the financing of 75% of the cost of factory closures according to the Blue Print on Centralisation and of 70% of ERS and VRS 2 costs will be met from the EU Accompanying Measures. To that effect, Government will commit to underwrite the bridging loan that

the MSPA members will seek to obtain from commercial banks in order to finance the above costs to be met from the EU Accompanying Measures, pending the disbursement of these funds from the EU.

(vi) **Price of Sugar on the Domestic Market**

- The price of sugar on the domestic market will be adjusted so as to eliminate the subsidy element to both industrial and direct consumers, as follows:
- staged increase over the next two years for local industrial users to reflect import parity;
- staged increases over the next five years for domestic users to reflect the import price.

(vii) **Sharing of sugar proceeds**

There will be no change to the present provisions governing the sharing ratio of sugar proceeds during the term of this agreement.

(viii) **Interest Payments on dedicated loans**

In respect of the SIE Act 2001, financial charges on dedicated loan facilities will qualify as expenditure effected in relation to the VRS under section 23, ERS under Section 23A and the Blue Print under Section 29 (c) (ii) when dealing with land conversion under Sections 11, 14 and 29.

B. Since the successful conclusion of the win-win deal between Government and the MSPA on 5th December 2007, we have been doing our utmost to secure the EU grants worth Euro 58 million in FY07/08. These are the subject of four different Financing Agreements. We have already signed one Agreement and my colleague, the DPM and Minister of Finance and Economic Development will be signing two more tomorrow and the last one shortly.

The Agreement with the MSPA sets the stage for us to engage in tough negotiations with the EU to show some flexibility.

Our negotiations with the EU are already bearing fruits although we will need to persevere. We have reached agreement to secure Euro 36 million out of the Euro 58 million, provided we take action on several fronts very rapidly and maintain spending discipline.

Negotiations between the EU and the Ministry of Finance and Economic Development are still ongoing to secure the remaining Euro 22 millions. Government will do its utmost to succeed.

C. There are three aspects to the receipt of the blueprint benefits by employees of not only St. Felix Milling Factory but also of Mon Trésor and Riche en Eau.

- (i) The letter authorising the closure of St. Felix Milling Factory has been issued today;
- (ii) The acceptance by SUDS of the terms and conditions regarding the closure of St. Felix, is expected early next week; and
- (iii) Government has today already issued a letter of intent confirming that Government will guarantee the bridging finance to be raised by the Corporate producers. The financial agreements are expected to be signed during the course of next week.

Payment of the Blue Print will accordingly be effected within a week, in any case, before Christmas.

Moreover, I am please to inform the House that the MSPA is requesting its members to expedite matters regarding their request for the VRS 2.

D. Mr Speaker, Sir,

We are aware of the report of Dr Paul Goodison and of his previous reports on the sugar sector. His views and competence are not disputed. However, I would like to point out that in the sugar and commodity world, Landell Mills International (LMC), is unanimously recognized as the authority on cost of production matters. Indeed, LMC's work has been used in WTO Panels and LMC is often solicited by the EU Commission and key sugar producers around the world for assignments and studies on the sugar industry.

LMC has, in addition to its pool of expertise, a huge data base on the cost of production of raw sugar, white sugar, ethanol and freight.

The Leader of the Opposition may recall that the previous Government had recourse to the services of LMC from December 2004 to March 2005 in the context of the preparation of the Accelerated Action Plan 2005-2015. LMC was requested by the present Government to update its March 2005 Report and the updated Report of March 2006 was used to prepare the MAAS. Moreover, the March 2006 Report of LMC was an annex to the MAAS that was submitted to the EU.

As the House is aware, LMC conducted an exercise to assess the cost of production of sugar in Mauritius as well as the position of Mauritius compared to suppliers (ACP, LDC, EU sugar and iso-glucose producers) on the EU market. The details of the analysis of LMC are given at para. 24 to 30 of the MAAS.

I should emphasize that according to the LMC Report, "*Mauritius is well within the cluster of cost competitive suppliers*" with the implementation of the MAAS and the moving away from raw sugar.

I therefore believe that there is no dispute regarding the authoritative view of LMC.

The best assessment on the MAAS comes from the EC and this assessment is to be found in para. 2.2 and 2.3.1 of the Financing Agreement concluded between the European Commission and Government of Mauritius (GoM) which I quote:

- (a) *"The overall assessment of the economic situation concludes, as defined in the MAAS, that sugar still remains competitive;"*
- (b) *"The detailed feasibility analysis give relative confidence that the sugar industry restructuring should be successful"*

Finally, Mr Speaker, Sir, it is no surprise that the MAAS was welcomed by all instances in the EU Commission, Member States and the European Parliament as a very bold and comprehensive document and a model one for all ACP countries.