Sugar and lamb flaps:

The Government this week (belatedly) reduced the import duty on imported sugar from 70% to 40% and said they're opening the trade up to competition. This should see sugar (already imported by Ramu Agri-Industries (RAI) and subsequently probably by others as well) hitting the shelves very soon and quickly removing the current shortage. The current shortage is the result of a bad harvest owing to bad (dry) growing conditions over the past year, combined with 600 hectares or so of ripe sugar being burned by local arsonists in the Ramu valley (and probably steadily growing demand from an expanding and more urbanised population). The company insists the shortfall is not the result of any reduction in planted area or conversion to other crops (notably oil palm), and that they're committed to sustaining the current area under sugar.

Why do we have such a high import duty on sugar in the first place? It is the highest (remaining) duty on any product. This is the result of sugar production in PNG not really being competitive on the international market, partly because we lack the economies of scale which some other producers enjoy (like Argentina, Brazil and Australia) with their vast acreages and turnover through their mills (and refineries) , and partly because of the pests and diseases we suffer in PNG, but also because of the high subsidies provided in some producing areas (including the EU countries with their sugar beet and the US) which keeps global production levels up and market prices down.

We could only address the economies of scale problem through larger planted areas and bigger processing facilities, but that wouldn't probably not be the best use of land in the adjoining areas. The past and diseases decimated production in the early 1980s, shortly after production commenced. This is because sugar comes from PNG (this is its worldwide source of origin) and many pest are well adapted to it, so if you plant a large area (instead of a few plants in a garden) then the pests multiply fast and have a real feast. The Ramu sugar scientists (led by one of PNG's top scientists, Dr. Lastus Kuniata) have done an excellent job over the years tackling these pest and diseases through chemicals, where necessary, but largely through biological controls and plant breeding of more productive and resistant sugar varieties, but they need to be ever vigilant. The third factor, namely that the global market price is rigged by overseas protective policies, is a partial justification for continued tariffs, but doesn't justify the sustained high level which imposes high prices on PNG consumers and other industries, in turn undermining the competitiveness of these other manufacturing industries.

Ramu sugar commenced production at the start of the 1980s, just after a period of very high world sugar prices, which had encouraged the Government at the time into the initial development; (prices have been high again of late). Considering the subsequent low prices over the years since production first commenced and the pest and disease problems it would have been illogical to have commenced commercial production of sugar in PNG, using substantial State expenditure and a high cost to consumers. However, having commenced production, and with the business employing some 2,000 workers (in sugar and some cattle production) and additional opportunities to outgrowers and ancillary industries, plus providing various education and other services to the local community, it was important to keep the operation going, whilst attempting to improve output and generally reduce unit costs to make it more internationally competitive.

The Government now seems intent on the reduction in duty to 40% continuing to 25% within the next few years. The progressive reduction in tariff is desirable from an economic stance and this had always been the intention, with the company being forced to become more efficient once its 'infant industry' status (now long outlived) was concluded. It should probably be recognised, however, that, whilst most of the factors are still in place (limited economies of scale, continued existence of pests and diseases – even if well controlled, and protection in some other major producing areas) the PNG sugar industry may well be unable to compete under the lower proposed tariff levels, unless recent high prices remain (which they might considering growth in global demand, particularly in emerging markets, like China and India).

Would it matter if Ramu sugar production was non-viable under a lower tariff regime? In the past it would have mattered in that the project and the local economy in the upper Ramu-Markham would have been severely damaged if Ramu's sugar production had been forced to cease, (although some argued that even then the cost upon the rest of the economy of sustaining the high tariff was too great). Now, it would be far less calamitous if sugar production was forced to cease. Ramu-Agri Industry has a choice of crops and other activities it can choose, which it can select (as with any business) based upon their viability and comparative returns. RAI's (and its parent company NBPOL's) core business is oil palm, and RAI has already planted a major area of the upper Ramu and Markham valleys to oil palm. Their employment as a result has doubled to around 4,000, and, as oil palm requires more manual labour, being less mechanised than sugar production, with its large tractors and harvesters and sometimes even aerial spraying, the number of employees and profitability would probably actually increase (in the longer run) if the area under sugar was converted to oil palm in future.

There would be concerns that the local (and national) industry had become less diversified, with greater monoculture and its associated economic and production risks, and that PNG would thereafter need to be dependent upon sugar imports and the vagaries of the world market (including potentially continued higher global sugar prices). Oil palm prices also look set to remaining strong, although there would clearly be a major costs in new plantings In any case, these are some of the issues that the government, industry and wider public might consider when determining future tariff policy and other policies with an impact upon sugar and local land use in the Ramu valley. Clearly, local social and environmental factors must also be considered. With NBPOL committed to firmer policies and standards related to environment and sustainability issues (than hitherto and in relation to many other operators in the region), notably with its commitment and adherence to RSPO standards on palm oil production/processing, and with sugar at times having used significant levels of chemical inputs, the environmental impact of conversion to oil palm should not be as negative as some groups might suggest and might even be positive, (including greater CO_2 –greenhouse gas absorption)