

# Papua New Guinea – the other side of the story

**Papua New Guinea has made progress in monitoring log exports**

by  
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**To market:** log loading dock in PNG. *Photo: SGS*

**I**N RECENT YEARS, several Papua New Guinea (PNG) and international environmental non-governmental organizations (ENGOS) have spearheaded an aggressive campaign to stop commercial harvesting of timber in Papua New Guinea. The ENGOS have argued consistently that all commercial harvesting of timber in PNG is both illegal and unsustainable. As a result of these campaigns, market access for PNG's wood products, especially in the United Kingdom and Australia, is threatened.

The purpose of this article is to tell the other side of the story by describing the independent monitoring system in place in PNG for exporting logs. The objective is to correct some of the misinformation, which creates the impression that all commercial timber harvesting activity in PNG is illegal, and that nearly all the logs exported from PNG to overseas markets are smuggled.

In the 1980s, persistent reports about malpractices in PNG's forest industry resulted in the Barnett Forest Industry Inquiry of 1989 and the World Bank Review of 1990. Following these inquiries, the PNG government developed the new Forestry Act in 1991. It also developed a new forestry policy to address the shortcomings of the previous Forest Policy, which was developed in 1979.

As part of the implementation of the recommendations of the Barnett Inquiry, the PNG government created the Papua New Guinea Forest Authority (PNGFA). The PNGFA is therefore the mandated authority with the responsibility for implementing the Forestry Act 1991 and the Forest Policy 1991.

The government also contracted Société Générale de Surveillance (SGS) in May 1994 to provide an independent,

arm's length monitoring of all log exports from PNG, to ensure that logs exported are sold at the prevailing market prices. SGS' monitoring was also to ensure that export shipments were correctly declared with respect to log volume and species.

Founded in 1878, and with its present headquarters in Geneva, Switzerland, SGS provides services in over 140 countries globally and directly monitors over 5% of all world trade. To ensure its independence, SGS does not have any manufacturing, trading or financial interests in countries it operates or entities it monitors.

Since 1994, the PNGFA and the SGS have developed and implemented a very robust monitoring system for all round logs exported from PNG. SGS' monitoring activities in PNG do not cover processed wood products such as sawn timber or veneer. The quantities of sawnwood and veneer exported annually from PNG are small (15 000 m<sup>3</sup> and 65 000 m<sup>3</sup> respectively) compared with over 2 million m<sup>3</sup> of round wood exported annually. Neither does it cover forestry operations.

The log monitoring system currently in place in PNG involves the following:

- provision of log tags to be affixed to the end of each log by producers at the time of scaling at the log landing as prescribed by the PNGFA;
- pre-shipment log inspections to check species identification and log scaling; and
- monitoring of ship loading to verify the species and volumes actually loaded.

Under the SGS monitoring system, no logs can be legally exported from PNG until all the prescribed procedures (involving 22 steps) have been followed. Checks and balances built into the system ensure that the next step cannot be completed until the preceding procedure has been fully certified by both the PNGFA and the SGS that all requirements have been duly complied with.

According to SGS' PNG General Manager, Mr Bruce Telfer, in the last 12 years, SGS has not uncovered large-scale log smuggling in the log export trade in PNG. SGS also provides monthly statistical reports to the relevant PNG government agencies on all log shipments. These statistical reports as well as records available at the SGS office in Port Moresby can be verified independently, and they indicate that since 1995, SGS had inspected more than 25 million m<sup>3</sup> of logs from 80 logging camps with an FOB value of more than 4.450 billion Kina. For these shipments, the PNGFA has certified that duties and taxes were paid, which has resulted in the PNG Internal Revenue Commission collecting a total of 1.362 billion Kina in revenue.

***Effective as it has been in minimising log smuggling, it cannot be said that the SGS monitoring system provides a guarantee that all forestry activities in PNG are legal. However, it is important to note that PNG is one of the few tropical timber producer countries which has implemented such a system to enhance forest law compliance.***

Over the same period, the PNG government earned additional foreign exchange totalling 354 million Kina, additional revenue of 265 million Kina and additional payments totalling 27 million Kina to landowners.

Effective as it has been in minimising log smuggling, it cannot be said that the SGS monitoring system provides a guarantee that all forestry activities in PNG are legal. However, it is important to note that PNG is one of the few tropical timber producer countries which has implemented such a system to enhance forest law compliance. To the knowledge of the writer, the only other tropical timber producer countries that have implemented log-tracking systems are Ghana, Ecuador, Congo DRC, Cameroon, Guyana, Brazil and Peninsular Malaysia. The PNG and Cameroon systems appear to be the only ones implemented and managed by an independently appointed body, at arm's length from the government or the forest agency.

