

INTERNATIONAL TROPICAL TIMBER ORGANIZATION (ITTO)
THEMATIC PROGRAMME ON
FOREST LAW ENFORCEMENT GOVERNANCE AND TRADE
PROJECT DOCUMENT

TITLE:	CHAIN OF CUSTODY VERIFICATION FOR TIMBER PROCESSORS IN PAPUA NEW GUINEA
SERIAL NUMBER:	TFL-SPD 043/13 Rev.1 (M)
SUBMITTED BY:	GOVERNMENT OF PAPUA NEW GUINEA
ORIGINAL LANGUAGE:	ENGLISH

SUMMARY:

The Project will develop and pilot a Chain of Custody (CoC) system based on the international standard managed by the Programme for the Endorsement of Forest Certification (PEFC), customised for use by PNG timber processors. This customised standard will facilitate access to international markets for PNG timber processors. The Project will build on the outputs of ITTO Project PD 449/07 Rev.2 (M) ("Enhancing Forest Law Enforcement in PNG"). PD 449/07 Rev.2 (M) has established a generic legality standard for PNG; however this standard does not incorporate a Chain of Custody component. The proposed Project will provide a CoC component, such that together the outputs of the two projects will provide PNG timber companies with the tools needed to meet regulatory requirements of key international export markets.

EXECUTING AGENCY: PAPUA NEW GUINEA FOREST AUTHORITY (PNGFA)

IMPLEMENTING AGENCY: PAPUA NEW GUINEA FOREST INDUSTRIES ASSOCIATION (PNGFIA)

DURATION: 12 MONTHS

BUDGET AND PROPOSED SOURCES OF FINANCE:	Source	Contribution in US\$
	ITTO	147,280
	PNGFIA	15,880
	TOTAL	163,160

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LIST OF ABBREVIATIONS AND ACRONYMS

CoC – Chain of Custody

EA – Executing Agency (PNGFA)

EU – European Union

FSC – Forest Stewardship Council

ITTA – International Tropical Timber Agreement

ITTO - International Tropical Timber Organisation

NGO – Non-Governmental Organisation

PEFC – Programme for the Endorsement of Forest Certification

PFMC – Provincial Forest Management Committee (of PNGFA)

PNG – Papua New Guinea

PNGFA - Papua New Guinea Forest Authority

PNGFIA - Papua New Guinea Forest Industries Association

SGS – Société Générale de Surveillance

TFLET - Thematic Programme on Forest Law Enforcement, Governance and Trade

TLTV – Timber Legality and Traceability Verification

UNDP – United Nations Development Programme

USA – United States of America

PART 1 PROJECT CONTEXT

1.1 Origin

The need for the Project is based on current national and international trends towards greater requirements for verification of legality and assessment of supply chains of forestry operations. Globally, timber producing and consuming countries alike are recognising the desirability of rigorous, third-party CoC verification systems to drive positive outcomes for legitimate timber companies, national governments, local communities, and the environment. This is evidenced by the following:

- ITTO has identified Forest Law Enforcement and Governance as a key means of achieving the objectives of the International Tropical Timber Agreement (2006)
- Timber consuming countries such as the USA, EU and Australia have enacted new regulations that require timber importers to seek and provide additional information to assure that products containing imported timber were harvested legally.

Some producers in PNG have successfully adopted the Forest Stewardship Council's (FSC) Controlled Wood standard; however FSC requirements are only suitable to certain timber companies in PNG. PNG's one customised timber legality standard for processed timber – SGS' Timber Legality and Traceability Verification (TLTV) standard – has been discontinued. As a result, once existing TLTV licences expire over the next 3 years, many timber processors will be left with no alternative suited to PNG's national context.

A previous ITTO-funded project, PD 449/07 Rev.2 (M) "Enhancing Forest Law Enforcement and Governance in PNG", has provided significant groundwork for the proposed Project, by creating a standard system for measuring legal compliance, and examined technical systems and procedures – including the use of barcodes - to support a timber legality verification system. The proposed Project will build on the outcomes of PD 449/07 Rev.2 (M) and in addition provide a Chain of Custody (CoC) system that can be adopted by all timber companies in PNG. The outputs of the two projects (PD 449/07 Rev.2 (M) and the proposed Project) will provide PNG timber companies with the legality and CoC verification tools needed to meet regulatory requirements of key international export markets.

At the Annual General Meeting of the PNG Forest Industries Association (PNGFIA) in April 2013, major PNG timber processing companies agreed that with the imminent discontinuation of the TLTV, there was a pressing need for an internationally credible CoC standard, suited to the requirements of PNG companies. At a subsequent meeting, it was agreed that PNGFIA would investigate alternative CoC certification options, to operate alongside the legality verification outputs of the above-mentioned PD 449/07 Rev.2 (M). The companies taking part in these two meetings represent more than 50% of processed timber exports from PNG.

PNGFIA's investigation of available CoC standards identified PEFC as the most suitable model, and is now seeking funding to adapt and pilot a PNG CoC standard.

The Papua New Guinea Forest Authority (PNGFA) which is the government agency responsible for forestry in PNG is keen to have a standard adopted by the country in which it can monitor the export and management of its forest products. While the PNGFA acknowledges that there are other CoC standards, for example, the Forest Stewardship Council (FSC), it supports the view by the PNGFIA to consider PEFC as it is deemed more appropriate and suitable for the kind of timber industries operating in PNG where the ownership of land is by customary landowners under customary law.

1.2 Relevance

1.2.1 Conformity with ITTO's objectives and priorities

The Project is closely aligned with a number of ITTO's core objectives and priorities. Chief among these are the following:

By providing a means for PNG timber producers to offer evidence of legal and unbroken chains of custody to importers of timber products in international markets, the Project will help increase timber exports and foreign exchange remittances. This will contribute to progress against the following ITTO objectives and priorities:

- Enhancing the capacity of members to implement strategies for achieving exports of tropical timber and timber products from sustainably managed sources; (ITTA Article 1 d)
- Promoting increased and further processing of tropical timber from sustainable sources in producer member countries, with a view to promoting their industrialization and thereby increasing their employment opportunities and export earnings; (ITTA Article 1 i)
- Strengthening the capacity of members to improve forest law enforcement and governance, and address illegal logging and related trade in tropical timber; (ITTA Article 1 n)
- To promote the expansion and diversification of international trade in tropical timber from sustainably managed and legally harvested forests (ITTA Article 1)

Furthermore, by specifically providing a means of rewarding legal harvesting and timber production, the Project will contribute to the following ITTO priorities:

- Strategic Priority 2. Increase the Contribution of Tropical Forests to National and Local Economies, Including through International Trade (Strategic Action Plan 2013-2018)
- Strategic Priority 6. Build and develop human resource capacity to implement SFM and increase trade in forest goods and services from sustainably managed forests (Strategic Action Plan 2013-2018)

Specific Requirements for ITTO Thematic Programme on Forest Law Enforcement, Governance and Trade (TFLET)

