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### **Alternative Government would Support a New Consumer Council – a positive response to Treasurer Abel’s misleading comments on tax tariff increases**

“PNG needs a Consumer Council to help protect PNG families from unfair price increases and poor quality products. In the fierce competition of Waigani politics, there are many groups and individuals that will speak out in the interests of resource companies or the local manufacturing industry or formal sector employees. However, there is no group representing the special interests of consumers. We need a stronger consumer voice in Waigani, backed with good research and lobbying skills, to help protect the people of PNG from unbalanced price increases such as the massive and unfair tariff increases imposed in recent budgets. A Consumer Council could also focus on the quality of goods and services, including issues such as ensuring both imported as well as local goods are safe and have adequate labelling in English” stated the Shadow Minister for Treasury and Finance, Ian Ling-Stuckey.

“When considering how best to respond to Treasurer Abel’s misleading remarks on his tax tariff increases, and his personal attack on me as Shadow Treasurer, I have decided to be constructive. This is why I am putting forward the idea of a PNG Consumer Council to put the voice of PNG families back into Waigani politics. The Independent Consumer and Competition Commission also needs to be strengthened but as this is a government body, there is also a need for a lobby group focused on the interests of consumers. PNG needs this new consumer voice to balance out the voice of other interests such as the manufacturing sector. The lobbyists from this manufacturing group have got Treasurer Abel under control. Indeed, the entire PNC government is under the control of vested business interests, their government besties. Unfortunately, the great losers from this are the people of PNG and our children which will be paying back massive debts from poor policies and who will lack the job and income opportunities which we should

give them. It is time for a new coalition government with a more balanced policy agenda, one that also looks after the interests of all in PNG including consumers and our children” said the Shadow Treasurer.

“There are misleading, ill-informed and unbalanced comments in Treasurer Abel’s response so I have decided to analyse and comment on these in detail – set out below. This is not a “media outburst”. I leave it to the PNG people to decide who is telling the truth on items such as whether the 25% tax tariff increase applies on UHT milk – once again, I have provided the photographic evidence of what was in Treasurer Abel’s own legislation. I provide evidence that even the government’s own Independent Consumer and Competition Commission called for removal of all tariffs on flour imports as recently as 2015 – instead the government has increased the tariff to 25%. The Alternative Government agrees entirely with the objective of more jobs and increased incomes for our people – a major theme of my last two budget responses. But as detailed in those budget responses, the PNC O’Neill/Abel government is taking us down the wrong path to meet these objectives. They are about increased profits for their besties which can corruptly increase the size of brown envelopes for PNC ministers. The Alternative Government is about better policies to get growth, jobs and incomes growing again while also keeping down cost of living pressures” stated Mr Ling-Stuckey.

“As we go through the details of the response below, it can only be concluded that Treasurer Abel, and ultimately Prime Minister O’Neill, lack the attention to detail, the ability to acknowledge a mistake, the policy wisdom and the business acumen to be the leaders of this great nation. This is just another piece of evidence that they should both be replaced. We call on other members of Parliament to form a coalition which will truly get jobs and incomes growing again so we can look after our children and make our nation great” stated Mr Ling-Stuckey, Shadow Treasurer.

*Detailed response to all the points in Treasurer Abel’s misleading response:*

### **Abel quote**

“DPM and Treasurer, Charles Abel has responded to Ling Stuckey’s comments on tariffs today; “It would be great if the Shadow Finance Minister actually understood the facts before his continuous misleading outbursts in the media. “

## **Ling-Stuckey Response**

In the following paragraphs, I will outline in some detail how the Treasurer is the one that does not appear to understand the facts of his own legislation, or of sensible and balanced economic policy approaches to get this country out of the economic mess created by the PNC.

## **Abel quote**

“The tariff on flour only affects retail packaged imported flour. The main brands such as Flame and 3 Roses are imported in bulk wheat and processed onshore therefore prices are not affected.”