Certainly, the SGS monitoring system in PNG provides verifiable proof that allegations of rampant log smuggling are highly questionable. The ITTO's *Annual Review* of the international tropical timber trade and trade discrepancies in 2005 indicated that the difference between the log export volumes reported by PNG authorities and Chinese importers was only 2%. China is the largest importer of PNG round logs.

According to the ITTO, this discrepancy could be due to a number of factors including measurement and/or conversion errors, data entry errors, differences in custom

classifications and differences in timing between the date of export compared with the date of import. The ITTO *Annual Review* also found that between 5 and 10% of trade discrepancies can be explained by FOB/CIF value. In any case, by themselves, trade discrepancies are not reliable indicators of illegal activity as discrepancies occur commonly in legitimate trade flows.

The World Bank claim that up to 70% of logs harvested in PNG is illegal was challenged by the PNGFA and the industry at a Regional Workshop of Forest Law Enforcement and Governance held in Port Moresby from 11–12 October 2006. The resident World Bank country manager in PNG has undertaken to seek verification of this claim from the Bank's headquarters in New York.

The effectiveness of the SGS monitoring system in PNG therefore questions the basis for the UK Timber Trade Federation's advice to its members to boycott Chinese plywood made of tropical roundwood from PNG. According to Mr Telfer, the unique numbering system of SGS tags affixed to exported logs provides sufficient information which can enable the origins of individual logs to be traced back to the concession from where they were harvested. UK and other overseas buyers who doubt the legality of the source of PNG logs are therefore able to verify this information from the SGS in Port Moresby.

In relation to allegations that logs were being exported illegally from remote PNG islands, Mr Telfer indicated that this was highly unlikely. He explained that it is logistically impossible to secretly and fully load a ship either in the night or during the day without leaving some kind of evidence behind. In addition, it is logistically impossible to load a ship full of logs overnight.

SGS has officers stationed on concessions where commercial harvesting of logs for export occurs. Currently, there are about 42 active log export sites in PNG. According to the organization, it is able to verify expeditiously any reports of illegal activities relating to the export of logs. Such checks have been carried out in the past and have not shown illegal activities by log exporters.

PNG's forest resources represent an important renewable and natural asset, which can be utilised on a sustainable basis to generate wealth in support of socio-economic development. Indeed, export earnings from forestry contribute significantly to government revenue, which underpin and enable a very large percentage of national and provincial government spending.

In 1999, the World Bank estimated that the forestry sector in PNG contributed up to 8.6% to the country's GDP. This figure has declined since the Asian financial crisis in the late 1990s. Nevertheless, the sector's share of GDP has remained relatively constant since 1999, and has accounted for between 3 and 5% of GDP.

*Continued on page 17* ►

deducted from the licence-holder's account at the Forestry Department. At this point, a government revenue hammer mark is made on both ends of the log and a removal pass issued to enable the logs to be transported to mills or the point of export. At the mill the logs are recorded in a log intake book and checked with the accompanying removal pass; if in order, the removal pass is cancelled and the logs may be processed.

Further controls and documentation are in place for both the export and import of timber, including checks by customs officials. The strict control measures and documentation in place in Malaysia enable log tracking to the forest of origin or even to the tree of origin in an effective and transparent manner.

## Recommendations

ITTO should continue to assist producer countries in finding innovative ways of ensuring legal compliance. In many countries, the business environments in which the forest and timber-processing sectors operate could be developed to favour those companies complying with relevant legislation and voluntary requirements for sustainable

forest management. Incentive programs (such as priority positions and tax releases) could also be created to support companies that have responsible internal governance.

Timber companies should be encouraged to introduce their own tracking systems, but this still requires governments to establish or improve structures for control and monitoring. These may include databases in which companies enter data on their harvesting and trade in timber products, which would be useful for reconciling the authorized cuttings, actual cuttings and trade in timber products. A governmental inspection service would be needed to verify the company-provided data through random samples or some other basis. The results of third-party certification could also be integrated into the control system to contribute to the reliability and credibility of the internal control systems of the private companies.

*The full report on which this article is based ('Report on the auditing of existing tracking systems in tropical forest industries') can be found on [www.itto.or.jp](http://www.itto.or.jp) and is available on request from [eimi@itto.or.jp](mailto:eimi@itto.or.jp)*

### ► ... continued from page 4

Over the last six years, annual foreign exchange earnings from forestry have averaged US\$156 million or 361 million Kina. In 2005, foreign exchange earnings alone were US\$173 million or 541 million Kina, which was 5% of the total merchandise exports. This makes forestry second only to the mining and petroleum sector as an export earner. It also generated an average of 115 million Kina in log exports taxes over the past six years. The sector generates around 5% of PNG's export, and for over a decade, it has contributed an average of 30% of PNG's expenditure on development.