1. The Project contributes to the Outcomes, Outputs and Deliverables of the TFLET Programme, specifically to the following deliverables:
 - “Improved management systems, such as chain of custody, tracking and tracing systems adopted”(under Specific Objective A). The Project will provide an internationally recognised Chain of Custody tool, customised for use in PNG.
 - “Increased production of timber and timber products as verified from legal/sustainable sources” (under Specific Objective A). The availability of this tool to timber companies in PNG will result in an increasing volume of timber products sourced from verified legal sources.
 - “Increased volumes of traded tropical timber and timber products from legal sources” (under Specific Objective B). This increase, along with the increased acceptance in major export markets for verified legal timber products, will lead to an increase in total timber products from verified legal sources traded internationally.
2. The Project is associated with the TFLET Monitoring Protocol (MP) in the following ways
 - Under Specific Objective A:
 - Output Indicator: “Cost-effective and non-paper based timber tracking systems developed and implemented”. The project will contribute to the formalisation of CoC tracking systems customised for the PNG context.
 - Means of Verification: “Report on the implementation of the systems, certification of verification of legality, chain of custody certification reports”. The project will assist the PNG industry to boost the prevalence of chain of custody verification.
 - Under Specific Objective B:
 - Output Indicator: “Increased volumes of traded tropical timber and timber products from legal and sustainable sources”. By providing a customised CoC standard for PNG timber

companies, the Project will allow more PNG producers to export legally verified timber products; and

- Means of Verification: “Number of Certificates of COC, legality, etc.” By providing PNG timber companies with a CoC verification system customised for the PNG context, the Project will help increase the number of CoC certificates issued.

As the Project aims to build incentives for PNG timber companies to seek third party CoC verification for their operations, the Project is particularly relevant to the focus of the 6th Cycle Call For Proposals of the TFLET, which will give “special priority to proposals aimed at combating illegal logging and associated trade through building the capacity to implement systems (e.g. for timber legality verification) that will promote trade in legal timber and, in the long term, trade in timber and wood products from sustainably managed forests”¹

1.2.2 Relevance to the submitting country’s policies

Since the creation of the Papua New Guinea Forest Authority (PNGFA) in 1991 and the drafting of the PNG Logging Code of Practice, which was adopted in 1997, PNGFA has been mandated with the task of ensuring a profitable, sustainable return from the country’s forest estate. The aspects of PNG’s forestry and development policies that are most relevant to the objectives of the Project include:

- “[T]o effectively control and monitor harvesting and export operations to ensure compliance with the Forestry Act and associated Government policies, guidelines and procedures” (PNGFA Corporate Plan)

The CoC standard designed and piloted by the Project will support efforts to ensure compliance with laws and regulations outlined in the Forestry Act, and will contribute to a culture of rewarding legal, sustainable operations.

- “Sector Strategy 4: Pursue downstream processing of forest products such that 60% of PNG timbers are processed in-country by 2030” (PNG Medium-Term Development Plan, p96)
- Statement 1.17.4.2.2 Ensure the downstream processing of all logs onshore” (PNG Vision 2050, p4)”
- “Utilization of the nation’s forest resources to achieve economic growth, employment creation, greater Papua New Guinean participation in industry and increased viable onshore processing” (PNG Draft National Forestry Plan, p2)
- “[The PNGFA shall] [e]ncourage forest Industries to increase trade volumes of forest produce for domestic and international markets” (PNG Draft National Forestry Plan, p16)

By helping enable PNG producers to meet the CoC requirements of overseas customers, the project will contribute to an increase in demand for PNG processed timber products. This will support government efforts to increase rates of domestic processing of PNG timbers.

- “[The PNGFA shall] [d]evelop a system to monitor and control the trade of forest products” (PNG Draft National Forestry Plan, p16)

The CoC standard to be piloted by the Project will enable timber companies to easily report on the entirety of their supply chains.

¹ Call for proposals document: “6th Proposal Cycle under the ITTO Thematic Programme on Forest Law Enforcement, Governance and Trade (TFLET)”, page 1, emphasis in original

1.3 Target Area

1.3.1 Target area

The Project's eventual target area will cover all integrated timber operations in PNG, as the project's output - a customised and piloted CoC system – will be suitable for use by any timber processing company. The Project's pilot stage will cover the current supply chain of Saban Enterprises, a major PNG processed timber operation.

The area covered by the pilot stage will consist of a combination of the following:

- Production forests managed by industrial logging companies and owned by customary landowners
- Timber plantations managed by PNGFA and/or private sector forestry companies
- Timber processing facilities operated by Saban Enterprises
- Logistics chains that connect harvesting areas with the processing facilities

The site of Saban Enterprises' timber processing facility is indicated on the map below and the timber concession that supplies it.

1.3.2 Socioeconomic and cultural context

Current and potential forestry supply chains and major processing facilities in PNG are almost exclusively situated in remote, rural parts of the country. These areas exhibit many socioeconomic difficulties, such as are noted in the following international statistics:

- PNG ranks 156th out of 187 countries, according to UNDP's Human Development Index
- 97% of land - and practically all forested land – is held under customary ownership
- According to the World Bank, 35.79% of PNG citizens are living on less than US\$1.25 per day
- PNG's adult literacy rate is 60.6%; maternal mortality rate is 230 per 100,000 live births (UNDP Human Development Report 2013)
- PNG life expectancy is 62.8 years (World Bank, 2011)
- According to World Bank Data, 87% of PNG's population lives in rural areas, where the vast majority are employed in subsistence agriculture.
- Of the 80,000 young people who leave school every year, only 10,000 enter the formal workforce (International Labour Organisation, Decent Work Country Programme Papua New Guinea (2009-2012))

PNG has achieved impressive economic growth over the past decade; however, the socioeconomic issues outlined above (among others) are daunting. Compounding these issues is the fact that PNG's recent successful increase in mineral and gas investment and export have exacerbated some of these problems, by creating a two-speed economy, and contributing to so-called "Dutch Disease".

Dutch Disease refers to a situation whereby international investment and demand for energy and mineral exports drive the national currency value up to a point where other industries – including the timber processing industry – are no longer able to compete with international competitors. From the 1st of January 2008 to the 1st of January 2013, the value of the Kina against the US Dollar rose by 33%².

² According to major currency trading website xe.com

All of these issues – a largely rural population with limited opportunities to enter the formal workforce, high rates of poverty, a reliance by local people on customary ownership of forests to generate income – lead to a situation whereby any increase in the rates of legal timber harvesting and processing will contribute to driving positive socioeconomic outcomes and impacts.

1.3.3 Environmental context

29 million hectares, or 64% of PNG's land area, is covered in forest³. Of this area, 11.9 million hectares are classified as production forests⁴. So far, PNG has established 62,227 hectares of timber plantations⁵.

PNG's extensive forests represent both an environmental responsibility, and an economic opportunity. PNG is morally obligated to manage its forest resource in a responsible, sustainable and legal manner, while at the same time ensuring that the population is able to generate economic returns from this significant natural resource.

