

Policies must change if PNG's forest industries are to survive and thrive

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PAPUA NEW GUINEA'S forest industries make a substantial contribution to national development. The forest sector has invested some US\$600 million and directly employs between 10 000 and 15 000 people, or 5% of PNG's total paid workforce. The forest industries contribute about US\$270 million to the country's GDP each year, together with some US\$85 million in export taxes and other levies to government. Moreover, PNG's forest industries provide employment and services in rural areas, where other economic activities are often scarce. Landowners receive approximately US\$20 million each year in direct payments from the sector for the right to harvest timber on their lands.

Most Papua New Guineans regard forest products as essential to their lives. Everyone uses timber in their homes and workplaces and a wide range of paper products in their daily lives.

Wood is viewed not only as a natural, renewable, energy-efficient resource but also as an increasingly strategic resource for tomorrow. This is because PNG must find replacement export industries by 2010 for some large mining projects that will be closing. The forest industries will need to make an increasingly significant contribution to the country's economy.

Export potential

The resource base of the entire industry—harvesting, sawmilling, wood chip production, veneer production, plywood manufacture, furniture manufacture and plantation development—occupies only 3.7 million hectares, or less than 10% of the country's land base of 46 million hectares. The potential for a vibrant export industry based on this resource is great: by 2010 PNG's domestic industrial wood consumption will be an estimated 591 000 m³, yet the annual sustainable yield of industrial wood is estimated to be 3.3 million m³. This means that PNG could have some 2.7 million m³ for sale in the global marketplace annually. (However, data on the forests are not particularly reliable: completion of the national forest inventory should be accorded the highest priority, since this is the foundation on which effective and appropriate forest management and development should proceed.)

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Clearly, given the right policy environment, the PNG timber sector can contribute a great deal to national development goals. Technological innovations and market changes will provide PNG with a significant opportunity to increasingly utilise native hardwoods (from both the natural forest and



plantations) to manufacture a wide variety of domestic and export products. This will greatly add to the future value of natural and plantation forests and therefore to their retention and sustainable management. The PNG Forest Industries Association recognises the need to improve forest practices to achieve sustainable forest management in the natural forests. One of the Association's stated goals is to improve such practices and it is willing to work to this end with any parties who share the same objective.

The Association plan

The PNG Forest Industries Association has developed a forest industry plan for PNG covering the period 2001–2036 with the aim of ensuring an economically viable and sustainable timber industry within an environmentally acceptable framework. The plan aims to increase the sector's competitiveness and to provide incentives for investment in the industry. Critically, it aims to halt the decline of the existing industrial base through the erosion of investment capital due to impediments such as unsustainable and discriminatory taxation burdens, a lack of rural infrastructure development and maintenance, and a lack of reinvestment by the PNG Government in the forest sector. The plan addresses a wide range of issues, including resource security; administrative, industry and resource owner reforms; an expansion of forest plantations through investment strategies and the earmarking of revenues for resource replacement; the protection of other forest values by the earmarking of revenues for conservation and sustainable forest management practices; and the promotion of an expanded and skilled workforce.

We expect that implementation of the plan would result in an increase in the value of forest products production

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of more than 100%, an increase in industry employment of 20%, and a fivefold increase in the area of commercial timber plantations to 300 000 hectares.

Policies must change

The formulation of forest policy in PNG has always been an area of great public interest. Rightly so: forests cover a large part of the country's land area and are owned by perhaps five million people. Their management clearly involves and affects a broad range of stakeholders and participants.

The timber industry is subject to constant change, both in terms of markets and technological improvements. Policies relevant to the sector must be adaptable and responsive to these changes; they should encourage development within a framework that recognises and promotes sustainable development. Key elements to be incorporated include: resource-base security, both for existing and any new forest-based industrial development; economic sustainability; and social sustainability, which incorporates appropriate environmental measures.

Much progress has been made in PNG following the adoption of the National Forest Policy of 1991. However, while this policy contains much that is good, implementation has faltered, particularly in recent times: different stakeholders, notably some internationally financed organisations, are seeking to impose priorities on sectoral development which may not be in the PNG national interest but are seen as part of broader 'global' priorities which PNG must accept.

For PNG to now achieve the stability in its forest sector necessary for future growth, there is an urgent need to address some key areas of forest policy failure. Most critically, the World Bank's policy and loan conditionalities, which have been imposed on PNG in exchange for budgetary and structural adjustment support since 1995, need to be thoroughly reviewed. Little consideration appears to have been given to the impact of Bank-imposed restrictions on forest management or the future development of forest-based enterprises. But the cumulative effect has been devastating.

Forest revenue system

A complete review of the PNG forest revenue system, incorporating all taxes and charges to industry and landowner payments, is also needed. Three World Bank-sponsored reviews since 1997 have produced nothing in the way of a workable, market-responsive system. In fact, nothing has changed despite an estimated four million kina of PNG money having been spent on these studies.

The forest revenue system must be made a tool for improving forest management, not just for generating government revenue. It should provide incentives for the private sector to pursue sustainable forest management and plantation development. It must address taxation and individual forest investment, the pricing and allocation of logs, and the cost of infrastructure. It must encourage PNG foreign investment



Sporting chance: the PNG Forest Industries Association says policies need to create a level playing field if the local timber industry is to be competitive in the global market. *Photo: A. Sarre*

and confer fiscal stability. It should encourage added value timber production and it should address the issue of log exports: the forest industry is currently the only rural industry in PNG that is taxed on production costs.

Conclusion

PNG's forest industry can assist in alleviating the country's economic crisis under a sustainable development regime by generating employment and revenues through the continuing development of major export markets in the global forest economy. This can only happen if:

- PNG becomes more aware of its role in the global economy; it cannot afford to continue its isolationist forest policies. Interventions in recent years by the national government have often been at odds with global trends in the forest and environmental sectors, severely restricting PNG's ability to manage and develop an internationally important resource;
- PNG handles its forest policies objectively and in a global context. Otherwise, it will place the responsible industry in jeopardy and major economic opportunities will be foregone, causing PNG's current account deficit to remain unnecessarily high;
- PNG's national government properly presents the country's environmental issues in international policy arenas. The current mood of influential environmental groups in PNG appears irrational and irresponsible and the national government is unable to make hard decisions; and
- There is further development of PNG forest practices in order to achieve sustained management of the three types of wood resource (natural forests, secondary forests, and plantations) currently available in PNG.