## **Ling-Stuckey Response**

The Treasurer is ignoring the findings of the 2015 “Flour Industry Pricing Review” conducted by the government’s own Independent Consumer and Competition Commission. That review stated “The Commission found that tariffs on imported flour are bad for consumers. Estimates indicate that tariffs are costing consumers K19 million per year and add approximately 14 toea per kilo to the price of flour.....Because imports are an important contributor to competition, the Commission believes that consumers would be better off if tariffs on flour were removed completely.” (page 9 of Executive Summary – complete extract in the attachments). Treasurer Abel, this is a pretty clear finding. So why have you ignored the expert advice provided to you? Why are you doing something which is so clearly going to hurt consumers? The report indicates that “From the evidence presented to the Commission it appeared unlikely that local mills need the tariffs in order to survive. Gross margins for local mill operators appear to be healthy.” So there was no need anyway to increase tariffs to protect local jobs. So how do prices for flour in PNG compare to other countries? The report finds “At present flour prices in PNG are twice as high as the lowest price in New Zealand” (page 8). PNG consumers are now going to get slugged with this massive increase in import tariffs on packaged flour – ignoring the government’s own expert advice and lifting tariffs to 25% rather than removing them altogether.

Let me put this another way – from the perspective of a business person. When you are a business person, when setting your prices, you look around and see the prices of your competitors. You want to match their price or be slightly lower, as long as you are still making a profit. Any economist knows that just two firms in a market is usually called a “duopoly”. It is not a competitive market. What can make a small

market competitive is the possibility of another competitor such as a supermarket chain wholesaler being able to import similar quality products at a lower price. PNG Government's have always aimed to give some advantage to local producers. So the tariff level on imported flour in both small and large packages was 10%. This 10% was a price advantage already to local manufacturing. The government has now decided to lift this price advantage by a further 15% - this is because the tariff has been increased from 1 January 2019 from 10% to 25% for all flours in packages less than 50kg. Given the lack of local competition, this will simply mean that the price of packaged flour will increase by 15% as that becomes the competitive price ceiling for local manufacturing. The local industry can now charge the higher price for 1kg and 2kg packets of flour and take the extra profits. Indeed, the Treasurer has ensured profit levels to these two firms will increase by even more as he has lowered the tariff on bulk packaged flour of over 50kg. Treasurer, prices will be affected, and this will hurt PNG families on such a staple product. What is the point of having an ICCC if you simply ignore their professional recommendations and instead turn to your industry besties? This is why we need a Consumer Council, to back up expert findings from the ICCC and lobby for consumer interests.

### **Abel quote**

"The tariff on milk is only being applied to fresh milk not UHT milk so prices have not been affected."

### **Ling-Stuckey Response**

This is the most blatant lie from the Treasurer. I am extremely worried about the competency of the nation's Treasurer when he makes such a statement. His own legislation makes it very, very clear that the tariff on milk of an additional 25% does apply to UHT milk.

The simple fact is that on pages one and two (so not even hidden away in the 37 pages of tariff tax increases) of the Treasurer's new tariff tax slugs on PNG families that there are four, not just one but four, tariff lines that are explicit that the new tariff applies to UHT milk. Under the broad tariff category 04.01, titled "Milk and Cream, not concentrated nor containing added sugar or other sweetening matter", there are four tariff items depending on the level of fat in milk. For all four levels of fat content, there is an explicit line that states "UHT processed in retail sale packages" and that the tariff rate has gone from "Free" to "25%". The "retail sale packages" refers simply to the containers that the UHT milk is sold in, such as 1 litre of Paul's UHT milk. Let me include a detailed photo of one the sections below showing the very clear application to

UHT milk – all four tariff lines showing the application of the new 25% tariff are in the attachments.

