

**SUBMISSION TO THE  
GUYANA SUGAR CORPORATION  
COMMISSION OF INQUIRY**





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# *CONTENTS*

|   | <i>Page</i> |
|---|-------------|
| <b>Introduction</b>   | 1           |
| <b>Section 1: Global Environment and Macroeconomic Agricultural Context</b>                                 | 1           |
| A. Global Environment   | 1           |
| B. Macroeconomic and Agricultural Environment   | 2           |
| C. Conclusion   | 7           |
| <b>Section 2: Guysuco's Financial Situation</b>   | 9           |
| A. Financial Ratios Analysis  | 9           |
| B. Cash Flow  | 10          |
| C. Guysuco's Indebtedness   | 11          |
| D. Guysuco's Profitability (Losses) 1990s to date   | 13          |
| E. Unit Cost of Production  | 13          |
| F. Domestic Resource Cost (DRC)   | 16          |
| <b>Section 3: Guysuco's Performance to date in 2015: What does it tells us?</b>                             | 18          |
| A. First Crop 2015  | 18          |
| B. Second Crop 2015   | 19          |
| C. Business Plans and Capital Expenditure (Capex)   | 20          |
| D. Conclusion   | 21          |
| <b>Section 4: Recommendations on the Way Forward</b>  | 23          |
| A. Timelines of Implementation  | 23          |
|  Timeline 2016           | 23          |
|  Timeline 2017-18        | 27          |
|  Timeline 2016-19        | 28          |
|  Timeline 2020 and After | 28          |

## *List of Tables*

|   | <i>Page</i> |
|---|-------------|
| 1. Agriculture and Sugar GDP (G\$ bln) and Exports (US\$ mln) 2011-2014                         | 2           |
| 2. Estimated Productivity Potential by Estate   | 3           |
| 3. Distribution of Soil Classes (% of Cultivated area)  | 3           |
| 4. Sugar Output 1960s and 3-Year Averages 2000-2014 ('000 tonnes)                               | 4           |
| 5. Industry Location  | 5           |
| 6. Summary of Issues to be Addressed within the Framework of Guysuco's 2013-2017 Strategic Plan | 6-7         |
| 7. Guysuco's Financial Ratios: 2014   | 9           |
| 8. Guysuco's Expenditure/Revenue (August- December 2015)  | 10          |
| 9. Items to Note in the Cash Flow Estimates in Table 8  | 11          |
| 10. Guysuco 's Short Term Liabilities   | 12          |
| 11. Guysuco's Long Term Liabilities   | 12          |
| 12. Guysuco's Profit (Loss) After Tax \$G billion   | 13          |
| 13. Guysuco's Losses (2012- 2014) \$G billion   | 13          |
| 14. Sugar Production by Estate 2014   | 14          |
| 15. Breakdown of Estates Unit Cost of Production 2014   | 15          |
| 16. Unit Cost Increases (by 3-year period 1997- 2014)   | 16          |
| 17. Selected Actual and Projected Performance Indicators Used by the CDB in 2014                | 16          |
| 18. Key Factory Performance Indicators (First Crop 2015)  | 18          |
| 19. First Crop Production: Actuals V/S Budget   | 19          |
| 20. Performance Indicators: Targets V/S Second Crop 2015 to date                                | 20          |
| 21. CAPEX 2009-2014   | 20          |
| 22. Guysuco's Observations on its Business Plan 2015-2017                                       | 21          |
| 23. Guysuco's Focus for Remainder of 2015   | 22          |
| 24. CDB's Mechanisation Project Summary   | 26          |

## ***Introduction***

This Report is a First Draft of my written submission to the Guyana Sugar Corporation Commission of Inquiry (CoI) based on its Terms of Reference given in Annex A. It specifically addresses Item II sub-items 1, 2.E, 3 and 4. Sub-item 2.E refers to the operational area: Finance (cash flow, profitability, indebtedness, investment screening and evaluation etc.). Item 2 refers to: “Any Other Related Areas”, and Item 4 to the preparation of a Road Map for the Way Ahead, for 2016 to 2030, structured into five-year intervals, which state goals and their modalities of implementation.

## ***Section 1: Global Environment and Macroeconomic Agricultural Context***

### ***A. Global Environment***

The global sugar industry, as presently constructed, shows a complicated maze of producing, exporting and importing countries operating through an enormous range of import restrictions (quotas and tariffs); production and export subsidies (preferential loans and credit); subsidized inputs, price support; and, even dumping schemes. The Uruguay Round of Trade Negotiations, which was set in train in 1994 has stalled, but even before that stall, no substantial progress had been made in the liberalization of the gross market-distorting protectionism that prevailed everywhere in the global sugar industry.

Four countries, have more or less dominated global exports of sugar: Brazil (which indeed controls over one-half of global exports); Thailand; India; and, Mexico together control about two-thirds of global exports. All these countries heavily subsidize, or otherwise provide direct supports for sugar production and its export. In some instances the government itself, as with our Guysuco, is effectively producing bulk and other sugars for export. Thus recent estimates reveal that Brazil spends about US\$3billion on preferential debt programmes, input subsidies, usage mandates and bailouts for its ethanol mills associated with cane production.

Some analysts aptly describe the current international situation as an “arms race” in sugar-protectionism. As a consequence the International Sugar Organization (ISO) is presently forecasting a global surplus of nearly 4 million tons of sugar, up from its previous forecast of 2.2 million tons. As is well known also, this has significantly weakened prices in the “so-called free

world market for sugar”. This “free” market constitutes, what is essentially residual trade in sugars not covered in the highly protected carve-up of the global regulated output, consumption, and trade in sugar.

### ***B. Macroeconomic Environment***

Between 2011 and 2014, agriculture as a whole (including sugar and rice processing), contributed on average 18.7 percent of GDP at current basic prices. Sugar (including both cultivation and processing) contributed on average 3.5 percent to GDP. The current estimate is that sugar employs approximately 16,000 persons; significantly, 95 percent of these workers are male! The high level of employment signify the manually-dependent basis of Guysuco’s operations. The industry has approximately 300 service providers on which it depends for providing important inputs. It is also the third largest earner of foreign exchange. It provides significant value-added, social and environmental services, growth and linkages to rural communities, and indeed wider Guyana. Selected details are shown in Table 1 below.

