



NEWS RELEASE

For interviews and copy of the report, contact:

Jeff Haskins at Burness Communications

Tel: +1 301 652 1558,

Mobile: +1 443 223 4698

jeff@burnesscommunications.com

Dan DiFonzo at Forest Trends

+1 202 298 3013, dandifonzo@forest-trends.org

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External Reviews Find Most Logging in Papua New Guinea Illegal, Unsustainable and Providing Little Benefit To the State and Forest Community

Jakarta, Indonesia and Washington, DC (1 March 2006)—A new report on the commercial logging industry in Papua New Guinea (PNG) released today by a leading international forestry organization, Forest Trends, shows that the overwhelming majority of current commercial industrial forestry operations in PNG are ecologically and economically unsustainable, and, in fact, illegal, as found by the government's own commissioned independent audits conducted between 2000 and 2005.

The Forest Trends report, *Logging, Legality, and Livelihoods in Papua New Guinea*, summarizes the findings from five independent reviews of the timber harvesting industry conducted between 2000 and 2005. The reviews were initiated by the Papua New Guinea government in response to the widely held view that forest management in PNG was not providing long-term benefits to the country or its citizens.

The findings illustrate a fundamental lack of governance, and that unless this system is fixed, other schemes, such as the government's current proposal to sell forest carbon, risk being equally corrupted.

The reviews were conducted following terms of reference approved by the Government and the World Bank by teams of independent experts, including lawyers, foresters, economists, and environmental and social scientists. The review teams received unique access to official records, logging sites, and company documents and were able to conduct wide-ranging interviews with industry officials, landowners, and government officials.

“This report will prove to be a valuable source of objective and credible information on forest governance in Papua New Guinea, and will certainly help traders throughout the world better discriminate between legal and illegal sources of timber,” said Andy Roby of the UK Timber Trade Federation. “The Government of Papua New Guinea and the World Bank are to be congratulated for sponsoring the original evaluations.”

Papua New Guinea's forest industry is predominately focused on the harvesting of natural forest areas for round log exports. There is little plantation production and only a limited number of processing facilities. The sector is dominated by Malaysian-owned interests and the primary markets for raw logs are in China, Japan, and Korea. Many of the logs are processed in China for consumption in Europe and North America.

The Reviews included a study of fourteen logging projects covering a gross area of 3.17 million hectares and with a local population of over 83,000 people. In 2004 these operations produced 1.3 million cubic meters of logs with a declared export value of US\$70 million. All fourteen projects were found to be operating unlawfully and the timber harvesting was not being sustainably managed.

According to the Forest Trends report, "none of these 14 projects can be defined as legal and only one project manages to meet more than half of the key criteria set for a lawful logging operation."

The findings of the reviews were presented in 63 individual reports that together provide a unique assessment of PNG's forest administration system. The reviews show that the primary governance role of the PNG Forest Authority is seriously deficient, and that there is a political vacuum with no demonstrated government interest in controlling the problems in the sector. The Forest Trends report summarizes the main findings of the reviews according to the following themes:

Legality: While the PNG Government and its regulatory institutions have all the necessary policies, laws, and regulations to ensure that sustainable timber production can be achieved, these laws are not being enforced. "Industry is allowed to ignore PNG laws and, in fact, gains preferential treatment in many cases, while the rural poor are left to suffer the social and environmental consequences of an industry that operates largely outside the regulatory system." Corruption is an underlying theme throughout the review reports.

"Corruption has a devastating effect on the living standards in the area as well as the long-term benefits for landowners," said Kerstin Canby, Forest Trend's Program Manager for Finance and Trade. "Basic rights of the landowners are being ignored—even abused. There are a few logging operations in the country which are deemed beneficial to both local landowners and the country, but they are lost in a sea of bad operators. The government needs to support these companies, or risks having the international community boycott all of PNG's exports¹."