04.01	MILK AND CREAM, NOT CONCENTRATED NOR CONTAINING ADDED SUGAR OR OTHER SWEETING MATTER.		
0401.1	Of a fat content, by weight, not exceeding 1%.		
0401.10.10	UHT processed in retail sale packages	Free	25%

The Treasurer's repeated factual errors on this point are extremely worrying. Photos showing the changes in the tariff act introduced as part of the 2019 Budget were included in my previous media release and were included in coverage such as on PNG Loop. His similar misleading statements from last year were also included. Why didn't he even check with what I was saying and the evidence provided? Why does he still come out and deny the truth? Is he a lying Treasurer or just an incompetent Treasurer? Did he even tell NEC that the price of UHT milk was going up by 25%? Do the members of his own PNC know that the price of UHT milk was going up by 25%?

Treasurer Abel lacks the attention to detail, the ability to acknowledge a mistake, the policy wisdom and the business acumen to be the Treasurer of this great nation. The Prime Minister who appointed him is equally responsible. This is just another piece of evidence that both should be replaced.

### **Abel quote**

"The tariff on veneer and plywood have been in place for some years but the tariff codes had to be corrected in terms of rates applied."

### **Ling-Stuckey Response**

This is a dangerous half-truth. As I indicated in my media release, there were tariffs on veneers and plywoods of 30%. Indeed, they have been in place, although at declining levels, for decades. However, the obscure language of "the tariff codes had to be corrected in terms of rates applied" is hiding the fact that tariff rates were increased to an extraordinary 50%. This is what I said in my media release. The issue is not whether they have been in place for years, the issue is that the Treasurer decided to increase them to 50%. Indeed, the original National Alliance plan was to slowly reduce the tariff rates from 40% in 2006, to 35% in 2011, to 30% from 2015 and to 25% from 1 January 2018 (see attachment). This was part of a 12 year program of gradual tariff reductions for local firms to give them a chance to become more competitive. This was a policy designed to provide balanced support to local manufacturing, to encourage them to become more

competitive, and to balance this interest with reducing the cost of housing and other construction in PNG. It was a policy of balancing interests. There was still a plan to have a 25% tariff in place. But rates of 50% are just too high. The current PNC government and its Treasurer just do not understand what is required for good public policy and the balancing of different interests. This is why I am supporting the creation of a Consumer Council so PNG consumers have a stronger voice in decision-making, to help get the balances right. One would have hoped that PNC politicians would also be protecting the rights and interests of consumers. Clearly, they are just interested in looking after their besties.

### **Abel quote**

“A relatively low tariff has been introduced on imported furniture and tin fish to support the development of onshore investment and jobs especially where we have the natural resources and existing local products.”

### **Ling-Stuckey Response**

The tariff on imported furniture has been increased from 15% to 30% - this is not a low tariff. The tariff on tinned fish has been increased from 15% to 25% - this is not a low tariff. Both tariffs were due to fall to 10% from 1 January 2018 under the National Alliance tariff reduction program.

The Alternative Government continues to support policies to increase jobs and local incomes. This has been a focal point of my last two Budget responses. So there is total agreement on the policy objectives of “supporting on-shore investment and jobs”. However, the Alternative Government knows that Treasurer Abel is pursuing policies that have failed in PNG and in other developing countries. As Vietnam prepared for APEC, it lowered tariffs on over one thousand items. As PNG prepared for APEC, it increased tariffs on nearly one thousand items. More details on the correct policy below.

### **Abel quote**

“There are two large local producers of fresh chicken meat so prices should not be affected here.”

### **Ling-Stuckey Response**

In the same way as the Treasurer was wrong about flour, the Treasurer is also wrong about chicken. He lacks business sense. Two firms are not enough to create price competition. The possibility of importing similar

products creates a price ceiling on what local firms can charge. If you increase that price ceiling through lifting tariff rates, it is in the interest of local firms to lift prices to lift profits. Once again, it is consumers that are hurt as their interests are not advanced in the politics of Waigani.

### **Abel quote**

"Papua New Guinea needs jobs and import replacement. The Government is utilising a range of policies to progress the local production of rice, wheat (for stock feed and flour), local beef and poultry meat and eggs, milk and other dairy products, tuna processing, power from gas and oil, cement, timber and furniture. If we don't give some support to local industry we will forever be importing our food, energy and exporting all our raw materials and jobs."