PNGFA estimates that the sector directly employs 9000 people, mainly in the rural areas. This represents about 4% of formal national employment. The sector's contribution to national employment has declined by about 28% from its 1990s level, when it employed directly around 13 000 people. In addition, the sector is a major contributor to rural infrastructure development—roads, airfields, air services, health clinics, services and schools.

While eco-forestry has a place in PNG, the majority of the key local NGOs agree that commercial timber harvesting is important for the PNG economy and should continue albeit on a sustainable basis. This view was confirmed to the writer at a meeting held with key representatives of the local ENGOS in Port Moresby on 17 October 2006.

PNG now has a framework in place, which can assist in achieving sustainable forest management, as well as enhanced forest law enforcement and governance. It has a Forest Act, a Forest Policy and a Code of Forest Harvesting. Like many tropical timber producing countries, the major challenge facing PNG is effective implementation of its forest law and policies, as well as monitoring to ensure continuous improvement. ITTO's recent study into the progress made in sustainable forest management in tropical timber producing countries concluded that while progress had been made overall, there was still room for improvement in almost all the member producer countries.

The fact that PNG can further improve its performance in sustainable forest management cannot be used to justify allegations that all commercial harvesting activities in the country are illegal. In the writer's view, there has been a tendency to confuse "illegality" with "effective implementation" of the Forest Act and related policies and guidelines in the commercial timber harvesting debate in PNG.

One area definitely requiring immediate action is the definition of illegal harvesting activities in the context of PNG's forestry law and policy. At present, there is no agreed national definition of illegal harvesting activities in PNG. The PNGFA generally uses the FAO/ITTO definition, which is the "harvesting, transporting, processing, and trading of forest products in violation of national laws." It would be useful if this definition can further be expanded in the context of PNG to identify specific activities which would constitute illegality in the context of PNG's Forestry Act 1991 and the Forest Policy 1991.

In the absence of an agreed national definition of illegality, commercial timber harvesting activities in PNG are being judged based on Greenpeace's definition, which has been adopted by the local ENGOS. Under Greenpeace's definition, commercial timber harvesting activities are not legal unless the operations have met all laws and regulations and international treaties including labour rights, indigenous people's rights and the payment of all taxes and fees. This is a much broader definition and encompasses areas of responsibility, which are beyond the mandate of the PNGFA. Based on this definition, it would be fair to conclude that commercial timber harvesting activities in almost all timber producing countries in the world—both developed and developing—can be said to be illegal in one aspect or the other. This being the case, is there any justification in singling out PNG?

## Response from the PNG Eco-Forestry Forum

Dr Asumadu's article originally appeared in the PNG Post-Courier newspaper, written while he was engaged as a consultant by the PNG Forest Authority to assist with an ITTO-funded case study on illegal logging in the country. Subsequent to the publication of this newspaper article, the following response was sent to ITTO by the PNG Eco-Forestry Forum. The response is being reproduced in the TFU as part of ITTO's efforts to encourage ongoing dialogue on these issues.

On November 1, 2006 the Papua New Guinea Forest Authority published a short article written by Dr Kwame Asumadu titled 'Illegal Logging in Papua New Guinea – The Other Side of the Story'.

The PNG Forest Authority claims Dr Asumadu is an 'independent' consultant, but his article appears to be heavily biased towards the logging industry in PNG and is completely misleading.

The article assiduously avoids any mention of the serious legal failings and issues of non-compliance that have led others to characterise logging in PNG as largely illegal and does not consider the voluminous evidence from numerous sources that supports the analysis.

Instead, the article focuses mainly on the issue of export monitoring, which is largely non-controversial and which does not have any relation to the current debate about the issuing of logging permits and harvesting practices.

The article also contains a number of serious factual inaccuracies which are very misleading and all of which serve to enhance the image of the logging industry and marginalise its critics.

Overall, the article does nothing to promote a proper understanding of current forest management issues in PNG and appears to be part of a deliberate campaign to mislead the public.

Some of the misleading statements and factual inaccuracies contained in the article are highlighted below.