| Category                                      | GDP* & Exports |       |       |       |
|---|----------------|-------|-------|-------|
|   | 2011           | 2012  | 2013  | 2014  |
| <b>Total Agriculture of, which</b>            | 85.8           | 95.6  | 101.6 | 104.9 |
| Sugar Cultivation                             | 15.5           | 19.4  | 7.4   | 12.2  |
| Sugar Processing                              | 4.2            | 5.2   | 4.7   | 3.3   |
| <b>Total Sugar Industry</b>                   | 19.7           | 24.6  | 12.1  | 15.5  |
| <b>Total GDP</b>                              | 460.1          | 522.3 | 537.4 | 554.0 |
| <b>Total Exports (FOB) US\$ mln, of which</b> | 1,129          | 1,415 | 1,375 | 1167  |
| <b>Sugar Exports (FOB) US\$ mln</b>           | 123            | 132   | 114   | 88    |

**Note\*=- At Current Basic Prices**  
**Source: Bank of Guyana Annual Reports.**

The industry cultivates about 50,000 hectares of the land being used for agriculture (estimated at 1.74 million hectares). Production takes place on eight estates and seven factories; four estates are located within the Berbice Region, each with independent factories and in Demerara four also but with three factories. The factories are designed to generate 100% of energy needs during the crop. Skeldon has capacity, which it supplies to the national grid. It is reportedly serving electricity to 90,000 Berbice residents. The production possibilities of these factories and the cultivated areas of the estates are highlighted in the two Tables listed below. These show,

respectively, Guysuco’s “estimated productivity by estate”, and the distribution of soil classes as a percent of the estates cultivated areas.

**Table 2: Estimated Productivity Potential By Estate**

| Estate | Potential Productivity tch, tc:ts, ts/ha |        |           |           |                 |       |       |          |
|--------|--|--------|-----------|-----------|-----------------|-------|-------|----------|
|        | Berbice Region                           |        |           |           | Demerara Region |       |       |          |
|        | Skeldon                                  | Albion | Rose Hall | Blairmont | Enmore          | LBI   | Wales | Uitvlugt |
| tch    | 80                                       | 78     | 77        | 80        | 77              | 78    | 79    | 73       |
| tc:ts  | 11.25                                    | 10.35  | 11.26     | 10.4      | 10.89           | 10.89 | 11.32 | 11.67    |
| ts/ha  | 7.1                                      | 7.5    | 6.8       | 7.7       | 7.1             | 7.2   | 7.0   | 6.3      |

**Table 3: Distribution of Soil Classes (% of Cultivated Area)**

| Soil Class  |   | Estates |        |           |           |        |      |       |          | Total |
|-------------|---|---------|--------|-----------|-----------|--------|------|-------|----------|-------|
|             |   | Skeldon | Albion | Rose Hall | Blairmont | Enmore | LBI  | Wales | Uitvlugt |       |
| Class A (%) | A | 49.7    | 21.7   | 11.1      | 52.5      | 37.1   | 30.0 | 7.4   | 0        | 26.1  |
|             |   | 39.7    | 63.0   | 74.5      | 8.0       | 14.8   | 54.3 | 80.7  | 47.0     | 48.5  |
| Class B (%) | B | 10.6    | 14.8   | 11.4      | 37.2      | 34.8   | 12.3 | 0     | 12.6     | 16.9  |
|             |   | 0       | 0      | 0         | 0         | 11.0   | 3.0  | 8.0   | 40.4     | 7.3   |
| Class C (%) | C | 0       | 1.0    | 3.0       | 2.0       | 2.0    | 0    | 4.0   | 0        | 1.2   |
| Class D (%) | D |         |        |           |           |        |      |       |          |       |
| Class E (%) |   |         |        |           |           |        |      |       |          |       |

About 8,000 hectares of the cultivated sugar cane areas are undertaken by private cane farmers, either individually or cooperatively. These supply cane mainly to: Skeldon, Albion, Rose Hall, Uitvlugt and Wales, under the National Cane Farmers Act.

From all reports, the major reported 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 (D&I) 3) factory unreliability, and, 4) the price which sugar can be expected to sell presently and well into the medium-term. A complex D&I system underlies the cultivation of cane. The surface water lying between inland conservancies and the sea walls has to be strictly regulated. About 60% of this D&I applies to non-sugar land (rice occupies two-thirds of this area). Generally, Guysuco’s D&I is the main protection against coastal flood risks.

As indicated in a separate submission to the CoI (see Clive Thomas, Selected Parameters of Sugar Production in Guyana: Daunting Supply and Demand Conditions 2015), the following daunting conditions presently confront Guysuco:

- ✚ Daunting financial environment. Guysuco is a low grade, poor quality, high risk, commercial borrower. There is also intense competition for Government of Guyana (GoG) financing, and indeed the GoG’s contingent liabilities are growing as the debts of state corporations’ increase.
- ✚ The geo-physical environment is also daunting. Guysuco operates on land facing significant below sea-level and below low-tide level “risks”, in the context of weather variability and climate change. These put enormous pressure on its hydraulic capabilities.
- ✚ There are daunting infrastructural deficits as well. The analysts’ consensus is that there has been a 30-year continuous infrastructure deterioration. The main affected areas are: sea defences; water conservancies; restriction of outlets to sea and river; breakdown of the supplementary canals-system due to village incursions, roads, scrubland, and other crops water usage.
- ✚ There are in addition daunting soil issues facing cane cultivation: 1) salinity and difficulty of root development and 2) the clay structure of soils, which are adversely affected by compacting during cultivation and harvesting. These are resolved by expensive: 1) fertilizer use 2) flood fallowing designed to leach out soil salinity and create tilth. This is a stringent regimen that requires fresh water application (9-12” every 6 months) plus a 4-year replanting cycle. (B. Newton, 2015)
- ✚ The industrial relations environment facing the corporation is equally daunting. Culture of workers ↔ management “conflict and disputes”. This has led to the preeminent role of “customs and practices” in wage-setting and bargaining. This is further exaggerated by a Trade Union structure that consists one dominant and two substantially smaller unions. This also produces conflict between the “supervisory and junior management” staff versus “general workers”.
- ✚ The industry has faced a daunting production decline as can be seen in Table 4.

*Table 4: Sugar Output 1960s and 3-Year Averages 2000-2014 ('000 tonnes)*

|              |            |
|--------------|------------|
| <b>1960s</b> | <b>301</b> |
| 2000-2002    | 296        |

|           |     |
|-----------|-----|
| 2003-2005 | 291 |
| 2006-2008 | 251 |
| 2009-2011 | 230 |
| 2012-2014 | 207 |

Source: Author's calculations.

- ✚ 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..
- ✚ Finally, there is a daunting situation created by the bifurcation in location of the industry as is seen below:

***Table 5: Industry Location***

| Estates  | % Sugar Output |      |
|----------|----------------|------|
|          | 1963           | 2013 |
| Berbice  | 39             | 68   |
| Demerara | 61             | 31   |

- ✚ 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!