### **Ling-Stuckey Response**

The Alternative Government and Government are in total agreement on the policy objective of increased PNG incomes and more jobs. We want local industry to thrive, to grow, to increasingly sell PNG goods and services throughout the Indo-Pacific region. But we must learn the lessons of our own history and those of other countries in our region on how to transform these great sounding words into practical realities for our people. The problem for PNG is that the PNC government has the wrong policies to deliver on these objectives. They go back to providing a 50% equity subsidy for selected agriculture projects, none of which go through a pre-determined vetting process (including a robust cost-benefit analysis) to confirm they are in the national interest. They then back these up with tariff increases and other forms of protection to increase the profits of these lucky few. Presumably, such firms then provide financial support back to the government. The big losers are PNG consumers, PNG taxpayers, and our children. High levels of debt in an under-performing economy will be the legacy of the PNC government. Better policy approaches are set out in my budget response to lift growth in the non-resource sector to at least 5% annually. These included measures such as practical support for rural agriculture and improved nutrition, innovative approaches such as increased labour mobility, agreed actions to lower key business costs, a focus on controlling the high cost of living, better government budgets and management in areas such as health and education, better spending in the economic sector rather than just support for government besties, appropriate decentralisation as well as better macro-economic policies – all approaches that would really have a

positive impact on local jobs and incomes. It is time for a change to a new and honest government!

**Hon. Ian Ling-Stuckey, CMG, MP**  
**Shadow Minister for Treasury & Finance**

8 January 2019

## Details

As part of the 2019 Budget, the PNC government introduced changes to the Customs Tariff Bill. An extract of the first two pages of this bill is below. These make it very clear that the 25% tax tariff increase for milk products applies to UHT milk. UHT milk on average has a fat content of around 3.1% to 3.6%, and is clearly covered in the new tax increases under item 0401.20.10. The Treasurer is lying.

There are 37 pages in this bill and it can be obtained from the PNG Treasury website. These two pages of extracts also show the tax tariff increases in other products such as fresh chicken, packaged flour and canned fish. The list goes on and on.

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Drafted of 8/11/2018.



A BILL

For

AN ACT

entitled

***Customs Tariff (2019 Budget)(Amendment) Bill 2018,***

Being an Act to amend the *Customs Tariff Act 1990*,

MADE by the National Parliament -

- (a) for Section 1(a), to come into operation on 1 January, 2019; and
- (b) for Section 1(b), deemed to have come into operation on 1 January, 2018; and
- (c) for Section 2, to come into operation on 1 January, 2019.

**1. AMENDMENT OF SCHEDULE 1. - RATES OF IMPORT DUTY.**

Schedule 1 of the Principal Act is amended by:-

- (a) repealing the tariff item, description of goods and the rates of import duty and replacing them with the tariff item, description of goods and tariff rates and remarks shown below -

Tariff Item.	Description of Goods.	Duty Rate until 31st Dec 2018.	Duty Rate on and From 1st Jan 2019.
<b>02.07</b>	<b>MEAT AND EDIBLE OFFAL, OF THE POULTRY OF HEADING 01.05, FRESH, CHILLED OR FROZEN.</b>		
0207.11.00	Not cut in pieces, fresh or chilled	K1.80 per kg.	K3.50 per kg.
<b>0207.14</b>	<b>Cuts and offal, frozen</b>		
0207.14.90	Other	K1.80 per kg.	K3.50 per kg.
<b>0305.4</b>	<b>SMOKED FISH, INCLUDING FILLETS, OTHER THAN EDIBLE FISH OFFAL:</b>		
<b>0305.49</b>	<b>Other</b>		
0305.49.90	Other	15%	25%
<b>04.01</b>	<b>MILK AND CREAM, NOT CONCENTRATED NOR CONTAINING ADDED SUGAR OR OTHER SWEETING MATTER.</b>		
<b>0401.1</b>	<b>Of a fat content, by weight, not exceeding 1%.</b>		
<b>0401.10.10</b>	<b>UHT processed in retail sale packages</b>	<b>Free</b>	<b>25%</b>
0401.10.20	Cream	Free	25%
0401.10.90	Other	Free	25%
<b>0401.2</b>	<b>Of a fat content, by weight, exceeding 1% but not exceeding 6%.</b>		
<b>0401.20.10</b>	<b>UHT processed in retail sale packages</b>	<b>Free</b>	<b>25%</b>
0401.20.20	Cream	Free	25%