Current environmental risks present in PNG's forested areas include:

- A net deforestation rate of approximately 0.5% per year⁶, largely driven by informal clearing for subsistence farming
- Forest fires, exacerbated by a lack of forest management to prevent the build-up of fuel
- The risk of illegal logging activities undertaken by small- and medium-scale operators

1.4 Outcomes at project completion

At the Project's completion, the local and national government, timber processors and local communities in timber harvesting and processing areas will benefit from a number of desirable development outcomes. These include:

- Timber processors will benefit from access to an affordable, field tested timber CoC system that is suited to the PNG context.
 - This system will allow processors to demonstrate to domestic and international clients that their timber is produced in a legal manner. This ability will allow PNG products to access markets in countries such as the USA, EU and Australia, which have new requirements regarding COC assurance and legality verification
- Government will increase tax revenues in two ways:
 - By facilitating and incentivising legal timber harvesting and processing, and thereby discouraging smuggling; and
 - By increasing market access for PNG exports of processed timber products, and thereby increasing exports and foreign exchange remittances
- Local communities, particularly customary landowners of timber resources, will benefit in several ways:

³ See <http://www.forestry.gov.pg/site/page.php?id=11>

⁴ http://www.fiapng.com/forest_classification.pdf

⁵ <http://www.forestry.gov.pg/site/page.php?id=13>

⁶ FAO Forest Resource Assessment

- From an increased demand for timber harvesting, thanks to increased saleability of PNG processed timber exports, which will allow landowners to negotiate more favourable terms with timber processing companies;
- From incentives that promote legal and sustainable timber harvesting and transport, which will help reduce deterioration of the quality of landowners' forest resources (through, for example, wider effective use of selective logging techniques that allow cut over areas to regrow and provide on-going economic benefits); and
- From employment opportunities created by increased timber harvesting and processing, in order to meet improving export demand

PART 2. PROJECT RATIONALE AND OBJECTIVES

2.1 Stakeholder analysis

Key stakeholders affected by the Project are as follows:

- Government of Papua New Guinea
- Timber industry participants
- Landowners
- Local NGOs/Civil society
- Concessionaires and timber processing companies (for pilot stage of Project)

An analysis of the requirements and desires of these stakeholders has revealed the following:

- All stakeholders believe that replacement schemes should be sought for the soon-to-be discontinued SGS Timber Legality and Traceability Verification scheme (TLTV).
- Most stakeholders (with the exception of some local NGOs) would benefit from increased timber harvesting and processing that is envisaged, once processors have access to the outputs of the Project
- Many stakeholders believe that a CoC verification scheme will help combat social and environmental problems, including: illegal large-scale logging; local and national corruption; and a lack of formal jobs in rural areas
- Government development plans (such as Vision 2050 and the Medium-Term Development Plan) highlight the government's desire to increase rates of downstream timber processing up to 80% of all harvested timber by 2030. To support this goal, it is agreed that PNG timber processors must be able to access export markets, which are increasingly requiring CoC and legality verification for imported timber products.
- Timber industry participants, in particular, want a viable replacement for SGS' TLTV scheme. PNG's largest timber processors invested significant efforts and resources into meeting TLTV requirements, and were disappointed when the scheme was discontinued, with no replacement offered that was customised to PNG's local context.
- The above are further elaborated in Table below.

Group of Stakeholders	Characteristics	Problems, Needs and Interests	Potential	Involvement in the Project
<i>Primary Stakeholders</i>				
PNG Forest Industry Association	Is the mouthpiece for most timber operators in PNG	No CoC for timber processors in PNG and wants to see that one is developed and applied for the interest of its members	Capacity to engage with timber processors	Primary implementer of the project
Saban Enterprises Ltd	Trial site	Keen to apply a CoC	Have multiple sites for testing out the CoC	Will participate in the project which will assist them over the long term
<i>Secondary Stakeholders</i>				
Local communities that own the land on which Saban Enterprises is harvesting and processing timber	They are the owners of the land	Not aware of all the processes involved in timber harvesting and processing	Can gain some good understanding of the timber industry and how they can assist or be involved	Increase in monetary benefits if better prices obtained through CoC
Other timber processing companies	Involved in timber harvesting and processing	Not applying any legality scheme and want to adopt one so to improve in their market returns	Already involved in the timber business and can adapt	Can be used as other potential pilot sites or actual projects that can adopt the CoC
<i>Tertiary Stakeholders</i>				
PNG Forest Authority	Government of PNG agency mandated to oversee the management of the forestry sector in the country	Wants to see that PNG as a country is able to export its timber products to international market	Has expertise in the organization that can assist in managing the project	Coordinate with the primary stakeholders to ensure that the project delivers
Local NGOs/Civil Society	Advocate for good forest management	Not aware of CoC processes	Can gain some knowledge	Assist local communities in appreciating the CoC process

2.2 Problem analysis

The Problem Tree (Annex 3) clearly demonstrates how the key problem of “*Lack of robust and affordable CoC systems in PNG forest industry*’ causes risks that may greatly affect the trade of timber products from PNG. Causes of this problem might be related to:

- (1) Lack of a tested CoC standard in the context of PNG forest industry;
- (2) Lack of a robust CoC verification system in PNG forest industry; and
- (3) Limited capacity of PNG forestry industry and local stakeholders, including the PNGFA in implementing and applying CoC verification systems.

This problem if not addressed soon and adequately by PNG timber industry and the government (PNGFA) may cause the timber industry to shrink and not expand because:

- Some primary timber consuming countries such as the EU, USA and Australia have developed new regulations requiring timber importers to assure the legality of timber products.

- This has been the result of a long process of lobbying and policy formulation, and has been driven by several interest groups, including Western-based NGOs, timber industries in developed countries, and Western governments. The regulations require timber importers to assure that the products they import do not contain illegally harvested timber. As a result, timber producing countries that cannot provide legality and CoC verification for timber products are at a significant disadvantage in these developed-country markets
- Western-based NGOs have painted a negative picture of the forestry industry in PNG, leading to exaggerated perceptions of illegality abroad
 - This factor, combined with the new timber import regulations described above, have the effect of driving discrimination against PNG timber products in key Western markets. This is due to the fact that the import regulations will encourage timber importers in these markets to choose timber from sources that have the least chance of illegality. The often exaggerated nature of NGO claims against PNG's forestry industry mean that importers will be more likely to avoid PNG timber products, particularly if they lack independent legality and CoC verification
- SGS Timber Legality and Traceability Verification scheme (TLTV) has been discontinued
 - The TLTV scheme previously gave PNG timber processors the opportunity to provide independent verification of legality to export customers. Now that SGS has decided to abandon this scheme, PNG timber processors are left with no locally customised third party CoC verification system.

Although some timber companies have successfully addressed this problem by adopting the FSC Controlled Wood legality standard, certain aspects of the FSC standard render it unsuitable for many forestry operations in PNG. This problem carries serious potential effects for the PNG timber industry, for the government, and for landowners in remote locations. These effects include the following:

- The lack of a third-party legality and CoC verification system may further damage the reputation of PNG's timber products in export markets.
 - This could eventually become a vicious circle. The worse PNG's reputation for illegal logging becomes (deservedly or not), the less PNG exports will be accepted into Western markets, and the less the products are accepted, the worse the reputation will become.
- A shrinking export market may cause PNG timber processing companies to reduce production
 - This would result in reduced employment opportunities and government revenues, and could reduce overall demand for harvested timber, which would lead to lower log prices and less timber harvesting in the longer-term
- Generally, domestic prices for round logs and processed timber may fall
 - This would have some positive effects in the short term, as domestic users of timber would be able to secure lower prices, however in the longer term, low prices would make investment in timber harvesting and processing less attractive, which would reduce timber harvesting rates, government revenues, as well as available budgets for rural infrastructure, education and health projects (that normally form part of any timber concession agreement).

2.3 Objectives

2.3.1 Development objective and impact indicators

The main development objective of the Project is to facilitate and grow the production and trade of legally produced timber products from PNG. This objective is closely aligned with ITTO's mandate, which is to support the sustainable management of tropical forests and the sustainable trade of tropical forest products. See Annex 4 for the Objective Tree.

