REPORT

OF

THE COMMISSION OF INQUIRY GUYANA SUGAR CORPORATION VOLUME 1

OCTOBER 2015

REPORT PREPARED BY THE COMMISSION OF INQUIRY FOR THE GUYANA SUGAR CORPORATION

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ACKNOWLEDGEMENT

The Chairman and Commissioners of the Commission of Inquiry (COI) wish to extend their profound gratitude and appreciation to the many persons who have demonstrated interest in the work of the COI and have provided various forms of assistance and support to the Commissioners in the execution of the formidable task of preparing and compiling this Report.

This Report, if accepted, will lead to fundamental changes in the transformation of the Sugar Industry, and indeed, the National Economy. Therefore, every effort was made by the Commission to have the widest cross section of the Guyanese Community and knowledgeable overseas based personalities involved in providing valuable testimony in charting the way forward for the industry. These included Officials from the Trade Unions which represented different branches of employees, namely, GAWU, NACCIE and the GLU; the Cane Farmers' Association; individual cane farmers; Executives of GuySuCo; and Managers, Departmental Heads, and other categories of workers from all of the Sugar Estates.

Included were representatives of the local Business Community and International Organizations, such as Accountants, Economists, Engineers, Agronomists, Consultants and Entrepreneurs who have had more than a passing interest in the Sugar Industry. Also the Research Staff of the Ministry of Agriculture who appeared before the COI. Included also were a former Agriculture Director and a former Sugar Technologist of GuySuCo, an Economist, a former Booker Tate Limited Director, all from overseas, whose proposals were submitted in writing - and whose ongoing interest in the Sugar Industry was clearly evident and appreciated.

In attempting to secure wider, divergent views and opinions on the critical financial position of GuySuCo and to have a further understanding of the Industry, its operations, its challenges, constraints and potential, the COI examined the appropriate media reports and perspectives of experts on sugar – all of which have been most useful to the Commissioners in their deliberations. Indeed, all of the information, proposals and testimonies that

were received by the COI enhanced its data base and facilitated in-depth analyses and robust discussions by the Commissioners.

The COI would like to thank the Ministry of Agriculture for providing the requisite facilities, equipment, transportation and other amenities to the Commissioners in the implementation of their mandate. Indeed, the Commissioners would like to pay tribute to the Ministry's personnel for their timely support in making readily available, Special Reports, Strategic and Business Plans and other relevant documentation with respect to GuySuCo. Thanks to the Chief Executive Officer and the Finance Director and other Officers of GuySuCo who offered valuable historical and current views on the Industry and provided critical analyses that greatly assisted the COI.

All of the Commissioners have been objective and impartial in the discharge of their duties and have demonstrated only one primary interest – ensuring the viability of the Sugar Industry so that it would contribute to the National Economy in a positive manner, preserving the workers' welfare and well-being, and enhancing the national weal.

In concluding this note of acknowledgement, I would like to say how grateful I am to all of the Commissioners, the Secretary of the Commission, the Confidential Secretary assigned to me and all other staff who gave so graciously and generously of their time and support to the successful work of the Commission.

Vibert Parvatan
Chairman

October, 2015

1 INTRODUCTION

1.0 The Guyana Sugar Corporation came into being as a State owned entity in 1976 when it was nationalized after the estates were in foreign ownership for centuries as outlined in the Historical Reflections write-up later in this Report.

1.1 After nationalization, the Sugar Industry continued to play a pivotal role in the overall economy of Guyana. Besides being the largest employer, after Government, it was a main generator of foreign earnings and touched the lives of the people of Guyana in many ways.

1.2 However, in the past decade, there has been a downward trend and GuySuCo now requires bailouts to exist. This is a far cry from the days when colonial British Guiana (BG) was synonymous with Bookers Guyana.

Production Trends

1.3 In 1940, the Sugar Industry produced 155,813 mt of sugar. The annual production increased to 211,542 mt in 1951 and climbed to 327,456 mt in 1960. With the exception of six years, annual production above 300,000 tons was achieved during the period 1960 – 1981. From 1981 unto 1999, production dropped below 300,000 mt.

1.4 In the years 2002, 2003 and 2004 production levels were 331,052, 302,379 and 325,318 mt respectively. However, since 2005, annual production has been below 250,000 mt annually with production for 2014 being 216,358 mt. The projection for 2015 stands at 227,000 mt.

1.5 From the years 2008 unto 2014 annual sugar production continued to be under 230,000 mt with its revenue base declining from G$32.1 bn in 2008 to G$23.2 bn in 2014. Not surprisingly, for the said period there were losses each year and this loss position worsened from G$5.2 bn in 2008 to that of G$17.4 bn in 2014. That unacceptable level of performance required Government's intervention by way of subsidies in the years 2011 to 2014.

1.6 Following General Elections in May 2015, the new Government, conscious of its limited financial resources and consistent with its previously expressed position, declared that Government bailouts and providing guarantees for increased borrowings were not sustainable for the Industry.

1.7 The Hon. Noel Holder, Minister of Agriculture in pursuance of Cabinet's decision, appointed a Commission of Inquiry to investigate and inquire into the current state of GuySuCo and to prepare and submit recommendations for the way forward.

2 TERMS OF REFERENCE OF THE COMMISSION

2.0 The Government of Guyana wishes to develop a plan to bring the Industry back to profitability, and assure its long term environmental and economic sustainability. The Consultants tasked with development planning for this purpose, and taking under consideration the above stated considerations, will undertake the following:

1) Investigate and inquire into the current state of cane cultivation, production, and marketing of sugar, molasses and other by-products including power as well as i) GuySuCo the State-owned enterprise, which has been operating since 1976 the nationalized Bookers Sugar Estates Ltd and ii) private cane farmers.

2) Coverage of the investigation and inquiry should ensure that its reporting and recommendations address the following operational areas:

A) Agriculture (mechanization vs "mechanical- friendly" field layout, etc.); tillage and planting (ratooning, flood and legume fallowing, husbandry practices, etc.); accessibility and cane transport (tractors, punts, roads, canals, etc.); drainage & irrigation; cane quality.

B) Factories (maintenance, repairs rehabilitation/replacement, recovery and other efficiencies)

C) Management (organization quality, communication and reporting, legal obligations, etc.)

D) Procurement (timeliness, efficient materials management, cost effectiveness, waste, and poor practices and transparency concerns)

E) Finance (cash flow, profitability, indebtedness, investment screening and evaluation, etc.)

F) Marketing (bulk and value-added products, by-products e. g. molasses, etc.)

G) Private cane growers (long-standing, recent and future recruits)

H) Community obligations (housing, roads, services, etc.)

I) Environment (floods, drought, chemical applications, health and water-borne ailments, etc.)

J) Weather events (community and industry weather events adaptation, long-term climate threats, etc.)

K) Previous industry-wide plans (Strategic Blueprint 2009 - 2013 and Strategic Plan 2013-2017)

L) Diversification (in the widest sense: new uses for industry assets, by-products utilization value-added, and industrialization of sugar)

M) Special circumstance of Skeldon (re-visit Skeldon Sugar Modernization Project)

N) Research & Development (special areas: mechanization, Drainage & Irrigation, training, technology applications, and capital expenditure evaluation)

O) Human Resources (labour supply, industrial relations training and skills development, health and safety)

3) Prepare a Road Map for the Way Ahead for 2016- 2030, structured into five year intervals which state goals and modalities of implementation.

4) Examine avenues/opportunities to make the industry viable in the near future. In the event it is not realizable, then all other options including diversification and divestment will be considered.

5) Report findings of Commission of Inquiry to Cabinet via the Minister of Agriculture.

6) Any other related matters.

Approach and Time Frame

2.1 The Consultants will work closely with the Interim Management Team of GuySuCo in undertaking the assignment. In addition, they will consult with other GuySuCo officials in the field, factory, human resources and finance departments and will have access to all technical and financial records thereto appertaining. They will also liaise with Cane Farmers as required.

2.2 It is expected that the assignment as specified above will be completed over a period of 92 days, commencing July 1 through September 30, 2015. The Consultants will submit draft hard copies of the plan to the Minister of Agriculture for review by Cabinet within 70 days of commencing work. Following the review process, the consultants will submit to the said party both an official hard and an electronic copy of the plan.

APPOINTMENT OF COMMISSION OF INQUIRY

2.3 Cabinet approved the appointment of the following persons as members of the Commission of Inquiry:-

Vibert Parvatan -	Chairman	
Prof. Clive Y. Thomas -	Member	(Financial and Economic Analysis)
Dr. Harold B. Davis -	Member	(Agronomist)
John A. Piggott -	Member	(Agronomist)
John D. Dow -	Member	(Factory Operations)
George James -	Member	(Sugar Processing)

Joseph E. S. Alfred -	Member	(Factory Operations)
Nowrang Persaud -	Member	(Human Resources & Industrial Relations)
Claude E. Housty -	Member	(Marketing)
Seepaul Narine (replaced by Aslim Singh) -	Member	(Guyana Agricultural Workers Union)
Omadatt Chandan -	Secretary	

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3 HISTORICAL REFLECTIONS

3.0 In the 17th, 18th and 19th centuries and to the early years of the 20th century, Sugar was the mainstay of the Guyanese economy and was the Country's most important socio-economic activity. Unto the early 19th century, production was done by a comparatively large number of small estates, each with its own "factory" using traditional technologies. These estates were manned by slave labour imported from West Africa. The market was the colonial mother country and demand was greater than production, creating something of a sellers' market. The colonial relationship and the existence of a sellers' market ensured the Guiana Industry enjoyed a protected market with fair profitability.

3.1 In 1815, Guiana finally became British by the Treaty of Paris which ended the Napoleonic Wars. In 1807, the Slave Trade had been abolished and in 1833, the slaves throughout the British Empire had been emancipated. As a result, the labour supply dried up and many estates became bankrupt and were abandoned. However, a number of estates held on, such as those owned by the Gladstone family, which tried to meet their labour needs by importing indentured workers from several countries, finally settling down by bringing workers from India. By 1850, the Industry began to revive.

3.2 At that juncture, two big companies, Booker Bros. and Sandbach Parker began to consolidate the various estates. The consolidation of most of the estates under Bookers Sugar Estates brought great economies to the Industry and with the use of improved technology, particularly the vacuum pan, the Industry seemed well on the way towards permanent stability and profitability.

3.3 From the end of the 1860's until the 1960's, there ensued a bitter struggle for better conditions and wages. Notable gains were achieved by the workers, especially in hours of work, housing and wages.

3.4 In addition to having to confront an increasingly militant workforce, the Industry was faced with competition of cheaper sugars from the newly acquired colonies of Mauritius and Natal. The steady expansion of the continental European beet sugar production, and the strong movement in Britain itself towards free trade resulted in Britain buying cheaper Cuban slave-grown sugar further strengthening competition. Despite these negative trends, the Guyana Industry managed to hold its protected British Market and later the European market with preferential prices.

3.5 The Sugar Industry remained profitable over succeeding decades and became pillars in the economic social and cultural landscape of Guyana.

3.6 In 1966, Guiana attained Independence and the Sugar Industry continued to be privately owned and remained the largest employer impacting on the economic and social streams of Guyana's Landscape.

3.7 The Sugar Estates were nationalised in 1976. Nationalization brought its own challenges with the ongoing exodus of experienced and knowledgeable managers which affected succession planning. However, the discipline, good work ethic, commitment, acceptable work standards which were well entrenched, continued for a while, but then slowly declined as the culture changed, and discipline was undermined. People had to adapt to a harsh economic environment where the quality of life deteriorated and the exodus of skilled and capable persons continued.

3.8 In the late 1980's a process of privatization was reactivated and many state owned entities were privatized. The freeing up of the economy led to a period of economic growth and development in Guyana over the past recent years. Though talks for privatizing GuySuCo had started, they were never finalised and the Industry remained in State ownership.

