**BUDGET FAILS OBJECTIVES**

The PNG Forest Industries Association today issued its response to the National Budget for 2020 which was presented last Thursday. Executive Officer, Mr Bob Tate, expressed the industry's extreme disappointment at the harsh, unfair and discriminatory treatment of the forest industry in PNG.

"This is the second time the Government has breached the agreement reached with industry to limit export tax to 28.5% of sales value. The new rates of tax announced of up to 50% are unsustainable and threaten the very survival of any forest industry in the country. Currently the tax rates imposed on turnover, exports, are 35% to Government, landowners receive 13%, and direct levies to the National Forest Service and CEPA are 4%. Making the total turnover taxes and levies equal to 52% of gross industry income. This is the highest rate of tax on any industry in PNG."

"The new rates of tax raise the effective rate to 70% of gross turnover. At this level there is insufficient income to cover production costs, wages, fuel, machine and logistical costs. What does the Government propose for industry to cover the looming cash losses?" he asked.

"It can only be assumed that the Government is prepared to see and accept growing levels of rural unemployment, operational closures, and a collapse in investment and rural development. All of which are contrary to the Treasurer's stated budget objectives of job creation and employment growth and not to increase taxes. Further the aims of Vision 2050, which call for a sustainable and profitable forestry sector, appear to have been thrown out." This has been done with no stakeholder consultations what so ever, Mr Tate said.

Of course the impact of industry closure will be greatly felt by the rural communities where we operate. Currently some K160million annually is paid to our landowners. In most cases this is the only source of income for the rural people. What income producing opportunities does the Government propose for the people to replace this? And also, will the Government take over and maintain the rural hospitals and supporting aid posts, the schools, the rural airstrips and shipping services currently operated by industry? The past performance of government in these areas would say no!

"We also question the validity of the assumptions and justification of these new measures put forward by Treasury officials. Firstly their brave assumption of a 10.5% rise in export prices in 2020. Even a brief review of current market conditions for tropical forest products, would reveal a very fragile market, weakening prices and the huge impact the US China trade war is having. China, our biggest export market, has seen a decline in import volumes of 12% this year to date, And last month their government announced the closure of 270 sawmills in southern China. In the E.U. a large end user of tropical forest products, imports have fallen 52% over the last decade. Against this market reality, how do Treasury justify their price increase assumption?

And secondly, Treasury have again tried the old excuse of transfer pricing to justify their actions. This baseless assumption has long featured in the PNG forestry scene. Even going back nearly 20years when Japan, not China, was our largest export market. All previous studies into this subject have found no evidence to support transfer pricing claims. The landmark study commissioned and endorsed by the World Bank, concluded "there is no evidence to support any claims of transfer pricing" in any manner or form in the forest industry in PNG.

Mr Tate on behalf of the industry, called on the government to seriously and urgently reconsider its move to further raise the already oppressive tax rates imposed on forestry in PNG.