Indicators that will track progress against this development objective include:

- The volume and value of timber products produced in PNG that have a verified chain of custody
- Total exports from PNG of processed timber products from a verified chain of custody

2.3.2 Specific objective and outcome indicators

The specific objective of the Project is: Development of affordable CoC verification systems in PNG forestry industry. This objective will be achieved by making available a piloted timber CoC verification standard that is customised to the PNG context. Timber companies seeking to export processed timber internationally will be able to apply this system to their own operations and have their chain of custody certified against the standard by a third-party auditing body.

Indicators that will demonstrate progress include:

- Number of companies seeking to apply the CoC standard
- Volume and value of processed timber products produced by companies who have been certified against the CoC standard
- Net increase (or decrease) in number of employees employed by companies applying the CoC standard
- Rates of downstream timber processing in PNG, as a percentage of total harvested logs

PART 3. DESCRIPTION OF PROJECT INTERVENTIONS

3.1 Outputs

- Output 1: A customised piloted CoC system applicable to the needs of PNG industrial logging operations and export markets.
- Output 2: An applicable generic CoC manual, to serve as a guide for PNG industrial forestry operations considering implementing a CoC system
- Output 3: Training modules with training courses to assist onsite field management staff and other stakeholders implement generic CoC system

3.2 Activities and inputs

For Output 1: A customised piloted CoC system applicable to the needs of PNG industrial logging operations and export markets.

1. Engagement of international and national consultants
2. Analysis of exports of PNG wood and wood products and relevant trade regulations in key export markets
3. Review of available CoC systems and their applicability to PNG national context
4. Pilot testing: Assessment of current timber tracking procedures at Pilot site, and site compliance with selected CoC system requirements (Gap Analysis)
5. Pilot testing: Design CoC system for pilot site (CoC Manual) based on Gap Analysis (Activity 1.4). Including reporting templates & guidance, and detailed implementation program
6. Pilot testing: Design training program for management staff on implementing the CoC system at pilot site
7. Pilot testing: Implementation of training program and CoC system at pilot site

For Output 2: An applicable generic CoC manual, to serve as a guide for PNG industrial forestry operations considering implementing a CoC system

1. Summary Report of key lessons from Output 1 (pilot of CoC system)
2. Develop of CoC manual (based on Activity 1.4) for generic use, incorporating key lessons and challenges identified during Output 1)

For Output 3: Training modules with training courses to assist onsite field management staff and other stakeholders implement generic CoC system

1. Develop training modules (based on Activity 1.6) for generic use by PNG industrial forestry operations, incorporating key lessons and challenges identified during Output 1.
2. Undertake onsite field testing and training for pilot project staff based on Activity 1.7 and Activity 3.1.
3. Provide preliminary training to PNG forest industry, government agencies (e.g., PNGFA), PNG formal forestry education sector (e.g., the Timber and Forestry Training College [TFTC]-PNG University of Technology) and other interested stakeholders (e.g., landowners and NGOs).

3.3 Strategic approach and methods

This project will work collaboratively with PNG forest industry and government stakeholders to implement a practicable and relevant timber tracking system, which addresses the environmental, legal and commercial context in which PNG tropical forestry producers operate.

Through a participatory approach, the project outcomes will relate to the needs and requirements of PNG stakeholders. In particular, this approach will assist tropical forestry industries in PNG to develop systems which can be applied to audit their supply chains; and by doing so assist stakeholder access markets where timber with verified Chain of Custody is required or preferred.

The proposal aims to mobilize and train beneficiaries amongst both private and government sectors by building capacity for implementing CoC verification systems. The approach will culminate in guidance documents to assist operators implement practicable and relevant timber tracking systems, based on stakeholder experience. The project method will take into account the need to advance step by step, helping to access system options, analyse implementation problems, and identify market priorities. The project will involve regular and on-going consultations between PNG industry and government representatives, with participatory workshops convened in order to ascertain the system needs and implementation challenges.

The project will be implemented as a pilot project, utilising a trial method. This approach provides the opportunity to field test the system, and is useful in identifying key challenges and issues for on-the-ground implementation of timber tracking systems. The approach lends itself to identifying valuable lessons for future efforts to implement legality and CoC systems amongst PNG tropical forestry producers.

3.4 Work plan

Outputs and Activities	Responsible Party	Schedule (in months)												
		1	2	3	4	5	6	7	8	9	10	11	12	
Output 1: A customised piloted CoC system (including legality verification component), applicable to the needs of PNG industrial logging operations and export markets.														
1.1. Engagement of international and national consultants	EA and PNGFA	■												
1.2. Analysis of exports of PNG wood and wood products and relevant trade regulations in key export markets	Consultant, EA and PNGFA		■											
1.3. Review of available CoC systems and their applicability to PNG national context	Consultant, EA and PNGFA		■											
1.4. Pilot testing: Assessment of current timber tracking procedures at Pilot site, and site compliance with selected CoC system requirements (Gap Analysis)	Consultant, EA and PNGFA			■										
1.5. Pilot testing: Design CoC system for pilot site (CoC Manual) based on Gap Analysis (Activity 1.4). Including reporting templates & guidance, and detailed implementation program	Consultant, EA and PNGFA				■									
1.6. Pilot testing: Design training program for management staff on implementing the CoC system at pilot site	Consultant, EA and PNGFA					■								
1.7. Pilot testing: Implementation of training program and CoC system at pilot site	Consultant, EA and PNGFA						■							
Output 2: An applicable generic CoC manual, to serve as a guide for PNG industrial forestry operations considering implementing a CoC system														
2.1. Summary Report of key lessons from Output 1 (pilot of CoC system)	Consultant, EA and PNGFA							■						
2.2. Develop CoC manual (based on Activity 1.4) for generic use, incorporating key lessons and challenges identified during Output 1)	Consultant, EA and PNGFA							■	■					
Output 3: Training modules with training courses to assist onsite field management staff and other stakeholders implement generic CoC system														
3.1. Develop training modules (Based on Activity 1.6) for generic use by PNG industrial forestry operations, incorporating key lessons and challenges identified during Output 1.	Consultant, EA, PNGFA									■				
3.2. Undertake onsite field testing and training for pilot project staff based on Activity 3.1 and Activity 1.7.	Consultant, EA, PNGFA										■			
3.3. Provide preliminary training to PNG forest industry, government agencies, PNG formal forestry education sector and other interested stakeholders.	Consultant, EA, PNGFA											■		