It would be useful at this stage of my presentation to recall what the SWOT review presented in the 2013-2017 Strategic Plan had indicated as the key issues to be addressed within the framework of that Plan (sse Table 6 below).



**Table 6: Summary of Issues to be Addressed within the Framework of GuySuCo's 2013-2017 Strategic Plan**

| Issue   | Plans to Address  |
|---|---|
| Technical difficulties with the New Skeldon Factory   | The factory will be retrofitted in keeping with the recommendations of independent consultants. Retrofitting is on schedule to be completed by November 2014 at an estimated cost of \$2.5mn.   |
| Low sugar cane yield  | <p>This will be addressed by improvements in: plant material selection and preparation: land preparation: water, plant nutrition and weed management; and elimination of fifth ratoon.</p> <p><u>Improved land preparation weed control and plant nutrition</u><br/>Timely and proper land preparation is essential to ensuring proper plant anchorage, nutrient uptake and ease of harvesting. Meanwhile, weeds can reduce sugar cane yields by between 15% and 70%. Thus ensuring that the crop is weed free, particularly in the first ninety days after planting/harvesting is essential to obtaining optimum yields. Specialised machinery and equipment is being introduced to facilitate more timely and effective implementation of those measures.</p> <p><u>Elimination of fifth ratoon</u><br/>GuySuCo's production data have revealed that it is uneconomical to maintain canes beyond the fourth ratoon given declining yields and relatively high maintenance cost. As at the end of 2013 approximately 30% of GuySuCo's holdings were older than the fourth ratoon, a major contributor to the relatively low tonnage of sugar produced per ha. A decision has been taken by the Corporation that canes will be harvested after the fourth ratoon and the area replanted.</p> <p>Given the pervasive labour supply challenges being experienced throughout the industry key to improving performance in these areas is the use of specialised machinery and equipment.</p> |
| Factories operating below capacity resulting in high operational cost. Total grinding hours lost in the industry due to insufficient cane being supplied to factories, largely due to shortage of labour, increased from 1,729 hours in 2003 to 13,665 hours in 2011. | Increasing the pace of industry mechanization to enable semi and full mechanical harvesting on all estates. This will increase the rate of supplying canes to factories and thereby increase the efficiency of factory operations.  |
| Some factories not configured to process mechanically harvested cane.   | Financial constraints have limited investment in factories. GuySuCo however recognizes the need for factory upgrading to optimise sugar recoveries and energy efficiencies. Several factories   |

|  |  |
|--|--|
|  | will be upgraded over the period 2014-2016 largely through resources provided by GOGY. |
|--|--|

Cont'd

| <b>Issue</b>  | <b>Plans to Address</b>  |
|---|--|
| A dwindling supply of labour, high levels of absenteeism and the loss of skilled workers negatively impacting field and factory operations. | Introduction of an apprentice programme, on-going training and retaining of workers at all levels and the gradual introduction of mechanization to meet the gap in the supply of labour.   |
| Increases in the cost of non-labour inputs – fuel, fertilisers, machinery and equipment spares.   | All factories have the capacity to generate energy through the use of bagasse – the goal is to ensure 100% of factory energy needs during sugar cane processing is internally generated. GuySuCo will make the necessary investments in factories to achieve/sustain energy production goals. Management of pest and disease will be through the use of biological control measures. |
| Weather variability reducing the number of “opportunity days” – particularly for land preparation, planting and harvesting operations.      | Introduction of machines and equipment for land preparation, semi-mechanical planting, application of agro-chemicals and harvesting, etc. Mechanisation also requires a change in land preparation estimated at three times the cost per unit when compared to the traditional system. As at December 31, 2013, 13,471 ha were prepared for mechanical harvesting.                   |
| Market price variability and uncertainty particularly for bulk sugar.   | Increase in the capacity to produce value-added sugar and explorations of options to diversify the industry away from total reliance on the production of sugar. On-going initiatives include a pilot project on ethanol production.   |

### ***C. Conclusion***

In conclusion of this Section, it might be useful to report what Guyana’s Agricultural Sector Strategy 2013-2030 has revealed as its four main targets for sugar:

- 1) Increased output to 450,000 tonnes by 2020
- 2) An average TC/TS of between 10 and 12
- 3) A TS/H of 7
- 4) 60 percent of the crop will be mechanically harvested

Despite the emphasis on the economic and agricultural macroeconomic environment of sugar in this Section; the social-political environment should be recognized as carrying at least as much weight in planning a Way Forward. While it is literally true that Guysuco and the sugar industry

should be treated separately for the purposes of the CoI; the separation of these two cannot be put into watertight compartments. This is true, not only because the industry includes peasant operators, service providers offering inputs, as well as the communities Guysuco is delivering its services to, but because Guysuco, in truth and in fact, can only be reduced to a “state corporation”, when considering it from its legal structure and operations standpoint.

Rightfully or wrongly, sugar workers, their families, and the communities in which Guysuco operates sees 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. In such circumstances this means that what Guysuco “*gives and takes*” from the communities will have to be synchronized with what the community “*gives and expects to get back*” from Guysuco.

As we shall see in some detail in the next Section, Guysuco’s financial status is extraordinarily dire, which gives extreme urgency to the dilemma referenced here.

## Section 2: Guysuco's Financial Situation

### A. Financial Ratios Analysis

In the absence of audited accounts and Annual Reports for recent years there has been, to put it mildly, a major problem in determining the latest accurate financial statements of Guysuco that the CoI should use. In light of this conundrum, I have requested Guysuco to provide me with the calculation of 21 common financial ratios based on their most confident (and recent) financial statements for last year, 2014. These are presented in Table 7 below.