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4 METHODOLOGY

4.0 Priority was given to the collection of needed and relevant information to build a solid data base. The Commissioners' special knowledge, training and experience permitted the establishment of five Sub-Committees with specific areas of responsibilities demarcated as follows:

4.1 These were:

• Chairman	-	Vibert Parvatan
• Financial/Economic	-	Professor Clive Thomas
• Factory	-	Mr. John Dow Mr. Joe Alfred Mr. George James
• Field	-	Mr. John Piggott Dr. Harold Davis
• Human Resources & Industrial Relations	-	Mr. Nowrang Persaud
• Marketing	-	Mr. Claude Housty
• Omadatt Chandan	-	Secretary

Visits to the Sugar Estates

4.2 Visits were made to all of the Estates where Commissioners met with the Estate Managers, Heads of Departments, other levels of Managerial and Supervisory Staff, Workers, Union Representatives, Members of the Community and Cane Farmers. Emphasis was placed on the Field and Factory operations, Industrial Relations and Human Resource Management as well as General Management.

Public Notice

4.3 By way of public notice and by direct approaches, persons were notified and others invited to appear before the Commission and present their submissions which were cordially discussed.

Responses

4.4 Two past CEO's and two past Directors of GuySuCo, Heads of the Business Community, Trade Unions in the Industry, Accountants, Economists and Scientists and Research Workers of GuySuCo and the Ministry of Agriculture, International Agencies including Tate and Lyle and Czarnikow, responded. They exhibited keen interest in the exercise and appeared before the Commission to share their experiences and advocated approaches which may be adopted.

Some were content to share their views away from the formal sessions by way of correspondence.

Reports

4.5 The Ministry of Agriculture and members of the current Interim Management Committee plus senior staff of GuySuCo made available several reports dealing with the Sugar Industry including Business and Strategic Plans of GuySuCo and documents prepared by International agencies over the past several years.

Cognizance was also taken of the many views expressed in the media and the views given by interested parties informally.

4.6 Given the aforementioned, Commissioners received the necessary information on GuySuCo to facilitate examination, in depth discussions and consideration of various options leading to the identification of the many issues and causative factors leading to the marked decline in the performance of GuySuCo and considerations on the way forward.

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5 EXECUTIVE SUMMARY

5.0 Aimed at ensuring a thorough and in- depth examination and analysis of the many and varied activities of the Guyana Sugar Corporation, in the manufacture and sale of sugar and its by-products, while recognizing the special skills, knowledge, and experience of Commissioners, five Sub-Committees of the COI were established for the study.

Those were:-

- Human Resources and Industrial Relations;
- Financial and Economic;
- Agriculture;
- Factory; and
- Marketing

THE FULL TEXT OF EACH REPORT IS PRESENTED IN VOLUMES 2 AND 3.

As a consequence, this Summary complements those Reports and carries only a synopsis of the said Reports.

However, this summary focuses specifically on **IDENTIFYING THE CAUSATIVE FACTORS** which jeopardized and relegated GuySuCo in recent years to its present unacceptable state of – low levels of production, not generating a profit, having a huge debt burden and being dependent on Government subsidies.

Taking into account the causes, the prevailing environment, the financial needs of the Corporation and the limited resources of the Government, **RECOMMENDATIONS** have been made herein, with the objectives of arresting the downward path of the Sugar Industry of Guyana. Also, to place the Industry on a new path of recovery, wherein its glory of yesteryear can be restored, and to regain and maintain its meaningful and positive role in the life of the Sugar Workers, the people of Guyana and the Guyana Economy.

5.1 The Guyana Sugar Corporation came into being as a State-owned entity in 1976. It's stated **MISSION**: -

> *"To be a world class sugar industry producing high quality sugar and added value by-products, while ensuring customer satisfaction, employee development, environmental protection and safe working practices. In so doing, it will achieve growth and sustained profitability in any foreseeable marketing situation in order to contribute to the economic and social development of Guyana."*

5.2 Unfortunately, much to the distress and concern of the Government of Guyana, the sugar workers and the people of Guyana, GuySuCo has lost its way and could lay no claim to realizing those objectives.

5.3 GuySuCo is insolvent! It has been in that poor financial position in recent years. Achieving growth and sustaining profitability as worded in GuySuCo's Mission Statement are currently unrealizable goals. On the contrary, GuySuCo's debt burden as at July 2015 stands at G$82,560,783,498.

THE DECLINE

5.4 Sugar production has been on the decline since 2005 dropping from 325,318 mt in 2004 to 216,358 mt in the year 2014. ***(See attached "Appendix 1" for details)***

5.5 The Corporation **LOSS POSITION** worsened and climbed significantly from the year 2009 as shown hereunder.

Year	2009	2010	2011	2012	2013	2014	2015 (Projected)
G$bn	2.3	6.4	7.9	7.1	11.7	17.4	15.0

5.6 The continued and escalating loss positions necessitated the injection of Government subsidies as listed below:-

GOVERNMENT SUBSIDIES

Year	2011	2012	2013	2014	2015
G$bn	0.7	4.0	5.4	6.0	11.8

5.7 There has been a tendency to deem unacceptable levels of performance in Agriculture as an "Act of God". This is certainly not the situation with the Guyana Sugar Corporation.

The continued decline and unacceptable levels of performance, which worsened, especially over the last six years, can be attributed to many factors.

GUYSUCO'S SEVERAL BUSINESS AND STRATEGIC PLANS

5.8 Some of the causative factors which have been identified by this Commission are not new to GuySuCo. An examination of the many Business Plans and Strategic Plans prepared by GuySuCo over the past decade would highlight similar issues/problems. However, those plans projected levels of production which were over optimistic and unrealistic. The main issue of starvation of needed funds vital to the day to day operations of GuySuCo were not resolved and as a consequence kept recurring year after year. ***(See attached "Appendix 2" for details)***

Common issues were extracted from the following reports:

1. GuySuCo Business Plan 2005 -2015
2. GuySuCo Business Plan 2006 – 2015
3. GuySuCo (The Way Forward) 2008
4. GuySuCo Business Plan 2008 – 2016

5. GuySuCo Business Plan 2010 – 2019
6. GuySuCo Strategic Plan 2013 – 2017
7. GuySuCo Business Plan 2015 – 2017

COMMON ISSUES AND NEEDS IDENTIFIED IN GUYSUCO'S BUSINESS AND STRATEGIC PLANS OVER THE PAST DECADE

- Limited cash, limited investment, shorter out of crop maintenance and declining recoveries.
- Improve management practices leading to better use of resources.
- Substandard work practices and poor supervision.
- Insufficient canes to supply factories.
- Shortage of skilled operators.
- Low cane yields and quality.
- Inadequate labour turn out and disputes.
- Inadequate training in general.
- Reducing unit costs.
- Inability to achieve the projected grinding hours, substandard work practices and poor supervision.
- Inability to procure key inputs in a timely manner.
- Higher than anticipated wage increase.
- Inability to make the necessary capital investments due to poor liquidity.
- Shortage of key materials (inputs such as fuel, fertilizers and spares)
- Exodus of skilled personnel.
- Divest underperforming assets (Herdmanston House, Ogle Estate, Health & Community Centres)
- The current criteria of qualification for all production incentives fixed at 80% of days available is ineffective to motivate better attendance.

- Unresolved /prolonged technical difficulties with the new Skeldon factory
- Inadequate labour turnout.
- Inclement weather hinder sequence and timing of all operations.
- Unpredictable industrial relations climate.
- Unreasonable union demands.
- Loss of skilled and experienced staff to migration, construction, gold and rice industries and other sectors.
- Non-achievement of targets for 6 months flood fallow.
- Non-achievement of replanting targets.
- Continued shortcomings in the quality of drainage.
- Continued shortcomings in ratoon cane maintenance.
- Slow progress in the mechanization of agricultural operations.
- The effectiveness of agricultural management.
- Delays in procurement of items for industry.
- Declining production resulting in low cash reserves affecting the corporation ability to reinvest in the industry and retool the industry with critical capital items needed in order to achieve the targeted yields and levels of production and efficiency.

CONCERNS BY BOOKER TATE

5.9 Booker Tate's Business Manager for the Caribbean, after the Skeldon project came on stream with its negative effects on liquidity, and the adverse accumulative effects of cutting back on capital programmes were apparent, raised concerns as far back as the year 2007.

INSOLVENCY PREDICTED

5.10 In a memo from Mr. Errol Hanoman, Booker Tate Business Manager, dated October 1, 2007 to the Chairman of GuySuCo, serious concerns were expressed with regard to "**GuySuCo's 2008 budget and**

Business Plan'. The prognosis was serious and disturbing. Extracts of that memo are re-stated hereunder:-

- *"The proposed Budget should be viewed within the broader framework of the Business Plan. Taken together, we see a set of results which indicate that the industry would not survive beyond 2009. It should therefore not be considered in isolation. This means that the Board of Directors should be alerted to the results of the draft Plan.*

- *"The Budget as it stands at the moment coupled with the draft Plan indicate that the Corporation has reached the cross-road where critical decisions need to be urgently taken or else the industry is in real danger of becoming insolvent. The basic message coming out of the proposed Budget and Business Plan cannot be ignored".*

- *"The business is in danger of becoming insolvent by 2009. Cutting the Capital Programme yet again is a short term palliative as it brings increasing risk to the business and further defers the achievement of the AIP and FIP, which in turn further aggravates the liquidity problem.*

5.11 Given the then status of GuySuCo as a State Entity, prompt consideration, intervention and resolution would have been expected from the Government and the Board of Directors. In the absence of any specified or definitive response, the status quo continued and so did the decline in productivity and production associated with greater financial loss.

LIQUIDITY

5.12 In examining the poor financial position and its "spin-off" effects, it will be noted that GuySuCo worsened it's liquidly problems, with the harsh negative impact on field and factory operations, when the Skeldon Sugar Modernization Project (SSMP) came on stream.

5.13 The Skeldon project continues to attract attention, discussion and criticism. This ambitious program which was planned in 1993 aimed at increasing acreages, production and reducing the unit cost of sugar production in Guyana to US7 cents per pound.

THE SKELDON SUGAR MODERNIZATION PROJECT (SSMP)

5.14 The project commenced in 2003. Given the forewarning by the European Union that preferential prices would be reduced starting 2006 and continuing in the following years, it seems, in retrospect, that from a business and economic standpoint, the decision to pursue the Skeldon modernization project may not have been logical and based on sound considerations. This project was initially estimated to cost US$165 m but eventually ended up at US$187m. With funding from the World Bank – US$56m, Exim China Bank – US$32m, CDB – US$24m and GuySuCo –US$53m. The financing of the project was made available from 2005.

5.15 The intention was that GuySuCo's contribution of US$53m would come from planned sale of lands. This did not materialize and GuySuCo used its own resources, thus depleting its working capital. It should be noted that the funding in the escalation in cost from US$165m to US$187m came solely from GuySuCo's own resources.

At the end of 2004, GuySuCo's bank balance was G$4.2bn.

5.16 **FROM THE COMMENCEMENT OF THE SKELDON PROJECT IN 2005, WHEN GUYSUCO HAD TO INITIALLY CONTRIBUTE US$25m FROM ITS EU RECEIVABLES OVER A PERIOD OF EIGHTEEN (18) MONTHS COMMENCING IN 2005, THE CORPORATION'S LIQUIDITY DECLINED RAPIDLY. AS A CONSEQUENCE, GUYSUCO BECAME HEAVILY DEPENDENT ON BANK OVERDRAFTS, AND**

EXTENDED CREDIT PERIODS TO MAINTAIN THE OPERATIONS OF THE BUSINESS. THIS WAS THE START OF THE DECLINE OF GUYSUCO'S FINANCIAL POSITION LEADING TO ITS PRESENT STATE OF INSOLVENCY.

THE DECLINE IN LIQUIDITY RESULTED IN A LACK OF CAPITAL INVESTMENT IN GUYSUCO'S OTHER ESTATES IN FIELDS AND FACTORIES. THIS CONTRIBUTED TO THE MARKED DECREASE IN CANE AND SUGAR PRODUCTION.