3.5 Budget

Consolidated Yearly Project Budget (featuring Input and Unit Costs)				
Budget Components	Input	Unit Costs	TOTAL	YEAR 1
10 Project Personnel				
11. National Experts (Long term)	-	\$ -	\$ -	\$ -
11.1. Project Coordinator	13	\$ 2,000.00	\$ 26,000.00	\$ 26,000.00
11.2. Forester 1	-	\$ -	\$ -	\$ -
11.3. Forester 2, etc.	-	\$ -	\$ -	\$ -
11.4. Administrator	-	\$ -	\$ -	\$ -
12. Other Personnel	-	\$ -	\$ -	\$ -
12.1. Assistant 1	-	\$ -	\$ -	\$ -
12.2. Assistant 2	-	\$ -	\$ -	\$ -
12.3. Other labour	-	\$ -	\$ -	\$ -
13. National Consultants (Short term)	9	\$ 1,000.00	\$ 8,500.00	\$ 8,500.00
13.1. Consultant Forest Technology	-	\$ -	\$ -	\$ -
13.2. Consultant 2	-	\$ -	\$ -	\$ -
13.3. Consultant 3	-	\$ -	\$ -	\$ -
14. International Consultants	86	\$ 1,000.00	\$ 86,000.00	\$ 86,000.00
14.1. RIL Training Expert	-	\$ -	\$ -	\$ -
14.2. Consultant 2	-	\$ -	\$ -	\$ -
15. Fellowships and Training	-	\$ -	\$ -	\$ -
15.1. Training 1 (specify beneficiaries)	10	\$ 100.00	\$ 1,000.00	\$ 1,000.00
15.2. Training 2	20	\$ 200.00	\$ 4,000.00	\$ 4,000.00
15.3. Training 3	-	\$ -	\$ -	\$ -
19. Component Total	108	\$ 4,300.00	\$ 125,500.00	\$ 125,500.00
20 Sub-contracts				
21. Sub-contract (Topic e.g. Mapping, etc.)	-	\$ -	\$ -	\$ -
22. Sub-contract (Topic 2)	-	\$ -	\$ -	\$ -
29. Component Total	-	\$ -	\$ -	\$ -
30 Travel				
31. Daily Subsistence Allowance	16	\$ 120.00	\$ 1,920.00	\$ 1,920.00
31.1. National Experts/Consultants	-	\$ -	\$ -	\$ -
31.2. International Consultants	-	\$ -	\$ -	\$ -
31.3. Others	-	\$ -	\$ -	\$ -
32. International Travel	-	\$ -	\$ -	\$ -
32.1. National Experts/Consultants	-	\$ -	\$ -	\$ -
32.2. International Consultants	12	\$ 718.33	\$ 8,620.00	\$ 8,620.00
32.3. Others	-	\$ -	\$ -	\$ -
33. Local Transport Costs	20	\$ 231.00	\$ 4,620.00	\$ 4,620.00
33.1. National Experts/Consultants	-	\$ -	\$ -	\$ -
33.2. International Consultants	2	\$ 360.00	\$ 720.00	\$ 720.00
33.3. Others	-	\$ -	\$ -	\$ -
39. Component Total	50	\$ 1,429.33	\$ 15,880.00	\$ 15,880.00
40 Capital Items				
41. Premises	-	\$ -	\$ -	\$ -
42. Land	-	\$ -	\$ -	\$ -
43. Vehicles	-	\$ -	\$ -	\$ -
44. Capital Equipment	-	\$ -	\$ -	\$ -
44.1. Computer Equipment (specify)	-	\$ -	\$ -	\$ -
44.2. Forestry Equipment (specify)	-	\$ -	\$ -	\$ -
44.3. Others	-	\$ -	\$ -	\$ -
49. Component Total	-	\$ -	\$ -	\$ -
50 Consumable Items				
51. Raw materials	-	\$ -	\$ -	\$ -
52. Spares	-	\$ -	\$ -	\$ -
53. Utilities	-	\$ -	\$ -	\$ -
54. Office Supplies	-	\$ -	\$ -	\$ -
59. Component Total	-	\$ -	\$ -	\$ -
60 Miscellaneous				
61. Sundry	-	\$ -	\$ -	\$ -
62. Auditing	-	\$ -	\$ -	\$ -
63. Contingencies	-	\$ -	\$ -	\$ -
69. Component Total	-	\$ -	\$ -	\$ -
70 National Management Costs				
71. Executing Agency Management Costs			\$ -	\$ -
72. Focal Point Monitoring			\$ -	\$ -
79. Component Total			\$ -	\$ -
SUBTOTAL			\$ 141,380.00	\$ 141,380.00
80 Project Monitoring and Administration				
81. ITTO Monitoring and Review			\$ 6,000.00	\$ 6,000.00
82. ITTO midterm, final, ex-post Evaluation Costs			\$ -	\$ -
83. ITTO Programme Support Costs (12% on items 10 to 82 above)			\$ 15,780.00	\$ 15,780.00
84. Donor Monitoring Costs			\$ -	\$ -
89. Component Total			\$ 21,780.00	\$ 21,780.00
90 Refund of Pre-Project Costs (Pre-project budget)				
100 GRAND TOTAL			\$ 163,160.00	\$ 163,160.00

Annual Disbursements						
Budget Components	Total	Year 1	Year 2	Year 3	Year 4	Year 5
10. Project personnel	\$ 120,500.00	\$ 120,500.00	\$ -	\$ -	\$ -	\$ -
20. Sub-contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
30. Duty travel	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
40. Capital items	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
50. Consumable items	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
60. Miscellaneous (To cover training on developed CoC)	\$ 5,000.00	\$ 5,000.00	\$ -	\$ -	\$ -	\$ -
Subtotal 1	\$ 125,500.00	\$ 125,500.00	\$ -	\$ -	\$ -	\$ -
80. ITTO Monitor. Evaluation. Costs						
81. Monitoring and Review Costs (effective estimation)	\$ 6,000.00					
82. Evaluation Costs (effective estimation)	\$ -					
Subtotal 2	\$ 6,000.00					
83. Program Support Costs (12% of Overall Budget)	\$ 15,780.00					
84. Donor Monitoring Costs	\$ -					
90. Refund of Pre-Project Costs	\$ -					
ITTO TOTAL	\$ 147,280.00					

Yearly Project Budget By Source - E. Agency/Host Government

Annual Disbursements						
Budget Components	Total	Year 1	Year 2	Year 3	Year 4	Year 5
10. Project personnel	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
20. Sub-contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
30. Duty travel			\$ -	\$ -	\$ -	\$ -
40. Capital items	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
50. Consumable items	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
60. Miscellaneous	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
70. Executing Agency Management Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
EXECUTING AGENCY/HOST GOVT. TOTAL			\$ -	\$ -	\$ -	\$ -

Yearly Project Budget By Source - Others

Annual Disbursements						
Budget Components	Total	Year 1	Year 2	Year 3	Year 4	Year 5
10. Project personnel	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
20. Sub-contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
30. Duty travel	\$ 15,880.00	\$ 15,880.00	\$ -	\$ -	\$ -	\$ -
40. Capital items	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
50. Consumable items	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
60. Miscellaneous	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
OTHERS TOTAL	\$ 15,880.00	\$ 15,880.00	\$ -	\$ -	\$ -	\$ -