## Customs Tariff (2019 Budget)(Amendment)

Tariff Item.	Description of Goods.	Duty Rate until 31st Dec 2018.	Duty Rate on and From 1st Jan 2019.
0401.20.90	Other	Free	25%
<b>401.4</b>	<b>Of a fat content, by weight, exceeding 6% but not exceeding 10%.</b>		
<b>0401.40.10</b>	<b>UHT processed in retail sale packages</b>	<b>Free</b>	<b>25%</b>
0401.40.20	Cream	Free	25%
0401.40.90	Other	Free	25%
<b>0401.5</b>	<b>Of a fat content, by weight, exceeding 10%.</b>		
<b>0401.50.10</b>	<b>UHT processed in retail sale packages</b>	<b>Free</b>	<b>25%</b>
0401.50.20	Cream	Free	25%
0401.50.90	Other	Free	25%
<b>0402</b>	<b>MILK AND CREAM, CONCENTRATED OR CONTAINING ADDED SUGAR OR OTHER SWEETING MATTER.</b>		
<b>0402.9</b>	<b>Other</b>		
0402.91.00	Not containing added sugar or other sweetening matter.	Free	25%
0402.99.00	Other	Free	25%
<b>0403</b>	<b>BUTTERMILK, CURDLED AND CREAM, AND ACIDIFIED MILK AND CREAM, WHETHER OR NOT CONCENTRATED OR CONTAINING ADDED SUGAR OR OTHER SWEETING MATTER FLOURED OR ADDED FRUIT, NUTS OR COCOA.</b>		
0403.10.00	Yogurt	Free	25%
<b>11.01</b>	<b>WHEAT OR MESLIN FLOUR.</b>		
<b>1101.00.1</b>	<b>Wheat or meslin self-raising flour, retail and bulk.</b>		
1101.00.11	Retail packaging less than 50kg	10%	25%
1101.00.19	Bulk Packaging more than 50kg	10%	Free
<b>1101.00.9</b>	<b>Other</b>		
1101.00.91	Retail packaging less than 50kg	10%	25%
1101.00.99	Bulk Packaging more than 50kg	10%	Free
<b>16.04</b>	<b>PREPARED OR PRESERVED FISH; CAVIAR AND CAVIAR SUBSTITUTES PREPARED FROM FISH EGGS.</b>		
<b>1604.14</b>	<b>Tunas, skipjack and atlantic bonito.</b>		
1604.14.10	Canned tuna	10%	25%
1604.14.20	Canned skipjack	10%	25%
1604.14.30	Canned Atlantic bonito	10%	25%
1604.14.90	Other	10%	25%
<b>1604.15</b>	<b>Mackerel</b>		
1604.15.10	Canned Mackerel	12.5%	25%
1604.15.90	Other	12.5%	25%
<b>1704.9</b>	<b>Other</b>		
1704.90.10	Boiled sweets	15%	30%
1704.90.20	White chocolate	15%	30%
1704.90.90	Other	15%	30%

## Independent Consumer and Competition Commission Report on Flour

The 30 October 2015 ICCC report “2015 Flour Industry Pricing Review” is available at the following website

<https://www.iccc.gov.pg/reports/2015/447-30-october-2015-final-report-flour-industry-review-pdf-1/file>

An extract from the Executive Summary (top of page 8 and then page 9) is below:

- While imports are providing effective competition, they have generally lost market share and probably currently supply less than 10% of the market.

Overall the Commission found that prices had fallen in real terms. However, they continue to be high by international standards. At present flour prices in PNG are twice as high as the lowest price in New Zealand.