| <b>Financial Ratio</b>                  | <b>Formula</b>   | <b>Results</b> |
|---|--|----------------|
| 1. Quick Ratio                          | a) (Current Assets - Inventory - Product stock - Prepayments) / Current Liabilities<br>b) (Current Assets - Inventory – product – Stocks – Prepayments- Standing Cane) / Current Liabilities | 0.32<br>0.16   |
| 2. Current Ratio                        | Current Assets / Current Liabilities   | 0.48           |
| 3. Total Debt / Equity Ratio            | Total Liabilities / Equity   | 6.79           |
| 4. Long Term Debt / Equity Ratio        | Long Term Debt / Equity  | 4.84           |
| 5. Short Term Debt/ Equity Ratio        | Short Term Debt / Equity   | 1.95           |
| 6. Receivables Turnover                 | Net Sales / Receivables  | 10.20          |
| 7. Inventory Turnover                   | Sales/ Product Stock<br>Cost of Good Sold / Product Stock  | 17.75<br>32.22 |
| 8. LT Debt as % of Invested Capital     | Long Term Debt / Invested capital  | 773%           |
| 9. ST Debt as % of Invested Capital     | Short Term Debt / Invested Capital   | 311%           |
| 10. LT Debt as % of Total Debt          | Long Term Debt / Total Liabilities   | 71%            |
| 11. ST Debt as % of Total Debt          | Short term Debt / Total Liabilities  | 29%            |
| 12. Total Liabilities % of Total Assets | Total Liabilities % Total Assets   | 87%            |
| 13. Working Capital % of Sales          | (Current Assets - Current Liabilities ) / Sales  | -75%           |
| 14. Gross Profit / Loss Margin          | Gross profits or loss / Sales  | -82%           |
| 15. Net Profit/ Loss Margin             | Net profit or lost / Sales   | -90%           |
| 16. Operating Profit / Loss Margin      | Operating profit or loss / Sales   | -88%           |
| 17. Interest Cover Ratio                | Earnings before interest and tax / interest  | 40.18          |
| 18. Net Working Capital Turnover        | Sales / Working Capital = Current Assets - Current Liabilities   | (1.34)         |
| 19. Total Asset Turnovers               | Sales / Total Assets   | 0.17           |
| 20. Net Working Capital                 | Current Assets - Current Liabilities   | (17,340)       |
| 21. Cash Flow Margin                    | Cash Generated from Operating Activities / Sales   | (0.28)         |

All Guysuco's financial ratios are extremely discouraging. They show a corporation that is insolvent, and illiquid, making huge losses, and surviving only because of government bailouts. Guysuco is highly leveraged. Its short-term debt is nearly twice its equity and its long-term debt nearly five times its equity, also, for a ratio of 4.84. The total debt/equity ratio is 6.79. Both its

current and quick ratios are well below unity revealing that it is incapable of meeting its short-term obligations. Its profitability ratios including its operating profit are in the negative (losses) with gross and net profit margins of *minus* 82 percent and *minus* 90 percent respectively. Its capital structure ratios show a heavy dependence on debt in its operations, with its working capital ratio revealing the deep distress the company finds itself in. Its activity ratios (receivables and inventories) tell a similar tale.

As we shall see the corporation faces a severe price-cost squeeze, which is at the heart of its financial collapse. For several years, it has been costing more, both in total and unit terms, even as it produces less sugar. And, more worryingly; with a reported ratio of fixed to variable cost of 70:30, its variable unit cost on several producing estates exceeds the unit sales price it receives. Therefore, not only do losses increase with their increased sugar output, but since the produced sugar is exported mainly to the European Union (EU) Guyana is in effect subsidizing the price much more wealthy EU consumers are paying for our exported sugar!

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.

## ***B. Cash Flow***

Guysuco's dire projected cash flow situation as of August this year is shown in Table 6 below.

| <b>Item</b>            | <b>G\$ Million</b> |
|------------------------|--------------------|
| Total Expenditure      | 24,590             |
| Total Revenue          | 14,322             |
| (Funds Needed)         | 10,268             |
| Source: Guysuco, 2015. |                    |

The projected estimated shortfall for the remainder of 2015 is G\$ billion 10,268. It is important to note, as Guysuco usually does in its reporting on its financial position, the cash flow estimates ***do not include the items listed in Table 9*** and also takes the "other considerations" mentioned in that Table into account.

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**Table 9: Items to Note in the Cash Flow Estimates in Table 8**

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**Not Included**

- i. Capital Expenditure
- ii. Cash rolled over / required for the out of crop (January –February 2016)
- iii. Income from any other source other than from its own operations
- iv. Payment to NIS, GRA or GAWU for remittances owing currently. The cash flow only caters for remittances going forward from June onwards. The amounts owing as of April 2015 are as follows:

|                   |           |
|-------------------|-----------|
| NIS               | G\$1,564M |
| PAYE              | G\$4,351M |
| GAWU Union Dues   | G\$120M   |
| GAWU Credit Union | G\$154M   |
- v. Any reduction to the creditors’ level. The cash flow assumes a carryover of the same level of creditors to 2016.

**Other Considerations**

- i. No repayment of US\$19m loan owed to National Commercial Bank group. It is anticipated that the loan will be rolled over.
  - ii. No further receipt from Skeldon Energy Inc. is included for the sale of the co-generation plant. The amount outstanding is G\$1,895M.
- 

The cash flow is based on a total targeted production of 227000 tonnes of sugar for this year. This projection will be reviewed in Section 3 below.

**C. Guysuco’s Indebtedness**

Similarly, recent data cast a sharper image on Guysuco’s indebtedness. Guysuco’s short-term and long-term liabilities are itemized in Tables 10 and 11 below. The total indebtedness of the corporation as of last month (August) was G\$82.4 billion of which just over three-quarters is long-term debt and loans and the remainder (just under one-quarter) is short-term debt.

| <b>Table 10: Guysuco's Short Term Liabilities</b>  |                        |
|--|------------------------|
| <b>The corporation's creditors and other short term liabilities as of August 17, 2015:</b> |                        |
| <b>Trade Creditors</b>   | <b>Total / G\$ bln</b> |
| Local Suppliers  | 1.79                   |
| Contractors  | 0.20                   |
| Utilities, NDCs, etc.  | 0.21                   |
| Foreign Suppliers  | 1.55                   |
| GRA - PAYE   | 4.47                   |
| NIS  | 1.75                   |
| Hand in Hand Trust - Pension Contributions   | 0.82                   |
| Union Dues   | 0.28                   |
| SILWF - loan payments  | 0.05                   |
| Guyana Lands and Surveys Commission & MMA - Lands Leases                                   | 0.40                   |
| SILWF – sugar levy   | 1.63                   |
|  | <b>13.15</b>           |
| <b>Short Term Loans &amp; Overdraft Facilities</b>   |                        |
| Guyana National Co-operative Bank  | 0.26                   |
| National Commercial Bank Group   | 4.12                   |
| Local Consortium- DBL, BNS, HIH,BOB,CBGI   | 0.80                   |
| Overdraft Facilities- RBL, GBTI  | 1.40                   |
|  | <b>6.58</b>            |

| <b>Table 11: Guysuco's Long Term Liabilities</b>                          |                      |
|---|----------------------|
| <b>The Corporation's long term debts are as follow:</b>                   |                      |
| <b>Long Term Loans &amp; Debts</b>  | <b>Total/G\$ bln</b> |
| CH&MS Scheme  | 0.54                 |
| Employees Retirement Benefits- 2014 adjustment to be included after audit | 29.26                |
| Exim Bank - SSMP  | 8.26                 |
| CDB - D&I   | 0.83                 |
| GOG - SSMP  | 15.49                |
| CDB - SSMP  | 5.85                 |
| GOG Debenture   | 0.14                 |
| GRA Property and Corporation Tax  | 2.62                 |
|   | <b>62.70</b>         |

#### ***D. Guysuco's Profitability (Losses) 1990s to date***

The data shown in Table 12 below dramatize the fall in the corporation's profitability after the 1990s, beginning in the 2000s. During the 1990s the corporation earned a profit, averaging G\$3.9 billion, but this went into reverse, and the amount of losses nearly doubled in the 2000s. Not surprisingly, the profit situation has continued to worsen dramatically over the past three years (see Table 13).