5.17 The financing of part of the Skeldon Project from the Corporation's working capital (US$72m), the decrease in the European price and the significant decline in sugar production all of which occurred within a short time frame, resulted in:

- Dependency on expensive overdrafts for working capital.
- Extended delays in meeting creditors' payments. Creditors then refused to supply, or demanded payments in advance.
- Minimal capital expenditure for all facets of the business.
- Late procurement of critical inputs resulting in late fertilizing and late application of chemicals for example.
- Significant loss of revenue.
- Reliance on the Government of Guyana for bailouts.

5.18 In addition to the initial expenditure the Skeldon Project required other payments were estimated to be US$7.0m for corrective work after commissioning.

THE EFFECT

5.19 This had a debilitating effect with very limited resources thus inhibiting its ability to provide funds for essential works needed on other Sugar Estates. Those Estates from Uitvlugt to Albion suffered as a consequence.

5.20 The effect was not only evidenced in declining yields and reduced factory efficiencies but led to a demotivated and demoralized staff at all levels. With the earlier exodus by way of migration of staff, especially those knowledgeable managers, and the sending off of experienced staff, upward mobility and re-designation of persons led to a lack of needed skills at various levels in the industry. The quality of leadership at all levels was compromised.

5.21 Commitment, dedication and motivation so vital for performance were eroded and this situation was even worsened by what past and some present staff described as "external/political interference". Such interventions are not new in State owned entities in Guyana but may have varied in frequency and intensity. It is part of the landscape of State owned entities.

5.22 With a debt burden of G$82bn, comparatively poor yields, poor cane quality, unusually high labour costs estimated to be 65% (of total expenditure), unrealistic demands by unions, shortage of labour in some areas, underutilized factories and having high "out of cane" periods and the unavailability of vital inputs due to lack of funds, all led to the critical state of affairs facing GuySuCo.

The present situation is that every sugar estate now runs at a loss. ***(See "Appendix 3" for details)***

<u>PROJECTED CAPITAL NEEDS</u>

5.23 The projected capital needs for the year 2016 are estimated to be G$5.0bn.

<u>WHAT WERE THE MAIN ISSUES WHICH LED TO THE CURRENT POOR UNACCEPTABLE STATE OF GUYSUCO</u>?

5.24 Among those identified by the COI are the following ten (not necessarily in any particular order):-

I. **MISMANAGEMENT OF HUMAN, FINANCIAL AND MATERIAL RESOURCES;**

II. **ABSENCE OF MOTIVATIONAL AND EFFECTIVE LEADERSHIP AND LACK OF BUSINESS ACUMEN;**

III. **UNAVAILABILITY OF FINANCIAL RESOURCES TO FUND, ON A TIMELY BASIS, ESSENTIAL CAPITAL AND ROUTINE WORKS;**

IV. **DEARTH OF RELEVANT EXPEREINCE AND KNOWLEDGE RELATING TO THE UNIQUENESS OF THE SUGAR INDUSTRY NOTHWITHSTANDING SOME NOTABLE EXCEPTIONS;**

V. **GAWU'S INSENSITIVITY TO THE REALITIES OF THE SUGAR INDUSTRY, ESPECIALLY ITS DETERIORATING FINANCIAL POSITION AND OTHER CHALLENGES. THIS IS REFLECTED IN THE UNRELENTING UNION DEMANDS LEADING TO ESCALATING LABOR COSTS WITH NEGATIVE REPERCUSSIONS ON THE MORALE OF THE MANAGEMENT TEAM AND GIVES THE IMPRESSION OF A CHAOTIC ENVIRONMENT IN THE INDUSTRY;**

VI. **MARKETING CONSTRAINTS INCLUDING LOSS OF E.U. PREFERENTIAL PRICES;**

VII. **INTEMPERATE OVERSIGHT EXACERBATED BY POLITICAL INFLUENCE ON THE ORGANIZATION;**

VIII. **NOT ADHERING TO, OR BEING GUIDED BY, BASIC AND WELL ESTABLISHED PRACTICES ESPECIALLY IN AGRICULTURE. THIS WAS EXACERBATED BY THE 2005 FLOODS IN THE DEMERARA ESTATES;**

IX. **FAILURE TO RECOGNIZE THAT GUYSUCO IS IN THE FINAL ANALYSIS A BUSINESS WHICH MUST BE RUN PROFITABLY IN ORDER FOR IT TO SURVIVE; AND**

X. **FAILURE TO DEMONSTRATE APPRECIATION OF THE NATIONAL ROLE OF GUYSUCO, IN TERMS OF ITS HISTORIC AND POTENTIAL CONTRIBUTION TO THE SOCIO ECONOMIC WELL-BEING OF GUYANA.**

COST OF PRODUCTION

5.25 Profitability depends on a simple equation. Price – Cost of Production = Profit. Given the fact that GuySuCo is a price taker since it cannot influence the market price. Therefore by deduction, the focus must be on reducing costs if it is to make a profit. Obviously, the focus must be on production cost containment and reduction.

LABOUR COSTS

5.26 Currently, the major cost item is employment which has been climbing over the years. (***See "Appendix 4" for details)***

Among the factors influencing labour costs are: -

i. Unrelenting demands from GAWU which represents practically all of the employees as detailed in the HR and IR reports. Of particular note are the following: -

a) Across the board wage increases which have no bearing on internationally recognized criteria for wage increases such as;

- Ability to pay
- Comparability with other employers in the community; and
- Internal relativity.

None of those criteria is applicable in the GuySuCo context, although it is not making a profit.

5.27 The current earnings of Sugar Workers compare favourably with other categories of workers in Guyana. This observation in no way negates recognition of the difficult and challenging conditions which field workers face.

A SAMPLE OF THE HIGH ANNUAL EARNERS IN THE INDUSTRY (PIECE WORK)

Most persons may be surprised to learn of the earning potential of employees of GuySuCo, as the regularity of strikes in the industry, may suggest the contrary.

Type of Work	G$ Annually
Harvesting (cane cutters)	2,470,339
Cane transport	2,972,976
Mechanical Tillage	2,911,193
Field workshop	2,627,569
Planting	1,833,487
Fertilizing	1,973,438
Pest Control	1,890,380
Weeding	870,771

Average Daily Gross Pay 2014

Average Daily Gross Pay G$	Number of Employees
$0 – 2,000	431
2,000 – 4,000	5,295
4,000 – 6,000	6,939
6,000 – 8,000	2,895
8,000 – 10,000	736
10,000	168
	16,464

5.28 Furthermore, the current very costly set of bonuses and incentives which should be anchored on higher attendance at work and higher productivity, continued to be paid despite the fact that attendance has been dropping, production has been declining and significant losses being incurred.

5.29 Another significant contributor to increasing employment costs is the payment of additional amounts for so called "extras and obstacles" based on anachronistic "custom and practice".

5.30 It has been well established and known that GuySuCo's production costs are comparatively high, with labour costs being the significant component. Yet, between the years 2010 to 2014, when sugar production was declining and GuySuCo's declared loss increased every year, wages and salaries climbed markedly. These figures are as shown hereunder:

Year	2010	2011	2012	2013	2014
Production mt	220,819	236,577	217,723	186,755	216,358
Loss G$bn	6.4	7.9	7.1	11.7	17.3
Employment cost G$bn	14.5	17.2	17.9	18.5	20.8

5.31 Given that backdrop, it is amazing that in 2011, following a job evaluation exercise, salaries and wages were increased with many workers receiving more than 50% increase.

This review raised the annual salaries and wages bill by G$1.8bn.

5.32 Between 2010 to 2014 employment costs increased by G$ 6.3bn, the equivalent of 43%. This was done during a period when GuySuCo was running at a loss. The question of affordability seemed not to matter. Government had to intervene with bail outs during the years 2011 to 2014.

In GuySuCo's high production costs, the labour component is now estimated to be 65% of total cost.

CONSIDERATIONS FOR REDUCING COST

- Mechanization of field operations to be increased;
- Re-engineering GuySuCo's cost structure;
- The rationalization and cut back on staff in various areas including security, field staff at LBI estate and head office staff;
- A moratorium on wages and salary increases for at least a year;
- Reducing the Skeldon factory from 312 workers;
- Disposing of the Ogle site;
- Relocate head office to Enmore;
- Relocate information systems department to Enmore (saving on annual rent);
- Relocate the Ogle diagnostic centre to Rosehall (reducing cost);
- Dispose of existing property and lands currently underutilized;
- Hand over sports ground to the appropriate ministry;
- Gradually phase out its social services in health and sport in the communities;
- Rationalize the structure of the corporate office;
- Making greater use of IT;
- Rationalize the managerial and supervisory structure of each estate;
- Encourage farmers to take over estates' cultivation – lands to be leased to them;
- Rationalize custom and practice;
- Close field operations on weekends;
- The outsourcing of services wherever practical; and
- Change collective bargaining agreements.

(Some of these recommendations have been extracted from internal correspondence from GuySuCo)

GUYSUCO'S WORKERS BEING TRAINED AT GAWU LABOUR COLLEGE

5.33 It was quite surprising to learn that GuySuCo (employer) has over the years 2011 – 2015 been sending its employees for training at the Trade Union's college.

The annual cost to GuySuCo is estimated at G$4m. Man days lost from 2011 to August, 2015 totaled 5,890.

5.34 The course content included:

- Visits to the Cheddi Jagan Research Centre / Thunder in Guyana.
- The importance of ideology and Marxism / Leninism as the ideology of the working class.
- Capitalism – Imperialism – Globalization.

From the aforementioned, it would appear that the employer (GuySuCo) is funding training through the union representing the employees, to be supportive of the union in their very frequent disputes. This costly exercise should be discontinued.

BOOKER TATE

5.35 Booker Tate has been associated with the Sugar Industry in Guyana for decades. Its contract for the Management of the industry started well when wages were increased in early 1990's which led to better labour turn out and high production.

5.36 When they were asked to cut their staff and later were terminated, there was a loss in Managerial skills especially coinciding with the exodus of trained Guyanese. A problem with that Booker Tate contract was that it focused on production and not profit. Booker Tate was awarded a second contract to Project Manage the SSMP.

5.37 Many questions have been raised on the Skeldon Sugar Modernization Project in particular the selection of the contractor.

The International Standards of formal tendering, evaluation and selection were followed and the decision makers were Booker Tate, GuySuCo's top executives and Government Officials.

Given the poor performance of the Chinese Company selected – CNTIC for the Skeldon factory project, on looking back it was not a good decision. Problems plagued the project and the many technical/operational problems could not be resolved by CNTIC.

5.38 Sourcing from Brazil or India may have been a better choice.

5.39 Booker Tate's complaints were not resolved, including their recommendation to terminate the contract with CNTIC and Booker Tate taking over as contractor. Their advice to GuySuCo not to accept and takeover the factory project was ignored.

5.40 Difficulties still continued necessitating much expenditure in replacing poor quality equipment. The selection of the Diffuser System, instead of mills for juice extraction, brought its special problems with inexperienced personnel to deal with it.

5.41 The supervision of the field and factory works by Booker Tate was below expectations. As of now (October 2015) some of the land development involving conversion and layouts at Skeldon are yet to be completed.

CANE FARMING

5.42 Private Cane Farmers should be encouraged to have greater involvement in sugar production. Their involvement at Skeldon, Wales and Uitvlugt plays a significant role in the operation of those estates.

5.43 The Wales Cane farmers expressed interest in leasing additional acreages of the cultivation leading to taking over all of the GuySuCo's cultivation at Wales. This should be pursued eagerly by GuySuCo.

5.44 The various problems reported by Cane Farmers, need to be ironed out to eliminate suspicion and fear they harbor. One such case, is the juice quality given to Cane Farmers (TC/TS) and another is the timely harvesting of their canes. The level of Cane Farmers financial reward has declined.

CLOSURE OF SUGAR ESTATES

5.45 The possibility of closure of some estates based on their comparative low levels of production and consistent loss positions, received much discussion and even debate. In the final analysis, two commissioners supported closure, while the remaining eight opposed such a recommendation.

5.46 Commissioners were aware that the closure of estates, especially in Demerara had been recommended and considered in previous studies, but thought it not prudent to make such a recommendation at this time.