Environmental Sustainability: According to the report, the forests are not being managed to maintain a sustained yield of timber from the forest. Basic descriptions of the forest resources in the country are generally "unreliable" and, in some cases, "wildly misleading." Annual allowable harvesting levels in individual projects have been set too high and forest areas are effectively being "logged out."

Social Impacts: While logging in Papua New Guinea is bringing short-term cash incomes to local resource owners, these are quickly dissipated and, in general, have not delivered lasting, long-term benefits to the community, such as permanent infrastructure and other services. Employment and other 'spin-off' benefits are usually taken by outside workers. Salaries and working conditions are generally very poor and have been officially described in one project as "modern day slavery."

¹ In November 2005, in response to environmental concerns in the UK brought to light by Greenpeace International, member companies of the UK Timber Trade Federation agreed to immediately suspend all future contracts worth millions of dollars for Chinese plywood faced with bintangor veneer from Papua New Guinea and to investigate suitable alternative veneers from verified legal and preferably sustainable sources

Financial Aspects: While current official log export prices indicate that the industry has been unprofitable for a number of years and therefore not economically viable, logging continues and companies still seek access to new forest areas. Further investigation into the financial aspects of logging in PNG is warranted. To date, no financial study has been able to exclude the continuing specter of transfer pricing given the ‘inexplicable price gap’ and the ‘substantial’ financial incentives for companies to under-report logging values. In addition, the Government continues to be the primary beneficiary of the forest industry, receiving US\$30 million in cash revenues annually. These are not returned to local communities through services or other support.

According to the report, official inspections at export only verify the quantity and description of the timber to ensure export taxes are paid, with no connection between the unlawful nature of operations in the forest and the legal documentation that PNG wood products carry. “Thus, official export documentation merely launders the ‘unlawful’ timber into legitimately-produced exports accepted by governments and retailers worldwide.”

While for years, the World Bank and the Government of PNG were engaged in a constructive dialogue to bring about governance reform in the forest sector, in 2005, they agreed to cancel the Forestry and Conservation Project (FCP) after disbursements had been suspended for one of the longest periods in the Bank’s operational history. This was mainly because the issues inherent in the Review reports could not be resolved.

The Forest Trends report makes a series of recommendations to mitigate some of the key problems. These recommendations include: continued monitoring of activities in the region, the establishment of a legal fund to support legal challenges through the court system, raising awareness about land-owner rights, support to the Ombudsman Commission, best-practice reviews, and international assistance to investigate potential corruption and the relationship of the timber industry to political groups.

“The system must be fixed,” said Michael Jenkins, President & CEO of Forest Trends. “The nexus between the logging companies and the political elite needs to be broken. One way to do this is to help local landowners better understand their rights and to establish a legal fund so that they can be defended. Papua New Guinea’s legal system does exist outside of political control and the courts have a track record of ruling against illegal logging.”

“Furthermore, importers such as China have the opportunity to take a global leadership role,” continued Jenkins. “They should establish green public procurement policies, starting with a pilot program to ensure that wood for the 2008 Beijing Olympics comes from verified legal sources. The governments of several countries (notably Indonesia and Malaysia) which export high amounts of wood products to China have expressed an interest in collaborating at the customs level to ensure that illegal exports are not accepted at importing countries borders. China should enter into a regional agreement with Indonesia and Malaysia to test such a system.”

Volume I and II of the Forest Trends Report, as well as material from the Government reviews which have been made publicly available by the Government of PNG, are available on the Forest Trends website: www.forest-trends.org.

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Washington, DC-based Forest Trends is an international non-profit organization that works to expand the value of forests to society; to promote sustainable forest management and conservation by creating and capturing market values for ecosystem services; to support innovative projects and companies that are developing these new markets; and to enhance the livelihoods of local communities living in and around those forests. We analyze strategic market and

policy issues, catalyze connections between forward-looking producers, communities and investors, and develop new financial tools to help markets work for conservation and people. Forest Trends is also a key sponsor of the [Ecosystem Marketplace](#).