***Table 12: Guysuco's Profit (Loss) After Tax \$G billion***

| <b>Period</b>          | <b>Profit (loss) \$G billion</b> |
|------------------------|----------------------------------|
| <b>1990s, of which</b> | <b>3.9</b>                       |
| 1990 - 94              | 1.6Type equation here.           |
| 1995 - 99              | 2.3                              |
| <b>2000s, of which</b> | <b>(-7.6)</b>                    |
| 2000 - 04              | -2.8                             |
| 2005 - 09              | -4.9                             |

Table 13 shows the corporation's net losses (before tax, subsidies and standing cane adjustment).

***Table 13: Guysuco's Losses (2012-2014) \$G billion***

| <b>Year</b> | <b>Losses</b> |
|-------------|---------------|
| 2012        | -7.1          |
| 2013        | -11.7         |
| 2014        | -17.4         |

#### ***E. Unit Cost of Production***

The data on production of sugar by estates for 2014 are shown in descending order in Table 14. Production last year ranged from a low of 13,916 tonnes in Uitvlugt to more than three and a half times that amount (51,295) tonnes in Albion. The Table also shows the estates ranked by cost per unit of sugar output, including depreciation and adjustment, with one (1) representing the lowest cost. The lowest cost estate is Albion (33.85US cents/lb) and the highest is Skeldon (60.58 US cents/lb). The average cost for the entire industry is 45.65 US cents/lb.



***Table 14: Sugar Production by Estate 2014***

| <b>Estate</b>   | <b>Tonnes</b>  | <b>Rank in Terms of Unit Cost (lowest to highest)</b> |
|-----------------|----------------|---|
| Albion          | 51,295         | 1   |
| Skeldon         | 35,890         | 7   |
| Blairmont       | 33,499         | 2   |
| Rose Hall       | 31,931         | 3   |
| East Demerara   | 30,932         | 5   |
| Wales           | 18,898         | 4   |
| Uitvlugt        | 13,916         | 6   |
| <b>Industry</b> | <b>216,360</b> | <b>45.65 US cents/lb</b>                              |

Table 15 below shows that depreciation and adjustment costs account for nearly 30 percent of the unit cost of producing sugar, on average. The lowest cost producer for this metric still remains Albion, but even here the unit cost of production is well in excess of the unit price received for EU sales of sugar.

Finally, Table 16 shows the percentage increases in cost, of producing a tonne of sugar at Guysuco when averaged for each three-year period since 1997.

**Table 15: Breakdown of Estates Unit Cost of Production 2014**

|  | Skeldon | Albion | Rose Hall | Blairmont | East<br>Demerara | Wales  | Uitvlugt | Industry |
|--|---------|--------|-----------|-----------|------------------|--------|----------|----------|
| <b>Production/tonnes</b>   | 35,890  | 51,295 | 31,931    | 33,499    | 30,932           | 18,898 | 13,916   | 216,360  |
|  | -       | -      | -         | -         | -                | -      | -        | -        |
| <b>G\$M</b>  |         |        |           |           |                  |        |          |          |
| Agriculture  | 4,443   | 4,439  | 3,385     | 2,921     | 3,905            | 2,493  | 1,963    | 23,549   |
| Factory  | 3,354   | 987    | 1,041     | 803       | 1,410            | 811    | 723      | 9,128    |
| Administration   | 381     | 556    | 401       | 420       | 690              | 308    | 352      | 3,110    |
| Less Deprecation   | 2,705   | 271    | 165       | 230       | 554              | 166    | 171      | 4,183    |
| Packaging Plant Cost   | -       | -      | -         | -         | 242              | -      | -        | 242      |
| <b>ADJUSTMENT</b>  |         |        |           |           |                  |        |          |          |
| Stock Movement-movement between opening and closing stock                  | 181     | 258    | 162       | 169       | 156              | 95     | 70       | 1,093    |
| Standing Cane-movements between canes in field at beginning to ending of 1 | 1,145   | 1,117  | 831       | 738       | 828              | 489    | 357      | 5,503    |
| IAS Provision - appointed by tonnes sugar                                  | 249     | 354    | 223       | 232       | 214              | 131    | 96       | 1,500    |
| Head Office Cost- appointed by tonnes sugar                                | 481     | 687    | 428       | 449       | 414              | 253    | 186      | 2,897    |
| Less Deprecation   | 26      | 37     | 23        | 24        | 22               | 14     | 10       | 157      |
| <b>Usc/lb</b>  |         |        |           |           |                  |        |          |          |
| Cost per unit EXCLUDING depreciation, and EXCLUDING adjustment             | 33.59   | 24.53  | 32.17     | 25.74     | 40.54            | 40.17  | 45.38    | 32.42    |
| Cost per unit INCLUDING depreciation, and EXCLUDING adjustment             | 50.19   | 25.69  | 33.30     | 27.25     | 44.49            | 42.10  | 48.08    | 36.68    |
| Cost per unit EXCLUDING depreciation, and INCLUDING adjustment             | 43.82   | 32.53  | 41.10     | 33.80     | 49.64            | 49.07  | 54.23    | 41.23    |
| Cost per unit INCLUDING depreciation, and INCLUDING adjustment             | 60.58   | 33.85  | 42.40     | 35.47     | 53.74            | 51.16  | 57.10    | 45.65    |

Source: Guysuco's submission to the COI, 2015.

**Table 16: Unit Cost Increases (by 3-year period 1997-2014)**

| Period    | Increase in Cost Per Tonne Sugar<br>(3-year averages) |
|-----------|---|
| 1997-1999 | 0.3   |
| 2000-2002 | 6.0   |
| 2003-2005 | 16.7  |
| 2006-2008 | 12.0  |
| 2009-2011 | 2.0   |
| 2012-2014 | 4.0   |

## F. Domestic Resource Cost

It would be useful at this juncture to report on the “with” “without” scenarios or “economic analysis” of Guysuco’s costs, which have been provided by the Caribbean Development Bank (CDB) late in 2014. This was completed in support of a mechanisation project it was evaluating late in 2014 (CDB, September 2014). The analysis was conducted on the basis of the Performance Indicators presented in Table 17 below.