5.47 They took into account the current state of the economy which lacks vibrancy, with awareness of the problems in the rice industry, the low market price of gold and the level of unemployment.

5.48 Cane farmers from Wales Estate and the No.2 Canal areas explained to the Commissioners that they had invested millions of dollars in the acquisition of agricultural machinery and also invested millions of dollars in the growing of sugar cane as encouraged by GuySuCo.

5.49 Their expectation is the harvesting of their crop over at least a three year period after planting and having access to sugar factories for the sale of their product. Based on these considerations, it seemed inappropriate to advocate the closure at this time of any sugar estate. That subject is likely to surface in the future, but it will necessitate forward planning and discussing with farmers such a plan with adequate notice to phase out their operations.

5.50 The effect of closing any estate without planning and adequate notice to cane farmers has serious consequences, not only for the employees and private farmers but for the communities as well.

DECLINING YIELDS AND STAFF MORALE

5.51 In the scenario where limited funds constrained the field and factory operations and contributed to declining yields, there was a serious spin off effect on staff. That situation demotivated some staff members whose commitment and dedication were nullified.

EUROPEAN PRICES AND CHALLENGES

5.52 The challenge for the industry is to reduce its cost of production especially taking into account the European Commission having announced a major overhaul of the Common Agricultural Policy which includes the removal of sugar beet production quotas from 1st October, 2017. The European price paid for Guyana's raw sugar was a very attractive one but it all started to decline in 2006, a period when a 36% price reduction commenced. The total reduction was phased over three years with the price being reduced from €523.70 /mt to a new minimum of €335. The European price is now more aligned to the World market price for raw sugar which is currently US$309 per mt. The Sugar Industry must devise ways and means to reduce its cost of production which is negatively impacted by low productivity and high labour costs.

GUYSUCO'S DEBT BURDEN

5.53 This subject is adequately dealt with in the sectoral report covering financial and economic matters, including reducing and/or restructuring the corporation's debt and converting debt into equity.

GOVERNMENT SUBSIDY 2016

5.54 Government's intervention by way of subsidy for GuySuCo will be required in the year 2016, unless operational costs decline substantially and/or selling prices of sugar increase markedly. This is estimated to be approximately G$12bn.

CORRUPTION?

5.55 Allegations of corruption in GuySuCo were made by way of telephone calls and in some cases written statements, especially claims that GuySuCo's fertilizers are being sold to external groups. These allegations were not substantiated and no evidence was presented to the COI in support of any such claims.

REPRESENTATIONS AND RECOMMENDATIONS

5.56 The composition of persons making submissions to the Commission included very experienced and successful professionals, especially from the fields of business, accountancy, agriculture, engineering, management, sugar production and marketing.

Their analyses were consistent in citing poor management of GuySuCo, but differed in approaches to be adopted.

Their recommendations varied and included:-

- Retaining the GuySuCo, status quo, injecting funds and improving management;

- Diversification and investments in areas such as Ethanol, Sugar Refinery, and aquaculture;
- Closure of the worst performing estates especially the Demerara Estates;
- Strengthening management;
- Partial Privatization;
- Re-introducing basic agricultural practices;
- Stop paying the Chinese contractor CNTIC until they fix the Skeldon Factory problem;
- Re-structuring the debt;
- Cutting operational costs; and
- Total privatization

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6 THE WAY FORWARD

6.0 The Sugar Industry remains vital and important to the economy of Guyana and its people, many of whom have had their lives touched by the Sugar Industry. The obvious inadequacy of funds to satisfy the needs of GuySuCo restricts the scope and potential of the industry.

6.1 The Sugar Industry must be given an opportunity not to just survive, but to be revitalized and to become a vibrant, efficient and profitable business where employees have a sense of security and optimal use can be made of resources – Human, financial and material.

6.2 While there have been serious deficiencies in the management of GuySuCo, there remains and exists a number of competent managers committed to organizational goals. They need an environment for the full expression of their training and skills wherein the nation benefits.

6.3 GuySuCo needs a significant injection of funds combined with competent management teams and leaders to go forward.

6.4 Fortunately, there has been a major change quite recently in the quality of leadership. The appointment of an experienced CEO and Finance Director and the establishment of a new Board of Directors having persons with a wealth of relevant experience augurs well for the future.

6.5 The Sugar Industry should not be a liability to the State. Instead, it needs to re-establish itself as a significant and positive contributor to national development. Any realistic turnaround in the medium term hinges on the timely injection and availability of funds in a process of rehabilitating field, factory and infrastructure. From all indications, a profit is not likely in the year 2016.

Where would those funds come from?

6.6 The Industry needs to turn to entrepreneurs and investors to assume that role. In managing risk, investors will accommodate a period of marking time leading to overall improvements, especially in productivity, production and eventually profit.

ROLE OF GOVERNMENT

6.7 Every government has an obligation and commitment to all the people of the country. Optimal use has to be made of the limited resources especially where poverty is no stranger to the society.

6.8 In a **World Bank Report** on the subject "**Analysis of the Sugar Industry Strategic Plan**" done by LMC International in September, 2000, pg.95 states:-

> "*Opportunity cost represents the value/cost of the foregone opportunity of using the same resources in another manner. The concept of marginal economics direct people's attention to the comparison between the revenue earned on the last ton of output and the costs incurred to produce that output.*
>
> *In the Guyanese context, since GuySuCo is entirely government-owned, the opportunity cost of money spent on GuySuCo's operations is the benefit that the government could obtain from using the same money in other sectors. Therefore, the return earned on investments in GuySuCo have to match those obtainable from alternative investments in infrastructure, education, etc.*"

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7 RECOMMENDATIONS

7.0 The Commission having collected all relevant data and deliberated over the past three months recommends as follows: -

I. **THE PRIVATIZATION OF THE GUYANA SUGAR CORPORATION (GUYSUCO) WHICH IS A STATE OWNED ENTITY INCORPORATED AND REGULATED UNDER THE COMPANIES ACT. THE PROCESS SHOULD START AS EARLY AS PRACTICABLE AND AIM TO BE COMPLETED WITHIN A THREE (3) YEAR PERIOD.**

II. **AS A CONSEQUENCE OF (I.) ABOVE, THE STATE DIVESTS ITSELF OF ALL ASSETS, ACTIVITIES AND OPERATIONS CURRENTLY ASSOCIATED WITH GUYSUCO.**

III. **IN THE INTERVAL, AS THE PRIVATIZATION PROCESS IS AWAITED, THE NEW MANAGEMENT OF GUYSUCO MUST FOCUS ON BASIC ESSENTIALS TO REHABILITATE THE FIELDS, FACTORIES AND INFRASTRUCTURE OF GUYSUCO. THERE SHOULD BE NO ACCOMODATION FOR NEW PROJECTS WHICH WILL DEMAND LIMITED FUNDS. THIS IS AIMED AT MAKING THE ESTATES MORE SALEABLE AND ATTRACTIVE TO INVESTORS, BOTH LOCAL**

AND FOREIGN. A FEW EXPRESSIONS OF INTEREST BOTH FORMAL AND INFORMAL HAVE BEEN RECEIVED.

IV. **WHILE THE ONGOING PROCESS OF AMALGAMATING ESTATES FOR OBVIOUS ECONOMIES OF SCALE MAY CONTINUE, THE COI DOES NOT RECOMMEND THE CLOSURE OF ANY ESTATE AT THIS TIME.**

V. **FINANCIAL SUPPORT IN THE SHORT TERM WILL BE NEEDED AND THIS SHOULD BE PROVIDED BY THE GOVERNMENT ON A TIMELY BASIS.**

VI. **THAT THERE BE THE EARLIEST POSSIBLE IMPLEMENTATION OF THE RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE COMMISSION. THE MANAGEMENT OF GUYSUCO MUST IMMEDIATELY DIRECT ITS ATTENTION AND FOCUS ON REDUCING OPERATIONAL COST, ESPECIALLY THAT OF EMPLOYMENT, RETURNING TO BASIC AGRONOMIC PRACTICES, REHABILITATING ITS FACTORIES AND STRENGTHENING SUPERVISION.**

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8 CONCLUSION

8.0 **The challenge to the Commission of Inquiry (COI) to develop a plan to bring the Industry back to profitability and assure its long term environmental and economic sustainability is elusive. Given the realities mentioned in this report it seems impractical in the short term.**

However, the recommendations herein lay the foundation for bridging the current internal situation with a more viable option.

8.1 **There is no one package which can be recommended that will envelope all of the solutions and remedies required. There will be need for ongoing review of what recommendations are approved. It will be an evolving situation and the dynamics must recognize changing circumstances.**

8.2 **The mandate given to the Commission was to develop a series of five year plans leading up to 2030. Having regard to the vicissitudes and dynamics adverted to in this report, any such 15 year plan would be more theoretical than practical.**

8.3 **The Commission has therefore limited its attention to the more foreseeable future leading up to privatization.**

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I. SYNOPSIS OF SUB-COMMITTEE REPORT - HUMAN RESOURCES AND INDUSTRIAL RELATIONS (Mr. Nowrang Persaud)

General Recommendations:

1. (a) The management of Guysuco must manage the Corporation within the policies and guidelines set by the Board and be insulated from undue influences or interferences from political or similar external sources.

   (b) The unions and management must be guided by generally accepted ILO approved industrial relations conventions enshrined in the Agreements signed between them and Guysuco including respect for generally accepted management prerogatives.

2. Having regard to the continuing parlous financial state of the industry, the prevailing levels of wages, salaries and fringe benefits should be held at their current levels for at least this year. Future negotiations should be guided by the findings and recommendations of this COI.

3. Serious efforts should be made to settle disputes and disciplinary matters as per existing procedures and practices without resorting to strike action. Any major issue including serious disciplinary matters which cannot be settled by mutual negotiations at estate or corporate level shall be referred to the Ministry of Labour for adjudication and final decision.

4. Future negotiations should focus on a new proficient system for determining wages, salaries, benefits, incentives and related compensation matters, including Job Evaluation. Particular attention should be paid to incentive schemes which encourage and ensure full, regular attendance at work, productivity and profitability. Negotiations must be guided by international best

practices i.e.:-

I. the employer's ability to pay;
II. external relativities;
III. internal relativities.

(b) **<u>Specific Recommendations arising from this Report:</u>**

Organization and Staffing Structure

(1) Restore corporate leadership of the Agriculture and Factory Operations functions to the Directorate level. Provide for a leadership position to fast track mechanization.

(2) Integrate the leadership of the HRM & IR functions under one Director, the H. R. Director.

(3) Return the reporting relationship of the Estate Human Resource and Finance Managers to the Estate Manager; provide for a position at estate level to coordinate mechanization.

(4) Fast-track full integration of LBI & Enmore to quickly Realize consequential economies and potential revenues from disposal of surplus assets including valuable land.

Management of the HRM function

(1) Urgently fill vacancy for HR Director.

(2) Re-orient the Staff Training & Development function and restore Guysuco Management Training Centre.

(3) Review and revise Succession Planning.

(4) Improve compliance with mandatory medical surveillance, screening and examination for workers exposed to hazards.

Communication

(1) Improve and enhance corporate public communication Strategies as well as management-employees communication to restore image of the industry being the employer of choice in Guyana.

(2) Greater publicity must be given to the relatively superior" earnings power of rank and file workers especially cane cutters.

Operational Efficiencies

(1) Minimize Time Work; maximize Piece/Job Work.

(2) Revise formula for qualification for Holiday-with-pay and related incentives and benefits.

(3) Reduce Sunday work to essential services and explore potential for normal work week of 5 to 6 days from Monday to Saturday.

(4) Outsource as many operations as feasible. e.g. Cane Transport (as has already been done for Bulk sugar and Labour transport).

(5) Increase use of Information and Communication technologies, Automation and Mechanization.

(6) Collect, analyze and present regular labour productivity data in the same way TC/H and TC/TS, juice purities and other field and factory performance indices are monitored. Simple but revealing data such as MD/TC (Man Days per tonne cane); MD/TS (Days per tonne sugar); MD/HP (Man days per Hectare planted); MD/HF (Man days per Hectare fertilized) etc., must be presented regularly for productivity and cost control as well improvement supervision and

management.

