# PREDICTING POLICY IMPACT BY LOOKING AT THE PAST: A HISTORY OF TRADE PROTECTION IN PNG

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# BACKGROUND OF PNG TARIFFS

- In August 2017, PNG suspended the legislated tariff reduction program it agreed to pursue, after negotiations with the World Bank and the IMF, in 1994.

- This tariff reduction program saw a five (5) percent decrease in tariff rates at 3 year intervals.

- PNG's tariff categories: intermediate, protective, and prohibitive tariffs.

# TARIFF RATES SINCE THE 1990S

| | pre-1999 | 1999-00 | 2001-2 | 2003-5 | 2006 | 2011 | 2012 | 2015 | 2018 |
|---|---|---|---|---|---|---|---|---|---|
| **Intermediate** | 30 | 30 | 25 | 20 | 15 | 15 | 12.5 | 10 | 10 |
| **Protective** | 49 | 40 | 35 | 30 | 25 | 25 | 20 | 15 | 10 |
| **Prohibitive** | 55-100 | 55 | 50 | 45 | 40 | 40 | 35 | 30 | 25 |

# HISTORY OF PNG TRADE PROTECTION POLICIES

- Protectionist policies in the pre-1990s period include: import bans and maximum bound tariff rates of up to 125 percent.
- Unweighted average of tariff categories: 42% in 1999, and 18% in 2015.
- Goods that were exempted from these tariff reduction program were: wood products, sugar, and fish products.
- The tariff reduction program was suspended in 2007, following complaints from the Manufacturing Council.

# 2018 TARIFFS

- Reason for new tariffs given in 2018 Tariffs and Customs Act: 'provide relief to local industries and manufacturers.'
- PNG government introduces new tariff increases in 2018, in the same year that it hosts the APEC Leader's Summit.
- 250 tariff line increases, while 600 reductions were abandoned.
- 25 percent tariff increase (from being zero-rated) on fresh milk, to protect Ilimo Dairy Farm which was established in 2017.

# SELECTED TARIFF INCREASES

| | | Old | New |
|---|---|---|---|
| Clothes | Stockings, socks | 15% | 20% |
| | Cotton or woolen clothes | 15% | 20% |
| Household and consumer items | Toilet paper | 15% | 20% |
| | Tablecloths | 10% | 20% |
| | Baths, sinks, washbasins | 10% | 25% |
| | Detergents | 10%-15% | 20%-25% |
| | Glue | 10% | 20% |
| | Soap | 15% | 20% |
| | Shampoo | 10% | 20% |
| | Nail polish | 10% | 20% |
| Food | Ice cream | 15% | 20% |
| | Milk | 0% | 25% |
| | Cocoa products | 10% | 15% |
| | Meat | 10%-15% | 12.5%-20% |

# FURTHER SELECTED 2019 TARIFF INCREASES

- The PNG government has continued its path of tariff increases.

| Tariff | Good | Old rate | New rate |
|---|---|---|---|
| **Increases** | Prepared or Preserved Fish | 10% | 25% |
| | UHT Milk | 0% | 25% |
| | Wooden furniture | 15% | 30% |
| | Cotton clothing | 15% | 20% |
| | Plywood furniture | 30% | 50% |
| **Decreases** | Men and Women's garments | 15% | 0% |
| | Clothing accessories | 15% | 0% |

# ILIMO DAIRY FARM

- Three way joint venture between Innovative Agri-Industries (50 percent), PNG Government (20 percent), and the Central Provincial government (30 percent).
- Has 515 cows, 175 ha of land to grow maize, and complete plant to produce and bottle milk.
- Output of 3.7 million liters of fresh milk, to cater for 13 million liters of milk imports.
- Employs 180 local workers, and distributed 150kg of maize seeds to surrounding villages.
- 1 liter of fresh milk costs K5.

# CASE STUDY 1: CEMENT INDUSTRY

- PNG Halla Cement Ltd began in 1993 as a joint venture between the PNG government (50%) and Korean company Halla Ltd.

- Enjoyed a range of trade protection measures: import ban on cement, tariff protection, pioneer industry status, and duty free importation of factory plant and machinery, spare parts and raw material.

- Capital from PNG government and Import-Export Bank of Korea (US $4million and US $31million respectively.

# CEMENT INDUSTRY

- PNG Halla Cement projected to produce 200,000 tons of cement.
- Suffered in the first few years of production due to downturn in the economy and devaluation of kina in early to mid-1990s.
- Import ban and high tariff rates were justified to protect the infant industry, and also as anti-dumping measure.
- The government hoped it the PNG Halla Cement contribute to the adverse balance of payments, stimulate employment, and provide training for a more skilled workforce.

# CEMENT INDUSTRY

- PNG does not possess a comparative advantage in the production of cement (Garret 1991).
- PNG Halla Cement was sub-divided into different production stages, that are located in different parts of the country.
- It employed 30 local PNG citizens.
- Due to transport costs, it would've been cheaper for import clinker and source labor from Australia or New Zealand.

# CEMENT INDUSTRY

- The PNG government has not conducted an investigation, according to WTO guidelines to establish if the dumping of cement actually happened.
- The PNG government finally sold its stake to PNG Taiheyo Cement Ltd for US $8.5 million, far lower than its total starting capital.
- PNG Taiheyo is operating profitably, and importing cement to Solomon Islands, Vanuatu, and Micronesia.

# CASE STUDY 2: SUGAR INDUSTRY

- Ramu Sugar Ltd (now Ramu Agri Industry) began in 1983 as a capital-intensive industry, and a joint venture between PNG government (48.9 percent equity).
- Enjoyed a ten year import ban on cement from 1984, a 85 percent tariff rate in mid-1990s, which was progressively reduced to 35 percent in 2013, and is currently 30 percent.
- The PNG government has since sold its stake to New Britain Palm Oil, which has converted 2,500 ha of sugar cane fields into oil palm fields.

# SUGAR INDUSTRY

- Sugar production (located in Madang province) is weakly competitive because of unsuitable weather conditions, and difficulty to achieve economies of scale (Andersen and Bosworth 2000).

- Ramu Sugar's production suffered from:
  - Sugar stunt disease in 1986
  - Drought in 1993
  - Sesamia borer beetle in 1996
  - A drop in world sugar prices from US $0.34 per kg, to US $0.11 (import price parity), in the late 1980s.

# SUGAR INDUSTRY

- Ramu Sugar turned in revenue in three (3) of its first ten (10) years of production.
- Ramu Sugar paid no dividends to government in its first eleven (11) years of production.
- The 30 percent tariff rate on sugar since 2013 is still a significant barrier barring foreign competitors into the sugar market.

# SUGAR INDUSTRY

- Complaints from large customers, like Coca Cola Amatil that Ramu Sugar doesn't supply quality sugar.
- High sugar prices in the past prevented the establishment of a confectionery industry.
- Under high tariff rates, the poorest one-tenth of households paid a 3.2 percent tax equivalent in high prices, while the wealthiest one-tenth paid 0.6 percent tax.

# CONCLUSIONS

- The PNG government has historically failed to pick winners in import substituting industries for investment and trade protection, primarily because industries selected do not possess comparative advantage.

- It seems that infant industry applications are assessed solely on commercial viability and does not test for the wider impact on the economy.

- Impacts of tariffs have resulted in regressive effect of price increase on consumers.

# CONCLUSIONS

- Other effects of a high tariff include the high cost structure of mobile resources, low output, and the production of low quality products.

- The industries in the manufacturing sector the were subject to the highest tariffs expanded the slowest.