



RECONCILING INVESTMENT POLICY CONFUSION, CONFLICT AND CONDITIONALITIES

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INTRODUCTION AND OVERVIEW

Where is forestry in PNG now?

Policy confusion

Policy conflict



The theme of this year's Market Discussion is promoting investment in tropical timber industries and tropical forestry.

Investment - dependent on the private sector economic returns,

political, legislative and policy stability to underpin its long term commitment

Equally important !

The extent and security of the forest resource base and in the case of plantation investment, security of land tenure.



Where does PNG fit and how have we arrived at our current position?

Log export volume average 3.5million M³ per year, although due to weak markets we expect only 3million M³ this year.

Our sustainable harvest level from the permanent forest estate is set at 3.8million M³ per year and this has never been exceeded.

Of the log export volume, approximately 10% is from plantations and 25% from land conversion projects

The industry

Consumes about 400,000 M³ of log input per year and produces a wide range of manufactured wood products mainly for the domestic market.

Processing sector is in decline,.

Forest plantation development has also effectively ceased.

Approximately 65,000 hectares of both private and publicly owned estates in the 1990s it has fallen to 40,000 hectares currently, all of which are privately owned and or managed.



National Forest Inventory

National Forest Inventory, recently concluded with the assistance of JICA, the extent of our forest cover has been established at 81% and our deforestation rate as reported by the FAO in its State of the World's Forests has been much less than 1% per year since 2000.



Against this background why has investment in industry and tropical forestry not progressed?

**extensive and plentiful resource base
negligible deforestation and demonstrated “on the ground” sustainable forest management practices**

Why has investment in industry and tropical forestry not progressed?

In fact, in many areas it has declined and or disappeared altogether.



POLICY CONFUSION

The mandate of the State is to administer its forest estate as it sees appropriate.

However - critical, but often overlooked link between forest policy certainty and stability and the private sectors willingness to invest.

In PNG where we are reliant on foreign capital investment domestic banks and financial institutions are not prepared to support what they see as the high risk forest sector

Outside investors will rate countries by what is termed political risk.



National Policies are being undermined

We have established under our Forest Act a National Forest Policy which is subject to regular stakeholder review and amendment if necessary.

Over the recent two year period the National Forest Policy has been weakened, and in some cases ignored, as competing development objectives take precedence.

The National REDD+ Strategy

Largely driven UNDP and the World Bank's Forest Carbon Partnership Facility and approved by PNG

For organisations that endlessly lecture on good governance, their actions in PNG are extraordinary.

Regulatory power over forests, where it impacts on REDD+, has been taken away from the PNG Forest Authority and given to a new Climate Change Development Authority.

What changes to forest laws and regulations CCDA propose are unknown

The forest industry which is on the user end of such changes has not been consulted.

How the aid donors are contributing to job creation and rural poverty alleviation is beyond my understanding.

POLICY CONFLICT

biggest issues - illegal logging and zero deforestation.

In PNG industry took the early lead in developing and using legality standards; this was the Timber Legality and Traceability Verification standard developed by SGS.

reviled by the green NGO movement and SGS eventually withdrew

A new NGOs was created and funded by the World Bank but now it is funded by member states of the EU.

With the assistance of ITTO, a PNG Legality Standard was developed but was again opposed .

Now a third attempt is being made to finalise and implement the Standard, this time funded by the Australian Government.


FLEGT in PNG

The EU insist that the legality Standard meet the requirements of its FLEGT programme.

While conflicting objectives frustrate progress and resolution on this issue, industry has moved on and where necessary operators have, according to their market needs, obtained full FSC, Controlled Wood, or PEFC certification.

EU proposal to ban imports of timber that result from deforestation by 2020, sustainable and deforestation free are now the catch words of the timber trade.

Fully endorsed by WWF who, on a recent visit with Chinese log buyers to PNG, wanted to buy only all the Taun logs available, itself a breach of our selective logging regulations, provided this did not result in deforestation.



Over what time period would any deforestation be measured – average forest regeneration time in PNG is 40 years – and what if deforestation results from actions by third parties or landowners who are outside the control of the forest operator or the State?

And what if deforestation occurs as the inevitable result of government approved land conversion for agriculture programs and are the resulting forest products, logs or timber, therefrom illegal.

It would seem that the green movement would say yes!



The results of our forest inventory demonstrate that at the national level our forest industry is sustainable and deforestation free.

The conflict and confusion created by parties with differing development objectives only serves to ward off potential investment in forest industrial development and drives home the message that investors beware –

the rules may change at any time and for any reason!



POLICY CONDITIONALITIES

PNG has initiated its REDD+ Strategy.

A precondition of actually doing anything related to REDD+ is to obtain US\$36million from the Green Climate Fund, of which \$6million is to fund yet another review of forest policy and legislation

**The key elements of this review and its expected outcomes are to –
Review concession allocation procedures.**

- **Increase timber production from plantations and small scale timber producers.**
- **Increase the volume of timber processed in PNG through changes in taxation, subsidies and improved market access.**
- **Better manage fuelwood supplies.**
- **Position PNG to be a global leader in the production of sustainable timber for downstream processing and value adding.**

And the objective of all this is to reduce forest carbon emissions by 10% over the next 5 years.



To conclude

I would suggest that, given the current state of decline in forest development in PNG which shows no sign of reversal, we could in fact do nothing and achieve even greater emissions reductions at far less cost.

Forest investment is desperately needed to reverse the current trend of decline; will such investment materialize?

We in industry and certainly the landowners whose resource we utilize hope so. We need to address the barriers to investment within the framework of a known and stable policy environment.

Thank you