Unnecessary Practices

(1) Discontinue witnessing of Cane Scale Tests.

(2) Discontinue payment for employees' participation in courses run by GAWU Labour College.

Others

Invite capable, respectable retirees to function as on-the-job trainers, coaches, counselors.

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II. SYNOPSIS OF SUB-COMMITTEE REPORT - FINANCIAL/ECONOMIC (Professor Clive Y. Thomas)

From all Accounts, the major constraints impeding improved production and productivity at Guysuco are: 1) labour shortage 2) climate/weather variability given the industry's cultivation dependence on drainage and irrigation, 3) factory unreliability, and, 4) the price which sugar can be expected to sell presently and well into the medium-term.

As indicated in a separate submission to the COI by Prof. Clive Thomas, the following daunting conditions presently confront Guysuco:

- Daunting financial environment.
- The geo-physical environment
- Infrastructural deficits.
- Daunting soil issues facing cane cultivation:
- The industrial relations environment facing the corporation.
- The industry has faced a daunting production decline as shown below.

Sugar Output 1960s and 3-Year Averages 2000-2014 ('000 tonnes)

1960s	**301**
2000-2002	296
2003-2005	291
2006-2008	251
2009-2011	230
2012-2014	207

- A daunting productivity and production trend has been revealed throughout the 2000s; a sad picture of declining: cane yields, harvested cane areas, sugar output, sucrose in cane, factory recovery, mill crushing time per week, skills in the work force, and institutional/managerial/planning capacity. To these can be added increasing "out-of-cane" occurrences and resort to the practice of "brought-forward" canes to improve the current year's output.

- However, there remains six important positives:
    1. Two-crops are produced per year.
    2. The co-generation potential of the mills, if power can be sold at market prices, is substantial.
    3. The cane soils are potentially good-yielding (technical estimates put it at 12.5 tonnes per hectare!)
    4. Significant plant varieties development have taken place over the years, but this has been falling-off in recent times!
    5. The availability of water (canals) for bulk transport of canes lessens costs.
    6. The COI which has taken a "no sacred cows approach" to Guysuco and the industry, and pledging a fresh start augurs well for the future!

Rightly or wrongly, sugar workers, their families, and the communities in which Guysuco operates see this state corporation as the main provider of their livelihoods and a life-line support for their communities. All recommendations for the Way Forward should therefore embrace this reality.

Guysuco's financial status is extraordinarily dire, which gives extreme urgency to the dilemma referenced here.

All Guysuco's financial ratios are extremely discouraging. There is undoubtedly, a marked inability for Guysuco to grow its operations through its sales/revenue. Further, it is utterly incapable of financing its capital requirements, which are so badly needed. Indeed, at present Guysuco cannot cover routine maintenance items of a lumpy nature.

And, it cannot obtain credit/loans without Government guaranteeing these.

Conclusion

There is widespread agreement among industry analysts that, Guysuco's Business Plans projections, cannot stand up to close scrutiny, even for a period as restricted as the very first year of its projections. Indeed, as Guysuco's projections go further into the future they are revealed to be extremely unrealistic. Most of the stakeholders who have worked at Guysuco previously, and who have presented to the CoI, have bemoaned the all-round decline in the corporation's managerial, implementation, and operational capacity.

Recommendations

Based on both the financial and economic analyses the only rational conclusion which can be drawn is that which the CoI had arrived at by consensus. The Government of Guyana (GoG) needs to decide urgently whether it can afford to continue, repeatedly, funding Guysuco from the National Budget (via bailouts) in order to remain as a producer of raw bulk sugar for export. To repeat such "bailouts" and expect different vastly improved results from Guysuco would be irrational.

In light of this the COI has deemed that, a continued state-run Guysuco in its present form/structure is strategically unacceptable. It would be an inefficient financial and economic decision. A decisive shift to private ownership and control of the assets now employed in sugar production has to be an essential element of any long-term resolution of the present paradoxical situation. The COI also, by the same consensus, recognized that it was not in a position to determine the closure of any estates.

Based on this consensus it is recommended that the following be pursued along the timelines given:

Timeline 2016

1. Early in 2016, the Government should, publicly announce that, it will do everything in its power to remove itself from the production of bulk sugar for export; as soon as is practical.

2. If this is accepted, ***simultaneously***, the Government should also announce the following strategic decisions indicated below, which will be put into effect ***before*** the end of 2016. This accompanying announcement is a must. It should state that it is:
   a. Taking steps towards the formal creation/establishment of a ***Holding Company***, which is designed to "hold" the shares of Subsidiaries/Business Units and other Revenue Streams, created out of Guysuco operations. Such suggested areas are listed in b below, but these are not exhaustive.

   b. Guysuco will be deconstructed into several subsidiary operations/ business units/revenue streams based on appraisals of their potential profitability:
      - Co-generation of Electricity;
      - Supply of Drainage and Irrigation to communities;
      - Supply of Business Services (IT, tourism and recreation, etc.);
      - Prime Real Estate and Property Holdings (selected Guysuco premium real estate);
      - Agricultural Equipment Pools, including aircraft (for rental to farmers);
      - Sugar Refinery (Plantation "Whites" or Refined Sugar)
      - Molasses;
      - Alcohol;
      - Ethanol;
      - Special Sugars.

c. The Holding Company is where, (through stock ownership) GuySuCo's deconstructed operations, business units and revenue streams will function as its legal subsidiaries. The Holding Company would therefore, be entitled to enjoy all the legal rights, benefits, and responsibilities to be derived from a parent company – subsidiaries relationship. Such an arrangement would, almost by definition, immediately ***transform*** the present over-centralized structure and operations of Guysuco, into a decentralized and, hopefully, more flexible and adaptable operational structure.

d. Each subsidiary/business unit/revenue stream that is established, would provide its own management for its specific operations. Its efficiency, however, as a subsidiary, would be measured principally, if not solely, by its ability to generate profits (at set targets) established by the Holding Company. Of course, the Holding Company itself, will not engage in the day-to-day operations of these subsidiaries/ business units/revenue streams. Nevertheless, it would set broad policies and guidelines for their operations. Certainly, guidelines for remuneration and other benefits going to management would be set by the Holding Company. Similar to other holding companies the newly-created Holding Company would not engage itself in the direct production of any goods and services. Indeed we can say, its sole purpose would be to control the subsidiaries along the lines indicated above.

e. To facilitate this development, the GoG and GuySuCo's management should engage in a ***process of negotiation designed to restructure*** those

Guysuco's debts that are 1) owed to governmental agencies and 2) other holders of Guysuco's debts, for which the GoG has contingent liability.

f. The Holding Company's capital structure should be partially facilitated by the negotiated ***conversion or restructuring of most of Guysuco's present indebtedness to the government into equity***. Other options for raising new equity in the Holding Company should also be earnestly explored, with GoG support (debentures, bonds, etc).

3. 2015 and 2016 Crops

For the 2nd Crop 2015 and the two succeeding 2016 crops, Guysuco's management should be given the task of ***optimizing the corporation's performance indicators for sugar***. This would be relentlessly pursued for two main purposes: 1) to raise/improve the saleability of GuySuCo's major assets and 2) to attract new entrants into the industry (in particular investors and cane farmers). Here I would strongly recommend the exploration of Mr. Errol Hanoman's "scalpel", reforms, elegantly proposed to the CoI.

4. Two Interventions

a. 2016 should also be the year to commence two major interventions. The ***first intervention*** recommended is the systematic pursuit of a Mechanisation Project, along the lines designed by the CDB at the end of 2014 (see Table 24).

Table 24. CDB Mechanization Project Summary

Project Outcome and Description:

The outcome of the Project is improved productivity of sugar cane cultivation and sugar production on selected estates in Guyana.

The components of the Project are: -

(a) Enhancing sugar cane production and harvesting

I. Purchase of machinery and equipment to facilitate:

(a) the preparation of sugar cane fields into mechanically-friendly configurations:

(b) semi-mechanical planting, mechanical weed control and fertilising of sugar cane: and

(c) mechanical harvesting of sugar cane.

II. Land preparation for revised field layouts.

(b) Factory energy efficiency improvements.

(c) Training of employees for operation, maintenance and repair of machinery and equipment.

(d) Consulting services to assess and develop an action plan for gender equality and integration.

(e) Project Management Services.

Source: CDB 2014

That CDB Project That CDB Project cited in Table 24 was aimed at the mechanisation of sugar production and harvesting; improved efficiency (including energy efficiency) of factory operations; and, general sugar industry production infrastructure. In terms of detail, a key intended output of the project was the preparation of 6,000 ha of sugar cane fields in a mechanically-friendly layout, of which the Project would be accounting for 2,500 ha.

The Project as was then proposed had focused on Uitvlugt (Demerara Region) and Albion and Rose Hall (Berbice Region). Uitvlugt Estate was chosen because it had been reported to experience the most acute labour supply shortage in the industry. Meanwhile, Albion and Rose Hall, notwithstanding their relatively high productivity, had also been experiencing labour supply challenges which, the CDB felt, if left unattended, could seriously erode performance on those estates.

In terms of details: the provision of equipment for full-mechanical harvesting was scheduled to be confined to Uitvlugt because the Uitvlugt factory is the only one (of the three in the project intervention areas) with the facilities for handling mechanically harvested canes.

Although I have indicated above my skepticism about the assumptions and data used in the CDB 2014 project evaluation, See Section 2.F, I believe the present new management at Guysuco would be more realistic with the data it supplies to the CDB for its evaluation of the feasibility of any future mechanisation project.

b. The ***second intervention***, which I would recommend strongly is for a serious evaluation of all the diversification options (raised by several contributors to the CoI), including specifically: 1) the production of ethanol 2) aquaculture 3) other agriculture crops, and 4) dairying, and other animal stock. The main caveat I would stress, is for "other crops" to be first pursued as potential projects ***outside*** Guysuco's lands, and further seek to utilize Guysuco's lands only ***after successful field trials***.

Timeline 2017-2018

Based on the above recommendations, if by the end of the residual preferential sale arrangement in 2017 for Guysuco's bulk sugar production to the EU, the corporation still remains in Government's hands, bulk sugar sales should therefore be exclusively focused on:

- The Caribbean Market (see C.E. Housty, 2015)
- The CARICOM Market

  "Guyana benefits from protection within Caribbean Community and Common Market (CARICOM) through a 40% Common External Tariff (CET) imposed on raw sugar imported from non-CARICOM sources. In the recent past GuySuCo has limited sales to CARICOM Member States because of production shortfalls and its EU/US market given quota obligations. Other Caribbean producers have adopted similar strategies. As a result, most CARICOM countries have sourced sugar from non-regional producers having obtained waivers on the CET in keeping with the protocol established by the CARICOM Secretariat. The demand from CARICOM is estimated at approximately 150,000 tn for raw brown sugar. The Region does not have the capacity to refine sugar, therefore all white sugar consumed in the Region (approximately 200,000 tn annually) is imported." (CDB, 2014)

- The Domestic Market (see C.E. Housty, 2015)
- The United States Market (see C.E. Housty, 2015)

Even for these markets however, the steady shift to branded sugars has to be relentlessly pursued.

Timeline 2016-2019

The period 2016-2019 should be directed at two broad transformative goals; both of which are aimed at worker and farmer stakeholders in the industry. One is that the proposed Holding Company would negotiate with the Unions the "buy-out of the existing accumulated customs and practices" in the industry. As matters stand it would be impossible, I believe, to negotiate a rationalization of these customs and practices. It should be possible however, in exchange for a "comparable upfront payment" for workers to surrender these benefits (or future income streams), ***discounted to their present values*** in exchange for a joint agreement within a new construct of working conditions, where these no longer apply.

Second, Guysuco had proposed two decades ago for the National Development Strategy 1996 a program of "participatory privatization". Under this arrangement it would make lands available to private farmers, including workers who wanted to farm and who also may or may not agree to supply cane to the estates under a re-designed Cane Farmers' Act. Similarly, experimental related arrangements for "group-managed" contract schemes centred on worker-managed cultivation of sugar cane fields have been proposed as broader solutions. Both of these, I believe, deserve significant and extensive trials over the period 2016-2019. The aim is that, if successful, their formal introduction should begin in 2020.