### **Import Tariffs**

The Commission found that tariffs on imported flour are bad for consumers. Estimates indicate that tariffs are costing consumers K19 million per year and add approximately 14 toea per kilo to the price of flour. The direct benefits received from local jobs provided by mills appear to be considerably less than this.

From the evidence presented to the Commission it appeared unlikely that local mills need the tariffs in order to survive. Gross margins for local mill operators appear to be healthy.

Because imports are an important contributor to competition, the Commission believes that consumers would be better off if tariffs on flour were removed completely.

### **Freight Costs**

As for most consumer products, freight is a significant driver of costs. The Commission found that;

- Coastal shipping does not have effective competition. In light of this the Commission intends to carry out a review to consider what regulation might be introduced in order to protect consumers.

## A sensible tariff policy approach

The National Alliance government, in responding to the economic crisis of the late 1990s, agreed on a series of activities to make the economy more competitive, to lift economic growth rates especially in the non-resource sector, and to create more jobs. These policies were all working until 2011. The PNC government has reversed these policies which has led to a collapse in non-resource growth rates and job creation. One element of this program, a program which had many elements including making the costs of local business lower, was a progressive, balanced and timely reduction in protectionist levels. The types of progressive changes are shown in the following extract of the revised Tariff Act introduced by the National Alliance Government. This is page 277, showing the gradual reduction in tariffs on plywood and veneer products. These changes were gradual, and aimed at getting the balance right between local production and lowering housing and other building costs. PNG consumers have lost out with the current PNC government's decision to deliver increased profits to its manufacturing industry besties with a tariff now of 50% while the consumers of PNG are the big losers. We need a PNG Consumer Council to push back against such tariff increases.

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Tariff Item	Description of Goods	Duty Rate From 1st Jan 2006 until 31st Dec 2011	Duty Rate From 1st Jan 2012 Until 31st Dec 2014	Duty Rate From 1st Jan 2015 until 31st Dec 2017	Duty Rate on and From 1st Jan 2018	Unit	Remarks
<b>44.12</b>	<b>PLYWOOD, VENEERED PANELS AND SIMILAR LAMINATED WOOD.</b>						
4412.10.00	— Of bamboo	40%	35%	30%	25%	Sq.m	"
<b>4412.3</b>	<b>— Other plywood, consisting solely of sheets of wood (other than bamboo), each ply not exceeding 6 mm thickness:</b>						
<b>4412.31.00</b>	<b>— With at least one outer ply of tropical wood specified in Subheading Note 1 to this Chapter</b>	<b>40%</b>	<b>35%</b>	<b>30%</b>	<b>25%</b>	Sq.m	"
4412.32.00	— Other, with at least one outer ply of non-coniferous wood	40%	35%	30%	25%	Sq.m	"
4412.39.00	— Other	40%	35%	30%	25%	Sq.m	"
<b>4412.9</b>	<b>— Other :</b>						
4412.94.00	— Blockboard, laminboard and battenboard	40%	35%	30%	25%	Sq.m	"
4412.99.00	— Other	40%	35%	30%	25%	Sq.m	"
<b>44.13</b>	<b>DENSIFIED WOOD, IN BLOCKS, PLATES, STRIPS OR PROFILE SHAPES.</b>						
4413.00.10	— Profile shapes	25%	20%	15%	10%	No	-
4413.00.90	— Other	Free	Free	Free	Free	No	-
<b>4414.00.00</b>	<b>Wooden frames for paintings, photographs, mirrors or similar objects.</b>	25%	20%	15%	10%	No	-
<b>44.15</b>	<b>PACKING CASES, BOXES, CRATES, DRUMS AND SIMILAR PACKING, OF WOOD; CABLE-DRUMS OF WOOD; PALLETS, BOX PALLETS AND OTHER LOAD BOARDS, OF WOOD.</b>						
4415.10.00	— Cases, boxes, crates, drums and similar packings; cable-drums	15%	12.5%	10%	10%	No	-
4415.20.00	— Pallets, box pallets and other load boards	25%	20%	15%	10%	No	-