Overall Project Budget by Activity and Component (in U.S. Dollars)												
BUDGET COMPONENTS												
OUTPUTS/ACTIVITIES +	10. Project	20. Sub - Contracts	30. Duty Travel	40. Capital Items	50. Consumable Items	60. Miscellaneous				Year	GRAND	
Non - Activity Based Expenses	Personnel										TOTAL	
Output 1: A customised piloted CoC system (including legality verification component), applicable to the needs of PNG industrial logging operations and export markets.												
Activity 1.1: Engagement of International and national consultants	3,000.00	I -	-	-	-	-	-	-	-	Y1	3,000.00	
Activity 1.2: analysis of exports of PNG Wood and wood products and relevant trade regulations in key export markets	11,000.00	I -	-	-	-	-	-	-	-	Y1	11,000.00	
Activity 1.3: Review of available CoC systems and and their applicability to PNG national context	11,000.00	I -	-	-	-	-	-	-	-	Y1	11,000.00	
Activity 1.4: Pilot Testing: Assessment of current timber tracking procedures at Pilot site, and site compliance with selected CoC system requirements (Gap Analysis)	23,000.00	I -	-	7,940.00	E -	-	-	-	-	Y1	30,940.00	
Activity 1.5: Pilot testing: Design of CoC system for pilot site (CoC Manual) based on Gap Analysis (Activity 1.4), including reporting templates & guidance, and detailed implementation program	12,500.00	I -	-	-	-	-	-	-	-	Y1	12,500.00	
Activity 1.6: Pilot testing: Design Training Program for management staff on implementing the COC system at pilot site	11,000.00	I -	-	-	-	-	-	-	-	Y1	11,000.00	
Activity 1.7 Pilot testing: implementation of training program and CoC system at pilot site	15,000.00	I -	-	7,940.00	E -	-	-	-	-	Y1	22,940.00	
Subtotal 1	86,500.00	I -	-	15,880.00	E -	-	-	-	-		102,380.00	
Output 2: An applicable generic CoC manual, to serve as a guide for PNG industrial forestry operations considering implementing a CoC system												
Activity 2.1: Summary Report of key lessons from Output 1 (pilot of CoC system)	10,500.00	I -	-	-	-	-	-	-	-	Y1	10,500.00	
Activity 2.2: Develop CoC manual (based on Activity 1.4) for generic use, incorporating key lessons and challenges identified during Output 1.	10,500.00	I -	-	-	-	-	-	-	-	Y1	10,500.00	
Subtotal 2	21,000.00	I -	-	-	-	-	-	-	-	Y1	21,000.00	

Output 3: Taining modules with training courses to assis onsite field mangement staff and other stakeholders implemt generic CoC system													
Activity 3.1: Develop training modules (Based on Activity 1.6) for generic use by PNG industrial forestry operations, incorporating key lessons and challenges identified during Output 1.	13,000.00	I	-	-	-	-	-	-	-	-	Y1	13,000.00	
Activity 3.2: Undertake onsite field testing and training for pilot project staff based on Activity 1.7 and Activity 3.1	1,000.00	I							1,000.00	I	Y1	1,000.00	
Activity 3.3: Provide preliminary training to PNG forest industry, government agencies, PNG formal forestry education sector and other interested stakeholders	4,000.00	I							4,000.00	I	Y1	4,000.00	
subtotal3	18,000.00	I	-	-	-	-	-	-	-			18,000.00	
Subtotal (ITTO)	125,500.00		-	-	-	-	-	-	-	-		125,500.00	
Subtotal (E Agency)	-		-	-	-	-	-	-	-	-		-	
Subtotal (Others)	-		-	15,880.00	-	-	-	-	-	-		15,880.00	
TOTAL	125,500.00		-	15,880.00	-	-	-	-	-	-		141,380.00	

(I) - Contribution of the ITTO

(E) - Contribution of the Excuting Agency/Host Government

(O) - Contribution from other Sources

PART 4. IMPLEMENTATION ARRANGEMENTS

4.1 Executing agency and organizational structure

The Implementing Agency is the PNG Forest Industries Association (PNGFIA) with assistance from the PNG Forest Authority (PNGFA) as the Executing Agency. The PNGFA project managers will oversee all aspects of the project, managing the inputs of staff members of PNG Forest Industries Association (PNGFIA) and external consultants.

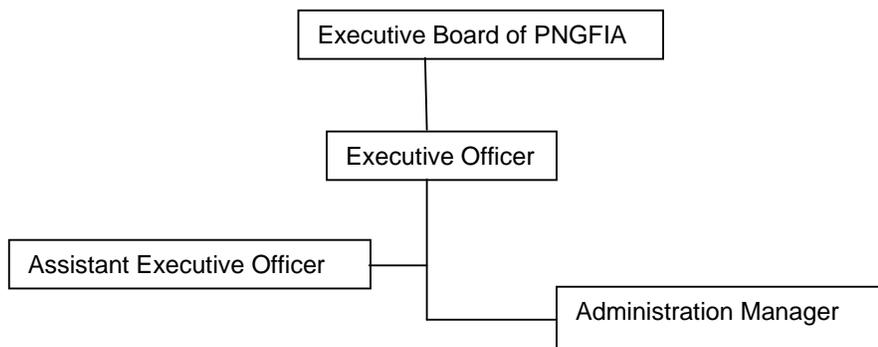
The PNGFIA represents the majority of all timber companies in PNG. As the objective of this Project is to provide a Chain of Custody tool customised to the needs of forestry companies in PNG, PNGFIA will provide essential input as to the needs of these stakeholders.

The needs of other stakeholders, such as landowners and timber users, will also guide the project. Where necessary and appropriate the PNGFIA will liaise with affected stakeholders as the project proceeds.

External Consultants will be engaged to provide expertise in technical aspects of the Project, and to help apply international best practice. External Consultants will be required to have extensive knowledge and experience in the following areas.

- PEFC requirements and standards
- PNG Forestry
- International trade in timber and other commodities
- International trade policy, and regulatory requirements for entry of PNG timber exports to key Western markets

Organization Structure of the PNGFIA



The PNGFIA is a very small organization which is supported by membership fees from its members, mainly the timber industries in PNG. It is managed through an Executive Board of 3 members and administered through three employees as shown in the structure.

4.2 Project management

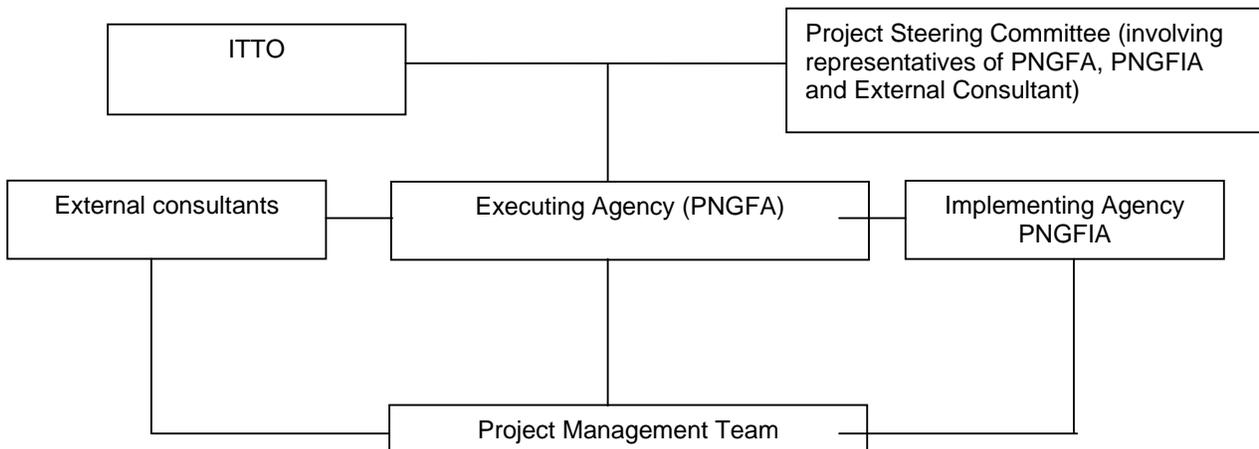
The Project will be managed by a team representing the PNGFA (Executing Agency), The PNG Forest Industries Association (Implementing Agency) and External Consultants selected for expertise in specific aspects of the Project.

PNGFA personnel will be responsible for project oversight, reviewing and endorsing progress reports, before submitting to ITTO, and general guidance.