Timeline 2020 and After

By 2020 the industry should be settling into a new configuration, namely:

A. Holding Company controlling the assets of Subsidiaries/Business Units/Revenue Streams.

B. A significant range of these Subsidiaries/Business Units/Revenue Streams, which are driven by making profit for their shareholders.

C. Subsidiaries/Business Units/Revenue Streams and the Holding Company would have a ***mix of public and private ownership***.

D. The bulk sugar market, if it still exists, would be entirely focused on supplying the restricted premium markets as given above.

E. In principle, sugar production for these markets would be largely dependent on a mix of farmers and worker-managed cane cultivation, together with private investors (both local and foreign)

F. Packaged and other value-added sugars would expand substantially relative to bulk sugar production.

G. The technical and commercial evaluation of Special Sugars, which are planned to be produced, including refining, would have been completed and financing secured with everything else ready to come into full production no later than 2020.

H. Through debt reengineering (restructuring and recapitalization) the pressures of Guysuco's indebtedness on the National Budget should have been permanently relieved during this time-frame.

I. A selection of commercially viable estates, supplying sugar at the most efficient domestic resource cost for local, regional, and "premium" export markets in which value-added sugars dominate their outputs.

5. Preliminary Calculation/Valuation of Privatization

- The data provided herein are supplied by Guysuco and are for reference only.
- It is presented in good-faith and to the best of knowledge, it is accurate.
- It does not purport to be the sole or otherwise basis for the strategic decisions and choices, which are required for arriving at a Way Forward.
- In other words, these estimates cannot logically provide a warranty, (legal or otherwise), for what needs to be made: i.e., ***strategic decisions***, (save and except for their timelines and the applicability of their contents to those decisions).

Valuation Assumptions

- Production and sales, as contained in the COI report: adjusted for minor computational errors.
- Privatization after year 3 or 2018.
- Quick disposal (by 2020) of 2,284 acres or 925 ha at LBI.
- Quick disposal (by 2020) of 26 acres or 10.5 ha at Ogle.
- Valuation of quick-disposal land – ***conservatively*** at G$25million per acre.
- Annual inflation is forecasted at 3%.
- Land inflation is not separately forecasted: there is potential for both high + market "bubbles".
- Rate of Exchange used throughout:

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
G$/US$ 1	207	208	209	210	211	212	213	214	215	216

- Proceeds from land sales to 2020 are used to reduce the following short term debts:

  - Local Trade Creditors

- Taxes owed to GRA

- Local Bank Loans

- Local Overdraft Facilities

- Foreign Working Capital Loan with the National Commercial Bank Group

Cash Balances

- The forecast cash balances are:

	2016 - COI	2017	2018
CASH - CLOSING BALANCE / G$M	**5,892**	**12,235**	**5,000**

- The Corporation forecasted to have a positive cash balance (G$5Bn) at end 2018 and before privatization.

Valuations

Net Book Value

	Valuation Type	Prescribed Method	Total Assets	Result Total Liabilities G$M	Net Book Value
1)	Net Book Value	Total Assets - Total Liabilities	143,163	126,642	**16,521**

- Total assets minus total liabilities

- The net book value end 2018 is estimated at G$16.5Billion.

Net Realizable Value of Asset less Liabilities

- Assets are valued (see below) at an estimated net realizable value and total liabilities are subtracted to arrive at the valuation.

	Valuation Type	Prescribed Method	Book Value	Estimated Realizable Value	Total Liabilities	Net Realizable Value of Assets Less Liabilities
2)	Net Realizable Value of Assets Less Liabilities	Value all assets at the lower of cost or market /value				
		Assets as per Balance Sheet:				
		Property, Plant and Equipment: This consists of freehold land, property, machinery and equipment. The total value of freehold land is G$43,715million less sale of LBI/Ogle of G$1,148million. The remaining is property, machinery and equipment. The latter is discounted by 60%.The value of the land is marked up by 75%. This is being very conservative.	100,212	97,091		
		Deferred tax asset	20,297	20,297		
		Investments - regularly revalued each year	372	372		
		Investment in subsidiary - subsidiary is making continuous losses so not considered.	22	-		

- Assets Less Liabilities is estimated at G$7.5Bn.

Valuation Type	Prescribed Method	Book Value	Estimated Realizable Value	Total Liabilities	Net Realizable Value of Assets Less Liabilities
	Inventories - the risk is that the items may not be of use to other companies or are obsolete - discount by 80%	3,127	625		
	Standing cane - is measured at sugar prices which are lower than costs - discount by 20% for risk of reduced yields	5,288	4,230		
	Product stock - already valued at market price	3,059	3,059		
	Trade receivables - discount by 10%	2,686	2,417		
	Other receivables - discount by 50%	2,102	1,051		
	Prepayments - the risk is that the item is not received or can be utilized otherwise so not considered.	1,000	-		
	Cash on hand and at bank	5,000	5,000		
		143,163	134,142		
	Minus total liabilities			126,642	**7,500**

Key Observations

- To these valuations, the GOG should add savings, as bailout funding 2018-2025 not required, approximately G$100billion.
- There are other valuations but given no vibrant capital market, GuySuCo's monopoly status and operational losses not applicable.
- Other Valuations:

	Valuation Type	Remarks
3)	Replacement Value	This requires further market research to determine the market value of a similar Sugar Corporation of this capacity.
4)	Discounted Cash Flow Growth Model	After 2018 and utilization of land sales funds, the Corporation returns to operating on a cash deficit, hence this is not a suitable valuation model for the Corporation.
5)	Risk Adjusted Net Present Value	Refer to 4.

Concluding Remarks

- Window of opportunity for privatization 2018-2020.
- GuySuCo' debt, if any, without an explicit or implicit GOG contingent liability, can be added to the receipts from privatization. Not known.
- Pushing the window of opportunity further away for Guysuco's improved valuation depends on subsidiaries activities, considered next.
- Note: valuing a debt-laden, loss-making, state-owed Corporation is exceptionally hazardous.

For this purpose any buyer is likely to bargain from the basis of valuations as given.

Improved valuation increases GoG options.

Note: Buyer's expectations for generating wealth will be based on speculative use (including sales and break up of any assets acquired at "bargain-basement" prices, for speculative disposal).

6. Preliminary Evaluation of the Holding Company-Type Approach

List of Potential Subsidiaries

- Co-generation of Electricity;
- Supply of Drainage and Irrigation to communities;
- Supply of Business Services (IT, tourism and recreation, etc.);
- Prime Real Estate and Property Holdings (selected GuySuCo premium real estate);
- Agricultural Equipment Pools, including aircraft (for rental to farmers);
- Sugar Refinery (Planation "Whites" or Refined Sugar);
- Molasses;
- Alcohol;
- Ethanol'
- Packaging of Special Sugars
- Other by-products
- Etc.

Co-Generation Subsidiary (Skeldon)

- The subsidiary is projected to make a profit of $578M in 2016 and peaks at $1,6M in 2021.
- GuySuCo has the capability of supplying 17MW of power. However, GPL can only take 15MW.
- This is due to GPL's lack of infrastructure.
- Diesel generated power will be charged at US$0.02 per kilowatt hour while turbine generated power has increased to US$0.21 per kilowatt hour.
- Internally consumed power will be charged at US$0.04 per kilowatt hour.

Land Sales Subsidiary

- Quick sale of Ogle, LBI and other lands by 2020.
- Ogle has 26 acres and LBI has 2,284.503 acres for development/disposal.
- Ogle will be disposed of in 2016 while LBI will be on a piecemeal basis over a period of 5 years.
- The price assumed for land sales is $25M per acre which can be considered very conservative.
- The Unit will be staffed by a Manager, 2 surveyors and a clerk.
- Net Profit estimated at $11,621M in 2016 and $10,990M in 2017 until 2020.

Packaging Plant Subsidiary

- The Packaging Plant is projected to make a profit of $1,087M in 2016 and peaking at $1,153M in 2020.
- Responsibility for the sale of direct consumption sugars: Demerara Gold, Demerara Brown, Enmore Crystals, Private labelled (Regale and Cuisine brands) and Caricom bagged sugar.
- The Plant will purchase sugar from Enmore factory at prevailing world market prices.
- A world market price of US cents per pound 14.34 has been used for these projections.

Queries

- Queries made of real estate dealers/property developers suggest the price of G$25million per acre is a ***minimum***.
- Their expected yield is several multiples of this, particularly if sales are:

  - well timed (especially placement of supply on the market.

  - properly packaged as developer deals (local and overseas)

  - Land/property "bubbles" emerge as expected!

- Land inflation > general inflation
- Effective oil production is closer to coming on stream by 2020.
- Site/location scarcities are skilfully exploited.
- Partnership deals with local and foreign investors are tactically pursued.

<u>Summary of Subsidiaries Results Net Profit/(Loss) 2016-2025</u>

Year	**Co-Generation**	**Land Sales G$M**	**Packaging Plant**	**Total**
2016	578	11,621	1,087	13,286
2017	917	10,990	1,125	13,032
2018	1,077	10,990	1,090	13,157
2019	998	10,990	1,101	13,089
2020	1,296	10,990	1,115	13,401
2021	1,670	Nil	1,097	2,767
2022	1,648	Nil	1,077	2,725
2023	1,625	Nil	1,056	2,681
2024	1,601	Nil	1,032	2,633
2025	1,576	Nil	1,007	2,583

Summary of Subsidiaries Results Net Profit/(Loss) 2016-2025

Year	Co-Generation	Land Sales G$M	Packaging Plant	Sugar	Total
2016	578	11,621	1,087	-19,412	-6,126
2017	917	10,990	1,125	-18,066	-5,034
2018	1,077	10,990	1,090	-19,534	-6,377
2019	998	10,990	1,101	-18,188	-5,100
2020	1,296	10,990	1,115	-17,574	-4,173
2021	1,670	Nil	1,097	-18,301	-15,535
2022	1,648	Nil	1,077	-18,370	-15,645
2023	1,625	Nil	1,056	-18,597	-15,916
2024	1,601	Nil	1,032	-19,417	-16,783
2025	1,576	Nil	1,007	-20,085	-17,502

- It can be seen from the above figures that land sales is the major contributor to the low level of losses for the period 2016-2020. No further disposals are assumed after 2020.

7. Conclusion: Window of Opportunity

- Based on the above, a window of opportunity for a Holding Company-Type approach exists to 2020 and possibly beyond.
- This window could be pushed further away, if:
    - Collectively, the other nine subsidiaries make financial headway, between 2016-2020
    - And specifically, more real estate is strategically released for sale after 2020.

Note: This yields more time for Guysuco's improved valuation.

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III. SYNOPSIS OF SUB-COMMITTEE REPORT - FIELD

(Dr. Harold Davis, Mr. John Piggott)

Guysuco Estates have since 2005, recorded precipitate declines in cane yield and sugar output. Unsettled weather has not been a factor.

Restricted cash flows and poor credit arising from high expenditure on issues associated with the new Skeldon factory have led to reduced spending on inputs for agriculture. Shortage of cash resulted in non-availability of fertilizer for over 6000 ha after completion of the 2015 First Crop.

There were also several examples of poor management exemplified by deviation from established guidelines for sound agricultural management including: superficial tillage, planting outside of the recommended planting windows, and late timing of inputs. Fertilisation policy also reduced the rates of basal fertiliser that contributed to significant yield reductions in the succeeding seasons. Severe weed infestation in the Demerara Estates is evident because of poor management and neglect of the cultivation. The undesirable and unsound practice of Bringing Forward canes to achieve production targets was also a standard practice over the past 5 years.

Financial support will be necessary in the foreseeable short term, it is recommended that the level of support should be agreed for the commencement of each production year and expenditure on agriculture should be linked to the attainment of progressive targets for a plan of improved production on each estate.