**Table 17: Selected Actual and Projected Performance Indicators Used by the CDB in 2014**

| Production/Cost                          | Year  |       |       |       |       |       |           |
|--|-------|-------|-------|-------|-------|-------|-----------|
|  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019-2023 |
| 1. Production (‘000 tn)                  | 186.8 | 219.0 | 245.7 | 300.4 | 349.8 | 350.0 | 350.0     |
| 2. Production Cost (USc/lbs)             | 0.44  | 0.41  | 0.37  | 0.32  | 0.29  | 0.30  | 0.30      |
| 3. Agriculture Cost/Production (USC/lbs) | 0.26  | 0.18  | 0.18  | 0.18  | 0.16  | 0.17  | 0.17      |
| 4. Factory Cost/Production (USC/lbs)     | 0.07  | 0.06  | 0.05  | 0.04  | 0.04  | 0.04  | 0.04      |
| 5. Land and factory Productivity (tsh)   | 4.50  | 4.43  | 4.82  | 5.67  | 6.46  | 6.46  | 6.46      |

Source: CDB, 2014.

It is important for the CoI to observe the strong production and productivity performances represented in the Table, along with the significantly lower agriculture and factory costs, which the CDB used for its projections over the period 2015-2018, and which are further projected to carry-over as the average for the years 2019-2023. As shown above, already for 2014 actual and 2015 to date, the key projections made in the Table have been substantially off-target.

However, the aspect of this analysis, which remains of crucial importance to the CoI is the estimation of the Domestic Resource Cost (DRC) and the related notion of Domestic Resource Cost Ratio (DRCR) for Guysuco’s sugar exports. The DRC measures the economic efficiency of

Guysuco (as a state-owned corporation) in earning foreign exchange from producing and exporting sugar. This is shown in the relation

$$DRC_s = \frac{C_s^d}{P_s - C_s^f}$$

where  $DRC_s$  is the domestic resource cost of sugar;  $C_s^d$  represents the domestic cost of producing sugar, and  $P_s$  represents the average unit price of sugar, and  $C_s^f$  represents the foreign input costs for producing sugar (fertilizers, chemicals, equipment etc). This relation clearly shows the amount of domestic resources that are required to earn a unit of foreign exchange. The CDB has set this requirement at “a hurdle rate of 12 percent”, which is the opportunity cost of capital in Guyana.

The CDB found this measure to be G\$92 to US\$1. At the time (third quarter-2014) the Official Exchange Rate was G\$206 to US\$1 and the Shadow Exchange Rate which it used was G\$210 to US\$ 1. The DRCR was therefore 0.44. When this ratio is less than unity it suggests Guyana has a comparative advantage in exporting sugar, if it is unity it means Guyana’s sugar is neutral, and, when it is above unity it means Guyana’s sugar has a comparative disadvantage.

The CDB had also found that, the incremental results of their project evaluation suggested the marginal cost of producing sugar at Guysuco was below the average cost. This further suggests that there is room for further expansion of sugar output. Indeed, based on the Performance Indicators cited in Table 17 above, the Project is justified with an Economic Rate of Return (ERR), of 19 percent. Further, CDB’s sensitivity tests reveal that the DRCR approaches the value of 1.0, only when the discount rate falls below 3 percent!

### ***Section 3: Guysuco’s Performance to date in 2015: What does it tells us?***

#### ***A. First Crop 2015***

What does Guysuco’s 2015 performance reveal about its current prospects? As the corporation notes, it has produced 81,143 tonnes of sugar, or 94 percent of its budgeted target of 86,201 tonnes for the First Crop. Weather and the late start of the Skeldon crop have been indicated by the corporation as the main reasons for the production shortfall. It has further indicated that the crop was extended on estates for as long as three weeks (except Enmore). However, this extension has added significantly to its costs of production, which as well is adversely affecting its maintenance programme.

Table 18 below provides the key factory performance indicators by estate for the First Crop. The weak performances on all estates are clearly indicated there. However, in preparation for the Second Crop, 2015 Guysuco has reported that: “All Factories completed [their] maintenance programmes on schedule [although] poor weather conditions delayed the start-up of grinding operations for the 2<sup>nd</sup> crop”.

***Table 18: Key Factory Performance Indicators (First Crop 2015)***

| <b>ESTATE</b>    | <b>Tonnes Sugar</b> | <b>Factory Time Efficiency</b> | <b>Overall Recovery</b> | <b>No. of Grinding Wks.</b> | <b>AGT per Week</b> | <b>Tonnes Cane per Hour</b> | <b>Pol % Sugar</b> | <b>TC/TS</b> | <b>BGI - 0 - 48 Hrs.</b> | <b>Pol % Cane</b> |
|------------------|---------------------|--------------------------------|-------------------------|-----------------------------|---------------------|-----------------------------|--------------------|--------------|--------------------------|-------------------|
| <b>SKELDON</b>   | 8,220               | 73.76                          | 67.70                   | 9.11                        | 86.80               | 180.89                      | 97.75              | 17.40        | 52.64                    | 8.30              |
| <b>ALBION</b>    | 21,578              | 97.52                          | 81.90                   | 12.06                       | 112.99              | 167.61                      | 97.86              | 10.58        | 47.91                    | 11.29             |
| <b>ROSE HALL</b> | 9,415               | 92.89                          | 75.67                   | 10.51                       | 112.52              | 108.12                      | 97.73              | 13.58        | 58.59                    | 9.50              |
| <b>BLAIRMONT</b> | 13,681              | 97.16                          | 78.78                   | 12.25                       | 128.20              | 102.08                      | 97.68              | 11.71        | 68.46                    | 10.58             |
| <b>EMNORE</b>    | 10,515              | 83.82                          | 78.56                   | 12.60                       | 97.71               | 104.65                      | 97.94              | 12.27        | 44.89                    | 10.12             |
| <b>WALES</b>     | 9,154               | 93.46                          | 79.77                   | 11.66                       | 100.09              | 98.82                       | 97.74              | 12.60        | 84.94                    | 9.73              |
| <b>UITVLUGT</b>  | 8,581               | 86.98                          | 78.46                   | 12.90                       | 84.65               | 104.01                      | 98.03              | 13.23        | 34.35                    | 9.44              |
| <b>INDUSTRY</b>  | <b>81,143</b>       | <b>89.98</b>                   | <b>78.00</b>            | <b>81.08</b>                | <b>103.55</b>       | <b>121.19</b>               | <b>97.82</b>       | <b>12.54</b> | <b>55.68</b>             | <b>10.00</b>      |

Source: Guysuco submission to the CoI.