PNGFIA will provide project management, engaging and organising the work of the External Consultants, ensuring that milestones are met and progress reports submitted according to schedule. PNGFIA will also act as the primary point of contact with management staff of Saban Enterprises, and will contribute detailed knowledge and access to information regarding current timber production, major companies, and current challenges and constraints in the PNG timber industry.

Detailed responsibilities of the External Consultants are described in Annex 2, and will include review of international in trade timber, regulatory requirements of various export markets, analysis and recommendations regarding PEFC requirements, and the establishment of the CoC template and training manual and materials.

Furthermore, all the Outputs from the Project will be placed in the PNGFIA and PNGFA websites during and after the completion of the Project.



4.3 Monitoring and reporting

The External Consultants will prepare two six-monthly progress reports during the Project, which will be submitted to PNGFA for review, endorsement and submission to ITTO.

All progress and technical reports will be prepared according to the guidelines stipulated in the ITTO Manual on Project Monitoring, Review, Reporting and Evaluation.

In addition to these reports, EA staff will provide oversight for the entirety of the project.

ANNEX 1. PROFILE OF THE IMPLEMENTING AGENCY

1) Background

With the passing of the Forest Act 1991, the Forest Industries Council was abandoned as a forum for industry concerns. Under the new Forest Act, the Forest Industries Association is identified as the body recognized to represent the interests of the industry, and has a position on the National Forest Board.

The Association is intent on maintaining active representation of its member's concerns, and this has caused a higher profile than was previously the case, in view of the many public issues which have been generated over the last couple of years.

The Association's objectives clearly set out its responsibilities to its members:

- a) To promote Membership of the Association to all bona-fide corporate and like entities engaged in the logging, milling, manufacturing, merchandising, exporting, utilization and associated servicing and support industries directly or otherwise dealing with PNG forest resources.
- b) To support and protect the integrity, character and status of the forest industry sector and the collective interest of Members of the Association.
- c) To represent the collective interests of Members through representative participation on the National Forest Board, direct communication to Government and through contact with other available agencies or media
- d) To foster balanced environmental, community, and economic responsibility and practical forest management principles within the forest industry sector.
- e) To oppose any dishonourable conduct or unlawful practice among entities engaged in or associated with forest industry sector.
- f) To consider and promote the Association's policy position on matters relating to the forest industry sector.
- g) To assess the effect of Government policy, legislative and regulatory measures and other matters on the forest industry sector and where necessary represent the collective views of Members of the Association on these matters to Government, the National Forest Authority, and the community generally.
- h) To liaise and communicate directly with Government Departments, Agencies and Authorities which regulate or have an influence on the forest industry sector.
- i) Generally do all other such things as may appear to be incidental or conducive to the attainment of the above objectives.

Membership

The Association is a non-profit organization of many interest groups participating in the sector. Membership ranges from major foreign investors, small local companies, landowner groups, manufacturers, service and associated entities sharing the common interest of "Sustained Forest Industry for Papua New Guinea".

Membership of the Association is voluntary. Current members account for about 85 per cent of total forest industry production. Annually the members elect an Executive Committee of ten to manage the Association's affairs. The President of the Association represents the industry on the National Forest Board.

ANNEX 2. TERMS OF REFERENCE OF PERSONNEL AND CONSULTANTS FUNDED BY ITTO

The consulting team will be responsible for two key areas of expertise: CoC and Forestry Operations; and International Trade and Regulatory issues. Respective requirements for each role are as follows:

CoC and Forestry Operations

1. Post-graduate qualifications in Resource Economics
2. Graduate-level qualifications in Forestry
3. Significant experience in management of natural resources, including forestry, at a national and international level
4. Extensive experience and familiarity with the forestry industry in PNG
5. Detailed knowledge of PEFC standards
6. Extensive experience assessing national forest certification schemes against PEFC standards
7. Extensive experience scoping and applying Chain of Custody standards in multiple international contexts
8. Experience consulting on legality certification schemes in PNG and other countries
9. Experience working internally and externally with both public- and private-sector organisations
10. Extensive experience applying and advising on regulatory and commercial requirements for timber operations.
11. Experience developing vocational training programs for industry use

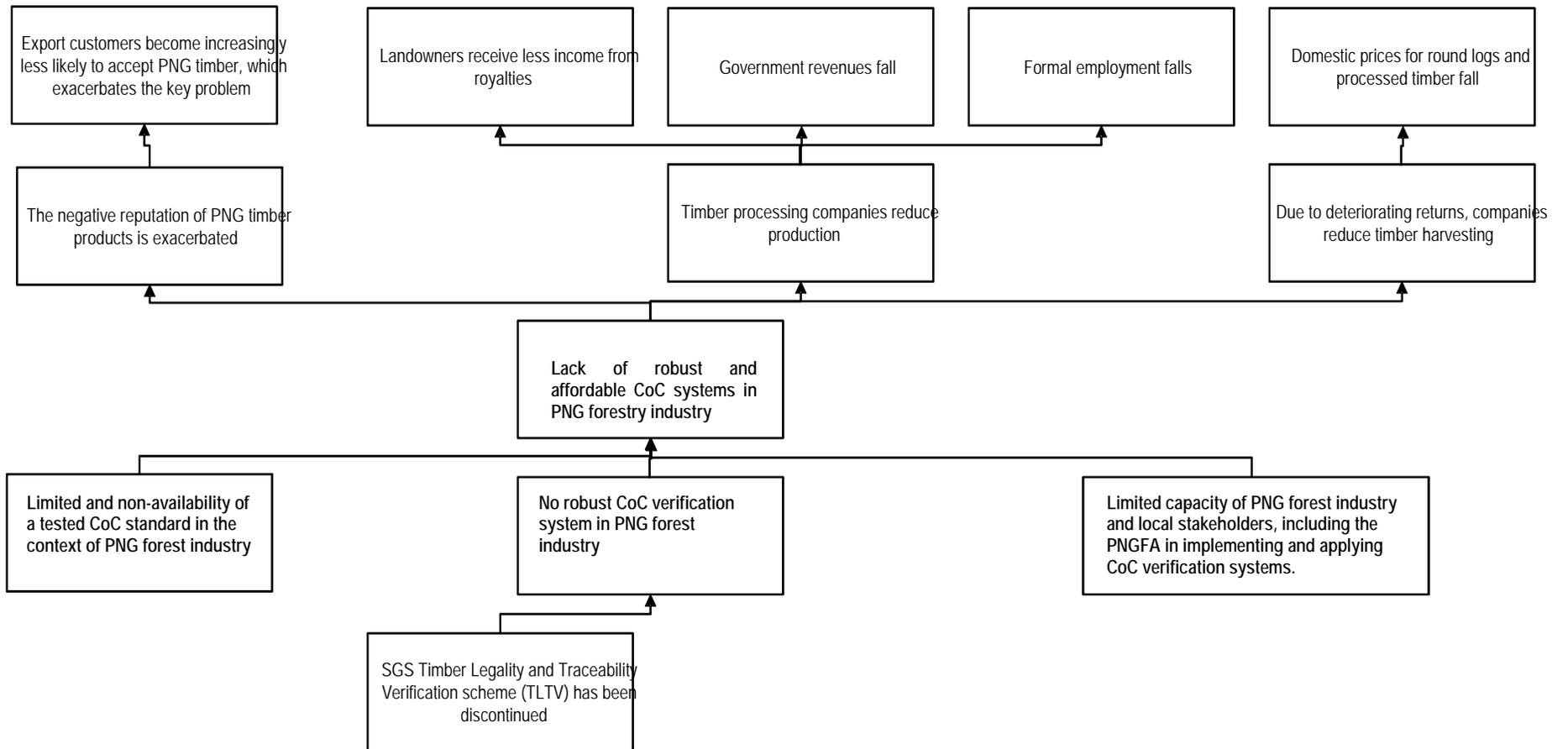
International Trade and Regulatory issues