Emphasis of this programme will include adherence to agriculture guidelines on timing of operations and inputs, work quality, training and experience sharing, feedback from field inspection and surveillance to be included in planning for daily work programmes, increased conversion of fields for machinery adaptable operations, flood fallow on suitable fields, resuscitation of seed nurseries and adherence to variety distribution agreed with the Breeding and Selection Dept.

Estates' management would be accountable for attainment of production targets for individual estates.

The projected capital expenditure of US$ 29M for next year is significantly less than the US$102.4M now required to secure estates' infrastructure and operations.

Based on these inputs and improved management, productivity on estates would improve incrementally and sustainably to 3.5M tonnes of cane and 300,000 tonnes of sugar by 2020.

The production cost data also indicate that at prices for raw sugar, it would be cheaper for the Wales factory to purchase cane from farmers than to cultivate its own cane. Even with the increased production of cane by 2020 that there would be insufficient cane in West Demerara to satisfy the complete requirements for two factories. It is recommended that a formal evaluation of the financial implications for Guysuco and the farmers of transferring all of the Wales cane supply to farmers.

Mechanical loading of hand cut cane has been widely accepted by labour and is now the main contributor to the supply of cane. It is recommended that Guysuco should work with the Union to eliminate the additional payments for obstacles and extras still incurred in cut and Stack. The beneficial cost impacts of mechanization on various operations are already being reflected in the Industry Management Accounts. Transformation of the Industry for mechanised agriculture will largely depend on the adaptability of Management at all levels. Agricultural Engineers are required to refine and advance the mechanisation systems especially mechanical harvesting and loading.

Commercial combine harvesting operations commenced at Skeldon with several breakdowns and mechanical failures that could have been avoided if the mechanization support term had not been disbanded.

Skeldon has also experienced difficulty in harvesting its standing crop because of restricted access to fields and forced harvesting in wet soil conditions for successive seasons, with consequent soil compaction and damage to cane stools Unreliability of the Factory has influenced late starts and reduced the crop duration. The result has been increasing areas of over-age canes in both the estate' and farmers' cultivations. .

These problems were influenced by inadequate drainage capacity for the expanded area and the fundamental error made from the onset of the programme in which only cursory attention was paid to land levelling.

In 2015, a 340 Total Pump Management (TPM) drainage pump was installed by the National Drainage and Irrigation Authority (NDIA) on the banks of the Canje to drain the Manarabisi sections of the cultivation. The drainage canal to the estate at Sookram's Cross remains to be completed. It is recommended that Guysuco actively pursues the construction of the canal during the 2015 dry season and undertake the task if there is a delay in approval for funding from the NDIA.

Land levelling would be conducted on all fields scheduled for rehabilitation commencing the Second Crop of 2015. Guysuco has been advised to arrange for on-site training on operation and survey methods and interpretation by the laser levelling system supplier.

The advent of mechanically harvested and loaded canes has been a challenge to the factories. Extraneous matter and excess soil from the field caused major problems with steam generation and processing.

The appointment of an experienced senior Agricultural Engineer as Mechanisation Coordinator is recommended. It is also recommended that the Industry seeks to recruit Mechanical Engineering graduates into the Field technical streams.

There has been no new commercial variety released to the industry since 2008. Two varieties D 9584 and D 98633 are ready for pre-commercial and factory response evaluations. These should be implemented without delay.

Global Climatic Trends predict a drier climate for coastal Guyana, with more intense rainfall events in the wet seasons and extended droughty conditions in the dry seasons. In order to take advantage of the driest weeks of the year, a production schedule extending from mid-August to the end of April could be evaluated. Production would stop from the late December and January, but factories would be kept in readiness for continued operations as soon as the weather permits.

The production of Ethanol was considered using the production parameters of previous studies in 2005 and 2008. The low prices of oil and its related products at this time are not in favour of substituting sugarcane nor molasses to fuel ethanol production.

The production of other crops on an extended scale will not engage the Field labour that is likely to be displaced by any form of contraction of field operations on any estate.

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IV. SYNOPSIS OF SUB-COMMITTEE REPORT – FACTORY

(Mr. John Dow, Mr. Joseph Alfred, Mr. George James)

The Guyana Sugar Corporation is currently in the throes of a grave financial crisis, whereby it is indebted to such an extent that it has been unable, since 2009, to fund adequately its capital and routine expenditure. As a consequence, factory efficiencies have reached unacceptable levels, whilst the quality of cane supplied shows increased extraneous matter resulting from mechanical harvesting and/or mechanical loading. High Out-Of-Cane hours, at all locations, have resulted in the factories not being able to achieve the weekly grinding hours necessary for good productivity and efficiency.

The Skeldon Sugar Modernisation Project (SSMP), conceived to inaugurate the turnaround of the Industry, must be singled out as a major project poorly executed, which, to date, has not performed to its design specifications. The large sums, both Capital and Routine, spent on the Skeldon Factory, since commissioning in 2009, have served to starve the other 6 factories of badly needed funds. Furthermore Skeldon continues to account for the greater share of GuySuCo's meagre resources. Note, also, that a serious threat exists in the present condition of the diffuser drive gearbox, which, if not attended to urgently, can result in the factory coming to an abrupt halt until the problem is fixed. Punt dumpers need to be made more reliable and all automation systems in the factory must be enabled to reduce labour costs.

High labour and staff turnover and the frequent movement of staff among Estates exacerbated the decline. Further to this, generous Union Agreements and work stoppages have not been helpful in the thrust to resuscitate the Industry.

Dwindling supplies of cane at Wales and Uitvlugt have brought into sharp focus the continuity of the two estates where private cane farming is pivotal to their separate or conjoined existence.

New Boilers in some factories and changes to existing boilers in other factories will be necessary in order to cope with the increased quantity of field soil entering with the canes.

A restructured Factory Operations hierarchy is overdue for better work distribution and effectiveness. Management training is sadly lacking and must be given priority to arrest declining standards in all areas of factory management.

Co-generation. The Industry must consider additional revenue streams since post 2017 will herald the cessation of premium prices for raw sugar and GuySuCo will be forced to compete at World Market Prices. Such revenue streams must include the sale of electrical power to Guyana Power and Light (GPL). This Co-generation power is that which is derived from the burning of bagasse (the fibrous residue of the cane after milling or diffusion) in the boilers to produce steam to drive the Turbo–Alternators which generate electrical power for internal factory use and surplus for export and sale to the National Grid (GPL). Skeldon factory was designed for Co-generation and needs to maximize this revenue stream. **However, the Power Purchase Agreement (PPA) between GuySuCo and GPL must be renegotiated with a view of obtaining a fair price for the electrical power, as the existing price of US 4 cents/ kWh for steam-generated power is considered to be much too low.** Other factories, such as a new Albion/Rose Hall factory on a greenfield site can be considered and designed for Co-generation in order to become profitable. It must be noted, however, that this will require considerable capital funds which will have to be sourced from private entities.

With large Government subsidies being unsustainable, it is recommended that the industry, whether contracted or otherwise, move towards privatization with the hope of garnering the large financial resources necessary for its survival.

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V. SYNOPSIS OF SUB-COMMITTEE REPORT - MARKETING

(Mr. Claude Housty)

The market analysis is intended to put into current and future perspective markets for Guyana's bulk and value-added sugar as well as other by-products. This is done with respect to each market specifically as well as generally. The specific markets dealt with, based on 2014 figures, were the European Union (EU) to which75% of our sugar was exported, the United States (US) with 7%, CARICOM with 6% and the local market with 12%.

The EU has always been considered Guyana's most important market because of the high price received and the large quantity shipped thereto. However, over the years even though the quantity shipped remained relatively constant, the price received continues to be reduced and this erosion will reach its climax on 30th September, 2017. Though the EU will continue to be the market to which the largest quantity of sugar is shipped, it will no longer be the premium-priced market it was. From the perspective of price, the EU will have become the least lucrative of Guyana's markets.

There is a fixed amount of bulk sugar (about 12,700 tonnes) which can be exported to **the US** at a preferential price. Guyana can also ship highly priced packaged sugar to the USA and Canada. However, a new brand of packaged sugar has to be introduced to this market after a lawsuit which prevents the original brand-Demerara Gold (DG)- from being shipped thereto.

Consumption of sugar on **the Local Market** suggests that Guyana has one of the highest per capita rates of consumption in the world. The quantity consumed includes relatively low priced bagged sugar. There will be efforts to deliberately change consumption patterns from the lower priced bagged sugar to the higher priced value-added packaged sugar over time.

The CARICOM Market can be a high-priced priority and captured market for Guyana's packaged sugar as well as for refined sugar.

There is a premium price to be obtained because of the Common External Tariff (CET). With respect to refined sugar, none is currently being produced in Guyana but the premium price and the size of the market make investment in a refinery well worth the while. The value-added packaged sugar is already known and accepted in the region. Accordingly, as much as possible should be produced and exported to benefit from the relatively high price available.

In addition to the current sales of **molasses**, there is a recommendation that the product be bottled in small containers (400 – 500 ml.) and promoted as a health food.

Co-Generation is recognized as having significant revenue earning potential. All factories can benefit from this activity. In this regard and particularly with respect to SWR, the creation of the Skeldon Energy Inc. should be reversed.

There is a direct link between the World Market Price (WMP) and the price obtained in every market to which Guyana exports sugar. All prognostications suggest that the WMP will move slowly upwards, if at all. Guyana will continue to be a price-taker. In this regard, Guyana will have to produce sugar of the highest possible quality since the quality of the sugar produced and exported will have a significant impact on the premium price received.

End of Synopsis of Sectoral Reports

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FOR FULL REPORT OF THE SUB-COMMITTEES PLEASE SEE:

- **VOLUME 2 – HUMAN RESOURCES AND INDUSTRIAL RELATIONS & ECONOMIC/FINANCIAL SUB-COMMITTEE REPORTS**
- **VOLUME 3 - FIELD, FACTORY AND MARKETING SUB-COMMITTEE REPORTS**

APPENDIX 1 – Declining Sugar Production

	Sugar Industry Summary						Farmers summary	Cummulative tonnes sugar
Year	Area harvested	Tonnes cane	Tonnes sugar	tc/ts	Cane yield (tc/ha)	Sugar yield (ts/ha)	Farmer tonnes sugar	Estate and Farmers
1940	23,224.6	1556050	155813	10.0	67.0	6.7	0	155,813
1941	22,368.4	1857082	171539	10.8	83.0	7.7	4,080	175,619
1942	22,377.4	1879451	177065	10.6	84.0	7.9	4,244	181,310
1943	22,715.2	1673941	122500	13.7	73.7	5.4	2,367	124,868
1944	21,911.7	1347022	129481	10.4	61.5	5.9	2,459	131,940
1945	21,705.6	1563210	147783	10.6	72.0	6.8	2,331	150,114
1946	21,836.5	1679650	159131	10.6	76.9	7.3	3,347	162,478
1947	22,270.7	1739073	157207	11.1	78.1	7.1	3,523	160,730
1948	20,795.0	1867001	163984	11.4	89.8	7.9	3,872	167,856
1949	21,382.2	1913349	165578	11.6	89.5	7.7	3,077	168,655
1950	25,034.7	2073331	187436	11.1	82.8	7.5	3,229	190,665
1951	25,899.4	2344222	207967	11.3	90.5	8.0	3,575	211,542
1952	28,067.2	2542039	231242	11.0	90.6	8.2	4,705	235,947
1953	27,774.0	2618831	228958	11.4	94.3	8.2	5,004	233,962
1954	30,551.2	2620970	228265	11.5	85.8	7.5	5,286	233,550
1955	0.0	0	0				0	0
1956	0.0	0	0				0	0
1957	0.0	0	0				0	0
1958	0.0	0	0				0	0
1959	0.0	0	0				0	0
1960	37,354.2	3583853	320296	11.2	95.9	8.6	7,160	327,456
1961	41,175.8	3402664	310458	11.0	82.6	7.5	6,266	316,724
1962	38,272.0	3272193	311790	10.5	85.5	8.1	7,144	318,934
1963	36,846.1	3254231	303398	10.7	88.3	8.2	7,274	310,672
1964	36,060.0	2859567	247378	11.6	79.3	6.9	5,998	253,375
1965	40,016.7	3207151	291897	11.0	80.1	7.3	11,734	303,631
1666	38,376.5	3104784	272220	11.4	80.9	7.1	12,881	285,100
1967	42,511.2	3514979	321166	10.9	82.7	7.6	19,186	340,352
1968	38,917.4	3095387	290244	10.7	79.5	7.5	21,943	312,187
1969	45,272.2	3771372	334755	11.3	83.3	7.4	25,431	360,185
1970	38,136.5	3337876	280791	11.9	87.5	7.4	26,968	307,759
1971	47,938.5	3798167	330534	11.5	79.2	6.9	34,187	364,722
1972	45,968.7	3189530	280394	11.4	69.4	6.1	31,823	312,217
1973	39,845.4	2924482	238247	12.3	73.4	6.0	24,507	262,753
1974	47,306.2	3557115	298140	11.9	75.2	6.3	39,464	337,604
1975	36,023.0	3004699	261943	11.5	83.4	7.3	36,818	298,761
1976	47,136.7	3595472	294596	12.2	76.3	6.2	35,479	330,075
1977	37,814.0	2642719	205582	12.9	69.9	5.4	35,726	241,307