ARTICLE PARAGRAPH/TEXT	FACT	COMMENT
1: PNG and international non government organizations have spearheaded an aggressive campaign to stop commercial timber harvesting	The issue for the NGOs is illegal and unsustainable logging – they are not trying to stop commercial harvesting – as the article itself admits much later in Paragraph 22	The whole article is prefaced by a false statement that colours the rest of its content and calls into question the authors independence and intentions
2: One intention of the article is to correct the impression that nearly all the logs exported from PNG are smuggled	The issue of illegal logging in PNG is not premised on allegations of log smuggling and log smuggling is not an allegation made by critics of the logging industry	The statement sets up a false allegation and then disproves it at some length to create an impression that the real allegations (which are not mentioned) are also false
5: SGS ensure that logs exported are sold at prevailing market prices	SGS does not ensure logs are sold at prevailing market prices. PNGFA is the body that approves the log sale price and there is considerable evidence that logs from PNG are sold at below world prices	The author is either poorly informed or is deliberately misleading his audience
5–17: The article devotes 13 of its 26 paragraphs to the activities of SGS which monitors log export volumes and species	Allegations of illegal logging in PNG relate to the issuing of permits, logging practices and unsustainable harvesting rates – none of these issues has anything to do with log exporting monitoring or the activities of SGS	The article claims in its title to be addressing the issue of illegal logging and presenting another side to the debate – but half its content is devoted to non contentious or irrelevant matters
9: SGS has not uncovered any large-scale log smuggling	Allegations of illegal logging in PNG do not suggest there is large-scale log smuggling – this is not the issue	The article is misleading its audience by dealing with allegations that have not been made
12: SGS provides verifiable proof that allegations of rampant log smuggling are highly questionable	No one is making 'rampant allegations of log smuggling' and, anyway, SGS opinion is not 'verifiable proof'	The article misleads by dealing with allegations that have not been made and by stating opinion as fact
15: The SGS monitoring system questions the basis for UK Timber Trade Federation advice to boycott PNG timber	The UK TTF advice is based on the substantial independent evidence of illegal and unsustainable logging in PNG which is totally outside the ambit of the SGS monitoring system	The statement is completely illogical and seems to be deliberately misleading
15: Log tags allow UK buyers who doubt the legality of the source of PNG logs to verify this information with SGS	Log tags are of no use at all to UK buyers who purchase finished timber products from China that are made from PNG logs. In any event, SGS only monitors the log export value and species and cannot verify the 'legality of the source'	The statement is completely misleading
16: Allegations logs are being exported illegally from remote PNG islands are unlikely to be true	Any such allegations do not form any part of the case alleging illegal logging in PNG. Illegal logging is centred on the mainland and the main islands. Remote PNG islands are largely denuded	Another invented allegation is defeated to add to the false impression that export monitoring is controlling the problem
17: SGS is also to expeditiously verify any reports of illegal activities relating to the export of logs and such checks have not shown any illegal activities by log exporters	Again, SGS only monitors log exports shipments and has no role relating to the allegations of illegal logging in PNG which centre on the allocation of permits and logging practices	The statement appears to be intentionally misleading and gives the totally false impression that SGS can confirm there are no illegal activities by log exporters
18: Export earnings from forestry contribute significantly to government revenues which underpin and enable a very large percentage of national and provincial government spending	The forest industry contributes less than 3% of government expenditure and only 5% of the export value of major commodities	The statement is highly misleading and again, has nothing to do with the issues around illegal logging in PNG
20: Forestry is second only to mining and petroleum as an export earner	Agricultural export earnings are more than three times those of the forestry sector	Not only is the statement false, it is highly misleading to use positional rankings when the relative values are so hugely different
20: Forestry has, for over a decade, contributed an average of 30% of PNG's expenditure on development	The forest industry contributes less than 3% of government expenditure	The statement appears to be at best, grossly misleading
21: PNGFA estimates the sector directly employs 8000 people, mainly in rural areas	The jobs are mainly unskilled, low paid and employment conditions have been described by the Department of Labour as 'modern day slavery'	How many people are employed is not a defence against allegations of illegal logging and although the author claims to be 'independent' he only presents one side of the issue
24: The fact that PNG can improve its performance in sustainable forest management cannot be used to justify allegations that harvesting is illegal	There is NO commercial sustainable forest management in PNG and the fact that PNG can improve its performance is not being used to justify the allegations of illegal logging	The statement trivializes the very serious legal failings in the logging industry
25: At present there is no nationally agreed definition of illegal logging. The PNGFA generally uses the FAO/ITTO definition of "harvesting, processing, transportation and trade of forestry products in violation of national laws"	The FAO/ITTO definition is the one used by those making allegations of illegal logging and therefore there is no disagreement in PNG on the definition of illegal logging	The article in its penultimate paragraph is creating a false debate as a smokescreen to detract attention from the real issues
26: PNG is being judged on a much harsher Greenpeace definition of illegal logging	The definition used by those alleging illegal logging in PNG is the FAO/ITTO definition endorsed by the PNGFA	The statement is false and misleading and detracts from the real debate about illegal logging