1. Expertise and extensive experience in international trade policy analysis
2. Detailed knowledge of regulatory requirements for access to Western markets for PNG timber exporters
3. Extensive knowledge and experience – gained in both the public- and private-sector - related to the international trade of timber and other commodities.
4. Experience working internally and externally with both public- and private-sector organisations
5. Experience developing vocational training programs for industry use

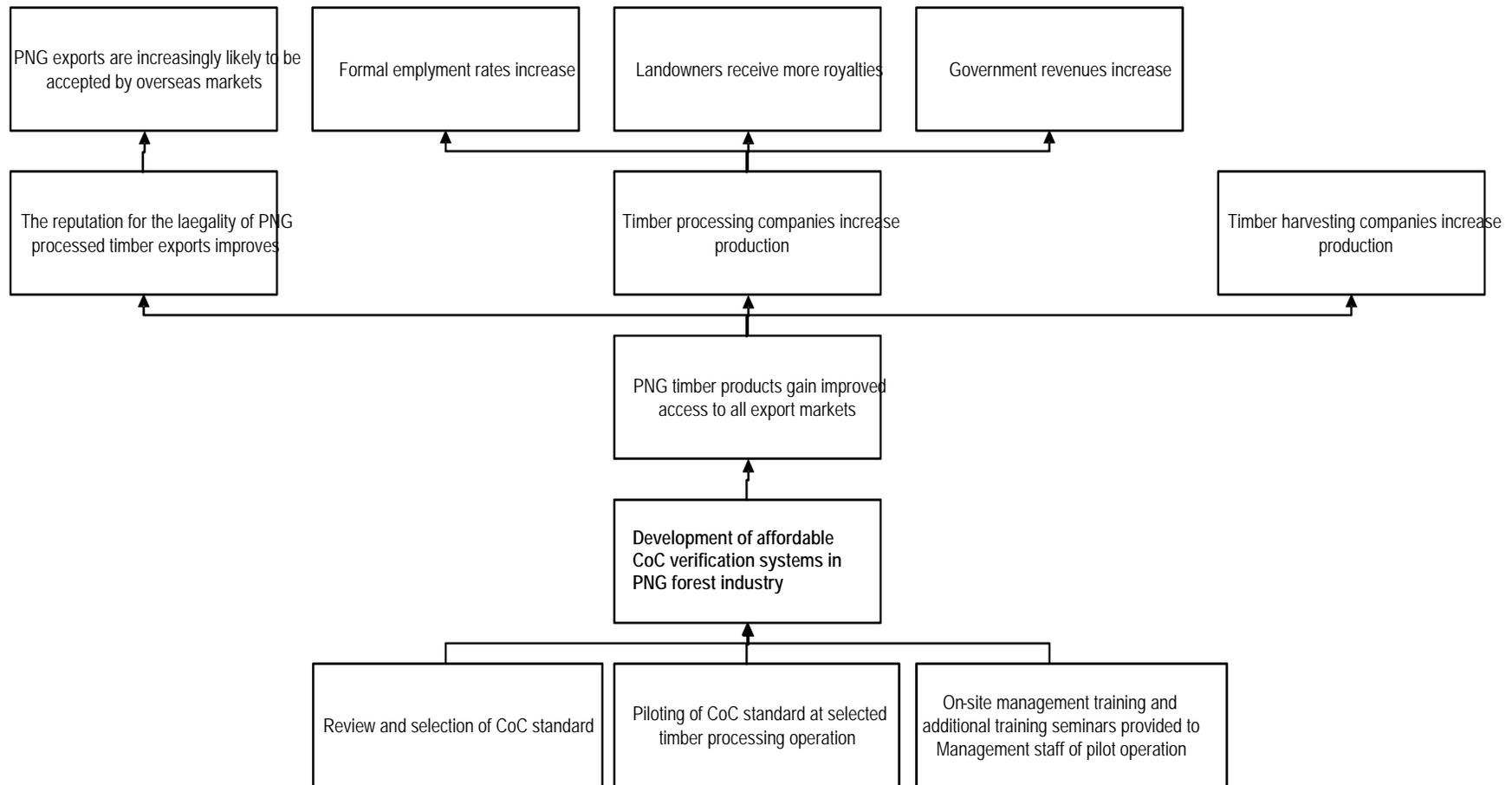
Collectively, the External Consulting team will be responsible for the following tasks and outputs:

1. Undertake analysis of exports of PNG wood and wood products and relevant trade regulations in key export markets
2. Conduct review of available CoC systems and their applicability to PNG national context
3. Undertake an assessment of current timber tracking procedures at a pilot site in PNG, and assess site compliance with CoC system requirements (i.e. Gap Analysis)
4. Develop and design a customised CoC/Timber tracking system for the pilot site (i.e. CoC Manual). Manual to include reporting templates & guidance, and detailed implementation program
5. Design and implement a pilot training program for management staff at pilot site
6. Produce summary report of key lessons from piloted timber tracking/CoC system
7. Develop a CoC manual for generic use, incorporating key lessons and challenges identified during pilot project
8. Develop training modules for generic use by PNG forestry operators, incorporating key lessons and challenges identified from pilot project

ANNEX 3. PROBLEM TREE



ANNEX 4. OBJECTIVE TREE



ANNEX 5: RECOMMENDATIONS OF THE REVIEWER AND RESULTING AMENDMENTS

No.	Reviewer Specific Recommendations	Amendment/Correction	Page #
1	General Comments relating to the passive role of the PNG Forest Authority (PNGFA)	Additional statement has been included to state the support of the PNGFA and its involvement in the training activities	1
2	Under 1.1: 'Origin'- to elaborate on the proposed adoption of PEFC	Further statement has been inserted along the same paragraph under Comment No. 1 where the PNGFA is supported the proposed adoption of PEFC	1
3	Under 2.2: 'Problem Analysis' – to reformulate the key problem	Adopted the Reviewer's recommendation and reformulated the problem	8/22
4	Under 2.3.2: 'Specific objective and outcome indicators' – Refine the specific objective by focusing on the immediate task of the project	Refined as per the Reviewer's suggestion	10
5	Under 3.1: 'Outputs' – expand the Output to include training	Output statement expanded to include training courses	11
6	Under 3.2: 'Activities and inputs' – expand the Activities in line with the expanded Output	Two additional Activities have been inserted to cover training	11
7	Under 3.4: 'Work plan' – suggested to expand the Work plan	Implementing agency believes it can still deliver the output within the 12 months duration so did not expand the Work plan and duration	13
8	Under 3.5: 'Budget' – Include US\$6,000 and 12 % ITTO monitoring costs	This has been addressed resulting in the total budget of US\$163,160	14
9	Under 4.3: 'Monitoring and reporting' – Mention ITTO Manual on Project Monitoring, Review, Reporting and Evaluation	This has been mentioned	19
10		Some small corrections have been made on the Proposal as highlighted in the document in Bold and Underlined.	Cover page/Annex 3 – page 22 and Annex 4- page 23