Year	Sugar Industry Summary						Farmers summary	Cummulative tonnes sugar
	Area harvested	Tonnes cane	Tonnes sugar	tc/ts	Cane yield (tc/ha)	Sugar yield (ts/ha)	Farmer tonnes sugar	Estate and Farmers
1978	49,713.7	3690723	285179	12.9	74.2	5.7	38,258	323,437
1979	48,000.5	3347748	258095	13.0	69.7	5.4	45,122	303,217
1980	44,050.7	3132523	234542	13.4	71.1	5.3	39,562	274,103
1981	45,067.9	3638275	265470	13.7	80.7	5.9	40,291	305,761
1982	46,945.9	3380684	253797	13.3	72.0	5.4	38,684	292,480
1983	43,646.2	3140764	221582	14.2	72.0	5.1	34,453	256,035
1984	47,188.1	3137500	218605	14.4	66.5	4.6	27,233	245,838
1985	39,515.3	2882523	217842	13.2	72.9	5.5	26,615	244,456
1986	42,543.1	3071312	225696	13.6	72.2	5.3	22,480	248,176
1987	40,253.3	2852902	206186	13.8	70.9	5.1	18,098	224,284
1988	32,578.4	2312417	157362	14.7	71.0	4.8	12,919	170,281
1989	33,417.1	2402963	156776	15.3	71.9	4.7	10,703	167,479
1990	35,874.3	1914749	123938	15.4	53.4	3.5	8,093	132,030
1991	36,710.5	2157868	151032	14.3	58.8	4.1	11,257	162,289
1992	39,177.1	2807578	230538	12.2	71.7	5.9	16,425	246,963
1993	38,150.9	2870212	228306	12.6	75.2	6.0	18,288	246,594
1994	40,493.8	2949198	237816	12.4	72.8	5.9	19,119	256,935
1995	40,655.7	2710739	234501	11.6	66.7	5.8	19,413	253,914
1996	41,041.9	2923560	256909	11.4	71.2	6.3	23,299	280,208
1997	41,895.6	2800644	253908	11.0	66.8	6.1	23,172	277,080
1998	39,902.8	2673502	232509	11.5	67.0	5.8	21,789	254,298
1999	44,749.2	3244582	294294	11.0	72.5	6.6	25,536	319,829
2000	44,361.0	2730437	251152	10.9	61.6	5.7	22,166	273,318
2001	41,642.9	2788763	256448	10.9	67.0	6.2	27,704	284,152
2002	41,297.0	3322456	303296	11.0	80.5	7.3	27,756	331,052
2003	41,960.0	3048685	276718	11.0	72.7	6.6	25,661	302,379
2004	45,212.7	3394984	298540	11.4	75.1	6.6	26,778	325,318
2005	41,889.8	2738298	226054	12.1	65.4	5.4	19,993	246,047
2006	42,422.4	2735523	240828	11.4	64.5	5.7	18,722	259,550
2007	39,757.0	2861256	247686	11.6	72.0	6.2	18,796	266,482
2008	44,263.0	2554289	210070	12.2	57.7	4.7	16,196	226,266
2009	43,555.8	2504334	214664	11.7	57.5	4.9	19,072	233,736
2010	36,510.4	2404236	196158	12.3	65.9	5.4	24,660	220,818
2011	45,415.1	2828094	212244	13.3	62.3	4.7	24,261	236,505
2012	43,616.0	2405853	196665	12.2	55.2	4.5	21,343	218,007
2013	40,675.9	2163889	166723	13.0	53.2	4.1	19,797	186,520
2014	45,302.3	2529822	195225	13.0	55.8	4.3	21,133	216,358

APPENDIX 2 – Unrealistic Projections

Unrealistic Projected production

GuySuCo Business Plan 2006 -2015

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
mt	284,814	325,099	367,453	407,437	433,080	443,221	445,177	445,918	445,918	474,400

GuySuCo Business Plan 2008 – 2016

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016
mt	284,814	325,099	367,453	407,437	433,080	443,221	445,177	445,918	445,918

GuySuCo (The Way Forward) (Extracted from Business Plan 2009-2016)

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016
mt	314,579	366,666	403,698	426,242	440,673	443,195	445,154	445,897	445,897

GuySuCo Business Plan 2010-2019

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
mt	280,032	353,077	382,256	419,712	438,576	439,593	440,337	439,735	439,735	439,735

GuySuCo Strategic Plan 2013 – 2017

Year	2012	2013	2014	2015	2016	2017
mt	218,062	203,191	250,956	312,871	335,731	349,719

APPENDIX 3 – Estate Losses

GUYANA SUGAR CORPORATION INC.
ESTATES PROFIT AND LOSS 2014

	Skeldon	Albion	Rose Hall	Blairmont	East Demerara	Wales	Uitvlugt	Total
Estate Hectares	8,117	8,900	6,720	5,657	8,635	2,895	4,379	45,302
Estates Cane - Tonnes	472,507	567,411	386,577	380,390	418,899	127,232	176,808	2,529,824
Farmers Cane - Tonnes	117,511	8,142	41,678	-	7,802	124,629	7,312	307,074
Total Cane - Tonnes	590,018	575,553	428,255	380,390	426,701	251,861	184,120	2,836,898
Total Sugar - Tonnes	35,890	51,080	32,145	33,499	30,931	18,897	13,916	216,358
Sales-Tonnes	39,788	50,673	32,145	33,499	28,761	18,490	13,916	212,967
TCH	58.21	63.76	57.53	67.25	48.51	43.95	40.37	55.84
TCTS	16.44	11.27	13.32	11.36	13.80	13.33	13.23	13.11
Revenue								
Sugar Sales	3,258	4,653	2,975	3,422	3,034	1,698	1,364	20,404
Molasses Sales	452	441	328	291	327	193	141	2,172
Cogeneration Income	279	-	-	-	-	-	-	279
	3,989	5,093	3,302	3,713	3,361	1,891	1,505	22,855
Expenses								
Agriculture	4,473	4,530	3,383	2,921	3,896	2,612	1,963	23,778
Factory	2,833	989	1,042	803	1,401	811	723	8,601
Administration	381	558	401	420	688	308	352	3,109
Co-Generation Costs	510	-	-	-	-	-	-	510
Enmore Packaging Plant Costs	-	-	-	-	242	-	-	242
	8,197	6,076	4,827	4,145	6,226	3,731	3,037	36,240
	-	-	-	-	-	-	-	-
Expenditure by type	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Employment costs	3,126	3,991	3,086	2,864	3,835	1,894	2,046	20,842
Cane Purchases	701	56	276	-	53	814	48	1,948
Materials	1,656	1,363	1,258	844	1,618	709	768	8,215
Outside services	435	431	127	213	218	165	12	1,601
Depreciation	2,694	267	165	230	550	166	171	4,243
Sundry revenue	- 416	- 31	- 85	- 7	- 47	- 16	- 8	- 609
	8,197	6,076	4,827	4,145	6,227	3,731	3,037	36,240
Profit/ (Loss) before tax	- 4,208	- 983	- 1,525	- 432	- 2,866	- 1,840	- 1,532	- 13,385

APPENDIX 4 – Employment Costs

GUYANA SUGAR CORPORATION INC.

DAILY MINIMUM WAGE IN GUYSUCO WITH THE US$ EQUIVALENT 1975-2014

YEAR	DAILY MIN. WAGE G$	PERCENTAGE INCREASE GIVEN	NEW MIN. WAGE	EXCHANGE RATE G$/US$	INFLATION RATE	RELATIVE VALUE OF MIN.WAGE IN US$	PRODUCTION (TONNES SUGAR)	NUMBER OF EMPLOYEES	M
1975	6.01	10	6.61	2.55	7.9	2.59	305,156		
1976	6.61	13	7.47	2.55	8.99	2.92	337,776		
1977	7.47	27.3	9.51	2.55	8.25	3.72	245,391		
1978	9.51	24.6	11.85	2.55	15.25	4.64	329,997		
1979	11.85	0	11.85	2.55	17.76	4.64	303,040		
1980	11.85	7	12.68	2.55	14.08	4.97	273,948		
1981	12.68	12.5	14.27	3.00	22.20	4.75	305,603		
1982	14.27	0	14.27	3.00	20.90	4.75	292,329		
1983	14.27	0	14.27	3.00	14.94	4.75	255,900		
1984	14.27	10	15.7	3.95	25.20	3.97	245,731		
1985	15.7	7.2	16.83	4.30	15.03	3.91	246,888		
1986	16.83	12	18.68	4.35	7.86	4.29	249,367		
1987	18.68	16.34+$4.20	25.94	10.00	28.70	2.59	224,531		
1988	25.94	5	27.24	10.00	39.90	2.74	170,231		
1989	27.24	20 + 22.36	40	21.50	-	1.86	167,437		
1990	40	10+15+50	75	45.00	-	1.66	131,999	16,080	JJO
1991	75	75-M+ 35-O	177.2	121.28	70.30	1.46	162,245	19,036	-
1992	177.2	22 + 12.2	237.8	124.55	14.12	1.90	246,898	20,419	-
1993	237.8	21	300	127.06	8.7	2.36	246,522	20,272	-
1994	300	15 + 5	360	138.20	16.10	2.60	256,657	18,816	-
1995	360	18	424.8	139.00	8.10	3.05	253,919	17,493	7
1996	424.8	12 + 1	480.02	140.38	4.50	3.41	280,116	16,425	4.5
1997	480.02	11	532.8	141.73	4.0	3.75	267,537	19,287	2-5
1998	532.8	9	580.75	163.74	4.6	3.55	253,871	18,873	1-5
1999	580.75	11.5	647.53	180.43	11.9	3.59	321,438	18,830	1-4
2000	647.53	10	712.28	184.75	6.2	3.86	273,317	18,629	1-4
2001	712.28	8.5	852.24	189.50	1.6	4.49	284,470	18,745	1
2002	852.24	6	903.37	191.27	6.1	4.72	331,052	20,227	-
2003	903.37	5	948.53	195.00	5.0	4.86	302,379	21,765	-
2004	948.53	5	995.96	199.25	5.5	4.99	325,317	19,084	-
2005	995.96	5	1045.96	199.64	8.3	5.23	246,071	20,204	
2006	1045.76	5.5	1103.28	200.40	6.2	5.50	259,549	18,018	
2007	1103.28	8.5	1192.06	202.99	14	5.87	266,482	19,721	
2008	1192.06	6	1268.96	203.34	6.4	6.24	226,267	19,695	
2009	1268.96	3	1307.23	202.99	4.3	6.43	233,736	18,461	
2010	1307.23	5	1372.40	202.99	4.5	6.43	220,818		
2011	1372.40	5+3	1484.25	203		7.31	236,505		
2012	1484.25	5- JEE +1	1835.53	203		9.04	218,068		
2013	1835.53	4	1908.95			9.04	186,745		
2014	1908.95	4	1985.31			9.78	216,350		
2015									