Table 19 below provides key performance indicators for cane and sugar production by estate during the First Crop. The actual outcomes, as well as the budgeted targets, are also presented in that Table. The variance between actuals and budgeted amounts is noted in the Table. As can be seen from that Table there were overall shortfalls in 1) hectares harvested, 2) cane production and, 3) sugar output. However, tonnes cane per hectare (TC/H); tonnes cane per tonne sugar (TC/TS); and therefore, tonnes sugar per hectare (TS/H) have all showed slight improvement on

the budgeted targets. It would be observed from closer examination that the data seem to indicate it was reduced hectares being harvested, which is the main consideration behind the observed shortfall.

**Table 19: First Crop Production: Actuals V/S Budget**

| ESTATE       | BUD 2015 1ST CROP 2015 |                |              |              |             |            | ACTUAL 1ST CROP 2015 |                |              |              |             |            | VARIANCE 1ST CROP 2015 ACT v/s BUD |               |              |             |            |            |
|--------------|------------------------|----------------|--------------|--------------|-------------|------------|----------------------|----------------|--------------|--------------|-------------|------------|------------------------------------|---------------|--------------|-------------|------------|------------|
|              | HA                     | CANE           | SUGAR        | TCTS         | TCH         | TSH        | HA                   | CANE           | SUGAR        | TCTS         | TCH         | TSH        | HA                                 | CANE          | SUGAR        | TCTS        | TCH        | TSH        |
| SWR          | 4175.5                 | 233685         | 17214        | 13.58        | 56.0        | 4.1        | 2531.1               | 143039         | 8220         | 17.40        | 56.5        | 3.2        | -1644.4                            | -90646        | -8994        | 3.83        | 0.5        | -0.9       |
| AN           | 3388.9                 | 213475         | 19548        | 10.92        | 63.0        | 5.8        | 3411.3               | 228381         | 21578        | 10.58        | 66.9        | 6.3        | 22.4                               | 14907         | 2030         | -0.34       | 4.0        | 0.6        |
| RH           | 2172.3                 | 121129         | 9366         | 12.93        | 55.8        | 4.3        | 2252.7               | 127894         | 9415         | 13.58        | 56.8        | 4.2        | 80.4                               | 6765          | 49           | 0.65        | 1.0        | -0.1       |
| BCF          | 1867.5                 | 121812         | 10845        | 11.23        | 65.2        | 5.8        | 2164.3               | 160249         | 13681        | 11.71        | 74.0        | 6.3        | 296.8                              | 38437         | 2836         | 0.48        | 8.8        | 0.5        |
| EHP          | 2197.4                 | 111126         | 9068         | 12.25        | 50.6        | 4.1        | 1637.3               | 89626          | 7285         | 12.30        | 54.7        | 4.4        | -560.1                             | -21501        | -1783        | 0.05        | 4.2        | 0.3        |
| LBI          | 1381.6                 | 64493          | 5020         | 12.85        | 46.7        | 3.6        | 996.6                | 39442          | 3230         | 12.21        | 39.6        | 3.2        | -385                               | -25051        | -1790        | -0.63       | -7.1       | -0.4       |
| GV           | 1868.4                 | 87418          | 6892         | 12.68        | 46.8        | 3.7        | 2343.6               | 115318         | 9154         | 12.60        | 49.2        | 3.9        | 475.2                              | 27900         | 2262         | -0.09       | 2.4        | 0.2        |
| ICBU         | 2362.9                 | 103501         | 8248         | 12.55        | 43.8        | 3.5        | 2375.6               | 113564         | 8581         | 13.23        | 47.8        | 3.6        | 12.7                               | 10063         | 333          | 0.69        | 4.0        | 0.1        |
| <b>TOTAL</b> | <b>19415</b>           | <b>1056639</b> | <b>86201</b> | <b>12.26</b> | <b>54.4</b> | <b>4.4</b> | <b>17712.5</b>       | <b>1017512</b> | <b>81143</b> | <b>12.54</b> | <b>57.4</b> | <b>4.6</b> | <b>-1702</b>                       | <b>-39126</b> | <b>-5058</b> | <b>0.28</b> | <b>3.0</b> | <b>0.1</b> |

Source: Guysuco submission to CoI.

## ***B. Second Crop 2015***

Harvesting and milling for the second crop in 2015 is only just underway. The targets set for sugar production by estate, along with the related performance indicators are also shown in Table 20 below. Guysuco’s targeted output for the Second Crop 2015 is 146,301 tonnes of sugar. To attain this target requires improvements on the first crop performance. In particular it is expected that improvements at the Skeldon factory would take the estate close to the target of an average of 200-250 tonnes cane through-put per hour. This outcome is anticipated and the main remaining concern is about the supply of improved quality canes to the factory. The major worry which Guysuco presently has about achieving this outcome is that, its major suppliers are presently “withholding several critical spares, awaiting payment before release”.

**Table 20: Performance Indicators: Targets V/S Second Crop 2015 to date**

| ESTATE          | Tonnes Sugar   | Factory Time Efficiency | Overall Recovery | No. of Grinding Wks. | AGT per Week  | Tonnes Cane per Hour | Pol % Sugar  | TC/TS        | BGI - 0 - 48 Hrs. | Pol % Cane  |
|-----------------|----------------|-------------------------|------------------|----------------------|---------------|----------------------|--------------|--------------|-------------------|-------------|
| SKELDON         | 30,594         | 93.00                   | 77.18            | 17.06                | 130.00        | 200.00               | 97.75        | 14.50        | 80.00             | 8.73        |
| ALBION          | 33,377         | 93.00                   | 80.91            | 16.89                | 130.00        | 168.00               | 97.75        | 11.05        | 80.00             | 10.93       |
| ROSE HALL       | 22,538         | 93.00                   | 78.80            | 19.39                | 130.00        | 110.00               | 98.00        | 12.30        | 80.00             | 10.11       |
| BLAIRMONT       | 21,471         | 93.00                   | 79.02            | 18.30                | 130.00        | 102.00               | 98.50        | 11.30        | 80.00             | 11.03       |
| EMNORE          | 19,137         | 93.00                   | 79.91            | 17.44                | 130.00        | 105.00               | 98.50        | 12.44        | 80.00             | 9.91        |
| WALES           | 12,069         | 93.00                   | 80.18            | 11.42                | 130.00        | 100.00               | 97.75        | 12.30        | 80.00             | 9.91        |
| UITVLUGT        | 7,114          | 93.00                   | 80.10            | 8.74                 | 100.00        | 105.00               | 98.00        | 12.90        | 80.00             | 9.48        |
| <b>INDUSTRY</b> | <b>146,301</b> | <b>93.00</b>            | <b>79.20</b>     | <b>109.23</b>        | <b>127.60</b> | <b>141.06</b>        | <b>98.01</b> | <b>12.38</b> | <b>80.00</b>      | <b>9.99</b> |

Source: Guysuco submission to CoI.

