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## **THE GOVERNMENT'S TARIFF REFORM PROGRAMME AS IT AFFECTS THE WOOD PROCESSING INDUSTRY FROM 2006**

Please be informed that in fact as per the amendment to the Customs Act (1990) following the White Paper on the Tariff Reform Programme in 1998, The Department of Trade and Industry is not the government agency functionally responsible for design and implementation of tariff reform. Import Tariff policy is officially handled by the Department of Treasury in conjunction with other aspects of the government's fiscal policy. Nonetheless as the agency responsible for the overall promotion and development of PNG trade and industry it is nonetheless a policy area in which we have much interest and seek to retain input.

For your information, the following guiding principles underpin the post reform tariff regime:

1. Rationalization of the tariff structure- there are now four categories of import duty applied to all goods (Free/ Basic rate, Intermediate rate, Protective rate and Prohibitive rate, see below);
2. There are no more commercial tariff exemptions and only a very small number of targeted exemptions;
3. Tariffs have been gradually reduced from 1999 to 2006- i.e. over 8 years;
4. Tariffs on capital equipment, inputs and raw materials are reduced to zero (Basic rate);
5. Intermediate import tariffs on goods (with close substitutes or domestically produced alternatives) have been gradually reduced from 40% in accordance with the table below. This tariff is intended to be applied to goods that are one company's final product while being an input to another company's production, or goods that could be potentially produced here but need a moderate level of protection to make this attractive;
6. The Protective rate has been gradually reduced from 55% in accordance with the table below. This tariff applies to products that are manufactured in PNG and require tariff protection for sometime;
7. Products of very high tariff rates have been gradually phased down to the flat prohibitive rate of 55% in 1999 and this in turn has been gradually reduced according to the table below;
8. A few exceptional products are treated outside this general framework (alcohol, sugar, tinned mackerel and tobacco products);

9. New products produced in PNG may be considered for the list of either intermediate or protected goods as appropriate.

#### Time schedule for tariff reform programme

	1999	2001	2003	2006
Basic rate	0	0	0	0
Intermediate	30	25	20	15
Protective	40	35	30	25
Prohibitive	55	50	45	40

Note: All reductions come into effect on 1<sup>st</sup> January of the year specified

Chapter 44 of the Harmonised System refers to Wood and Articles of Wood. The following table summarises the tariff rates applicable to items of this Chapter through the period of tariff reform. In order to encourage the downstream processing of logs and development of the domestic timber and carpentry industry, plywood was classified at the prohibitive rate; wooden frames, pallets and carpentry of wood at the protective rate; and wood board at the intermediate rate.

#### Tariff reduction affecting HS Chapter 44 (1999- 2006)

HS	Description	1999	2001	2003	2006
44.01- 44.02	Fuel and wood chips	30	25	20	15
44.03- 44.07	Wood in the rough	30	25	20	15
44.08	Veneer	55	50	45	40
44.09	Wood continuously shaped	30	25	20	15
44.10- 44.11	Board	30	25	20	15
44.12	Plywood, veneered panels and laminated wood	95	85	75	40
44.13	Densified wood	0	0	0	0
4413.000.10	Profile shapes	40	35	30	25
44.14	Wooden frames	40	35	30	25
44.15	Packing cases	30	25	20	15
4415.20.00	Pallets	40	35	30	25
44.16- .17	Carpentry articles	30	25	20	15
44.18- .19	Builder's joinery	40	35	30	25
44.20	Statuettes	40	35	30	25
44.21	Other articles of wood	40	35	30	25
4421.90.40	Wooden sticks (ice cream)	0	0	0	0

As you have correctly identified, import tariffs on item 44.12 (Plywood, veneered panels and laminated wood) is due to come down sharply from 75% to 40% as of the 1<sup>st</sup> of January, 2006. This rate reduction (35% over three years) is exceptional within the circumstances of the TRP which has generally effected only gradual reductions (5% between 2003 and 2006). The exceptional nature of this case is due to the exceptionally high rate of tariff that was applied to this item when the TRP was introduced (100% in 1997.)

For your information, to date the Department of Treasury has not yet given any indication of what will succeed the TRP when it comes to an end next year. You may recall however that in 2003 the Manufacturer's Council requested that the government undertake a review of the TRP on the basis that rapid tariff reductions are harming the long term viability of PNG's non-resource- based industries. Although the analysis was not comprehensive, the review team concluded that no suspension or revision should take place as the TRP was having a net beneficial impact on the PNG economy.

The following general recommendations were made regarding the future:

- GoPNG intensifies its efforts to reduce other structural impediments to production to promote competitiveness of PNG industry;
- From 2009, the prohibitive and protective rates should be reduced 5% every three years until all tariffs are 15%;
- All tariffied goods should be subject to a uniform 15% by 2021 except for very limited exceptions as it was noted that a universal rate will greatly improve and streamline customs administration.

In its decision 60/2005 of 6<sup>th</sup> April, 2005 on the submission of Investment Incentive Guidelines, the National Executive Council noted that a review would be undertaken of import duties that are presenting impediments to new investment in PNG. Should the Forest Industries Association like to raise their concerns regarding the impact of tariff reform on the wood processing industry the National Working Group on Impediments to Business and Investment would be the appropriate forum at which to do so. Please be reminded that since 1999, the policy rationale for levying import tariffs has been purely on the basis of protecting industries from overseas competition as a means of fostering development. Maintaining and/ or reducing tariffs should therefore be justified only on the balance of the economic benefits to PNG of producing an item domestically with the costs to consumers and other businesses of raising the cost of the item through imposition of a protective duty.

The Trade Division and the Department looks forward to providing you with any further assistance you may require in this matter.

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