### ***C. Business Plans and Capital Expenditure (Capex)***

As Table 21 reveals, up to the end of 2014, the industry’s capital expenditure shortfall has been considerable. Indeed, Guysuco’s Business Plan had projected capital expenditure at G\$34,860 million, but only G\$10,534 million, or about 30 percent of the total had been expended. This confirms that during 2015, given its financial position as revealed in Section 2, the corporation remains heavily under-capitalised. Further, as the corporation has correctly noted there are 1) no observed correlation between its production expectations and the state of its assets 2) as a practical logistical matter, canes in the ground on the estates cannot be guaranteed delivery to the factory in good shape and, 3) the corporation does not have the financial capacity to undertake adequately its major capital expenditures (Capex).

**Table 21: CAPEX 2009-2014**

| Year | Actual (G\$M) | Business Plan |
|------|---------------|---------------|
| 2009 | 1,728         | 6,710         |
| 2010 | 2,209         | 5,992         |
| 2011 | 2,031         | 7,932         |
| 2012 | 1,927         | 4,919         |
| 2013 | 1,283         | 4,595         |
| 2014 | 1,356         | 4,712         |

|       |        |     |        |
|-------|--------|-----|--------|
| Total | 10,534 | 30% | 34,860 |
|-------|--------|-----|--------|

Perhaps, not surprisingly, the corporation’s recent Business Plans have all turned out to be laden with very unrealistic capital expenditure projections. Indeed, these were accompanied with 1) unrealistic price forecasts for its sales 2) dubious expectations about cost reductions and, 3) unsupported projections of increases in its technical performance indicators. As Guysuco has recently noted, this has been the case for even the corporation’s most recent Business Plan (2015-2017), which was prepared just before the present new management came on board after the recent national elections (see Table 22).

As a result the CDB projected Performance Indicators for 2015 shown above in Table 17 projects output at 245,000 tonnes for 2015 and a cost of production of 41 US cents per lb, and already the new management has adjusted this downwards to 227,000 tonnes with costs in 2014 reaching about 47US cents per lb.

**Table 22: Guysuco’s Observations on its Business Plan 2015-2017**

- Sugar price applied overly optimistic: WMP mid-point USc20.15-25.68/lb.
- 2016 production assumption of 280,000 ts unrealistic given the required level of capital investment and lack of financial capacity to implement.
- Funding gap (G\$36,207M) source not identified. This would be higher with more realistic sugar prices.
- No rationalisation of cost structure.
- Capital expenditure assumption (G\$M): Not Fulfilled!
  1. 2015: 7,071
  2. 2016: 6,535
  3. 2017: 5,532

Total: \$19,138M

- **The future is not addressed!** For example, 1) debt unsustainability and need for urgent reduction / restructuring and 2) unsustainable cost structure, which needs re-engineering

Source: Guysuco, 2015.



## ***D. 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. There has been an unmistakably substantial depletion of the technical/managerial/and other human resource capability of the Corporation. Added to this, the Corporation has not sought to pursue "functional autonomy" as a commercial market-driven entity, but instead has pursued a "politics-dependent" path.

Overall, this capacity decline, which is noted here is especially marked in the corporation's ability to make forecasts, engage in realistic target setting, and subsequently achieve its predicted performance outcomes.

It is heartening to me, therefore that the present (new) management of Guysuco has set itself quite modest objectives, as shown in Table 23 below.

**Table 23: Guysuco's Focus for Remainder of 2015**

- ✚ Take off 2<sup>nd</sup> crop as efficiently and as cost effectively as possible.
- ✚ Achieve the replanting programme.
- ✚ Restore discipline in the organisation:
  - Management practices
  - On the floor/custom & practices
- ✚ Daily monitoring of key performance indicators/accountability
  - Work constructively with the Unions.
- ✚ Skeldon-specific:
  - Continue factory throughput upgrade to 200-250 TCH
  - Improve Mechanical Field Layout

## ***Section 4: Recommendations on the Way Ahead***

### **A. Timelines of Implementation**

Based on both the financial and economic analyses presented in Section 2, 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 beyond the period given in the timeline for the CoI: 2016-30. To repeat such “bailouts” and expect different vastly improved results from Guysuco would be irrational.

In light of this the CoI had deemed that, a continued state-run Guysuco would be strategically unacceptable as an efficient 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 I would recommend that the following be pursued along the timelines given:

#### ***Timeline 2016***

1. Early in 2016, (around the Budget Time!) the Government should, after careful consideration of the pros and cons, 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 therefore 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 2<sup>nd</sup> 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).

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***Table 24. CDB Mechanization Project Summary***

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**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:
    - (aa) the preparation of sugar cane fields into mechanically-friendly configurations:
    - (bb) semi-mechanical planting, mechanical weed control and fertilising of sugar cane: and
    - (cc) 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.

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Source: CDB 2014

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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         |
|--------------------------------------|--------------|---------------|--------------|
| <b>CASH - CLOSING BALANCE / G\$M</b> | <b>5,892</b> | <b>12,235</b> | <b>5,000</b> |

- 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                | Result       |                   | Net Book Value<br>G\$M |
|-------------------|----------------------------------|--------------|-------------------|------------------------|
|                   |                                  | Total Assets | Total Liabilities |                        |
| 1) Net Book Value | Total Assets - Total Liabilities | 143,163      | 126,642           | <b>16,521</b>          |

- 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  |            |                            |                   |   |
| <b>Assets as per Balance Sheet:</b>                |   |            |                            |                   |   |
|  | 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                      |                   |   |
|                |   | <u>143,163</u> | <u>134,142</u>             |                   |   |
|                | Minus total liabilities   |                |                            | 126,642           | <u>7,500</u>                                    |

### 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:

| <b>Valuation Type</b>                | <b>Remarks</b>  |
|--------------------------------------|---|
| 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.

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

| <u>Year</u> | <u>Co-Generation</u> | <u>Land Sales</u><br><u>G\$M</u> | <u>Packaging</u><br><u>Plant</u> | <u>Total</u> |
|-------------|----------------------|----------------------------------|----------------------------------|--------------|
| 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

| <u>Year</u> | <u>Co-Generation</u> | <u>Land Sales</u><br><u>G\$M</u> | <u>Packaging</u><br><u>Plant</u> | <u>Sugar</u> | <u>Total</u> |
|-------------|----------------------|----------------------------------|----------------------------------|--------------|--------------|
| 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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