



Timber Legality Risk Dashboard: Papua New Guinea

Drafted as of: September 2021

SUMMARY OF LEGALITY RISKS

Risk Score: 83.4 (Higher-Risk^a)¹

Conflict State: YES (High Institutional and Social Fragility)²

Log Export Restriction in Effect: YES³

Import Regulation in Effect: NO

- Papua New Guinea's (PNG) logging and land clearance for agricultural projects occur predominantly in natural forest areas. The majority of exports are roundlogs. There is little plantation production and only a limited number of processing facilities.
- There are reportedly serious governance and corruption challenges highly relevant to the forestry sector. Multiple official inquiries and independent studies have documented widespread corruption and failure to enforce laws.
- NGOs continue to document sector-wide illegalities.
- Forest clearance permits intended for agricultural development, often used as a pretext for gaining access to timber, have become a major source of logs exported from PNG over the last decade. These permits are frequently issued illegally and without transparency or due process, in particular violating laws around customary land rights.
- The vast majority of logs are destined for China where they account for approximately one-third of the annual import of tropical logs. The EU and U.S. do not import wood products directly from PNG, but import a number of wood products manufactured in China that potentially contain wood from PNG.
- The log export monitoring system developed by the SGS Group (SGS), which covers taxes paid, species and volumes, is not designed to verify timber legality. A national Timber Legality Standard, under development since 2010, has not been finalized and continues to contain significant gaps in coverage according to civil society experts.

TRADE PROFILE OF FOREST PRODUCTS^{B,C,4,5}

Total Imports (2019): \$56.07 million

Total Exports (2019): \$752.57 million.

\$53.93 million (7.17%) to "regulated markets"

SUMMARY OF HIGHEST PRODUCT-LEVEL RISKS

Exports - Top Products Exported to the U.S. by 2019 Value⁶

- Veneer (HS4408)
- Sawnwood (HS4407)
- Other Articles of Wood (HS4421)
- Wood Furniture- Other (HS940360)

SUMMARY OF HIGHEST SPECIES-LEVEL RISKS

Illegal logging and trade affect many timber species, but highly valuable - often rare and endangered - species that are protected under harvest and/or trade regulations are a key target and at an elevated risk for illegality. The following species are either currently, or have recently, been protected in PNG.

CITES-Listed Species (Appendix II):⁷

- **Ramin** (*Gonystylus macrophyllus*)
- **Agarwood** (*Aquilaria tomentosa*)
- **Rosewood** (*Dalbergia* spp.)

Summary of Highest Species-Level Risks (continued)

Banned from Export in Log Form:⁸

- **Kauri Pine** (*Agathis* spp.)
- **Hoop Pine** (*Araucaria cunninghamii*)
- **Klinkii Pine** (*Araucaria hunsteinii*)
- **Celery-Top Pine** (*Phyllocladus hypophyllus*)
- **Cordia** (*Cordia dichotoma*)
- **Dacrydium** (*Dacrydium nidulum*)
- **Black Ebony** (*Diospyros ferrea*)
- **Kou** (*Cordia subcordata*)
- **Libocedrus** (*Libocedrus* spp.)
- **Podocarp** (*Podocarpus* spp.)
- **Highland Podocarp** (*Dacrycarpus imbricatus*)
- **Rosewood** (*Pterocarpus indicus*)
- **Balsa** (*Ochroma pyramidale* syn. *Ochroma lagopus*)
- **Blackbean** (*Castanospermum australe*)

Other High-Risk Species from Natural Forests:

All tropical hardwood exports should be considered high-risk based on overall legality risk in PNG. Robust third party certification can be considered as a tool to help mitigate this high-risk, but should not constitute sufficient due diligence for legality in and of itself. Below are the most commonly exported natural forest species from PNG in 2019.⁹

- **Taun** (*Pometia pinnata*)
- **Merbau or Kwila** (*Intsia* spp.)
- **Bintangor or Calophyllum** (*Calophyllum* spp.)
- **Malas** (*Homalium foetidum*)
- **Terminalia** (*Terminalia* spp.)
- **Pencil Cedar or Palaquium** (*Palaquium* spp.)
- **Mersawa or Palosapis** (*Anisoptera thurifera*)
- **Dillenia** (*Dillenia papuana*)
- **Red Canarium** (*Canarium* spp.)
- **Ermina or Ilimo** (*Octomeles sumatrana*)
- **PNG Walnut** (*Dracontomelon* spp.)
- **Burckella** (*Burckella macropoda*)

FORESTRY SECTOR

Forested Area: 35,856 million ha¹⁰ (3.78% protected)¹¹

Deforestation Rate: 0.1% annually^{e,12,13}

Forest Ownership:^{f,14}

- 32,000 ha publicly-owned (0.09%)
- 35.97 million ha privately-owned (99.86%), primarily by indigenous communities

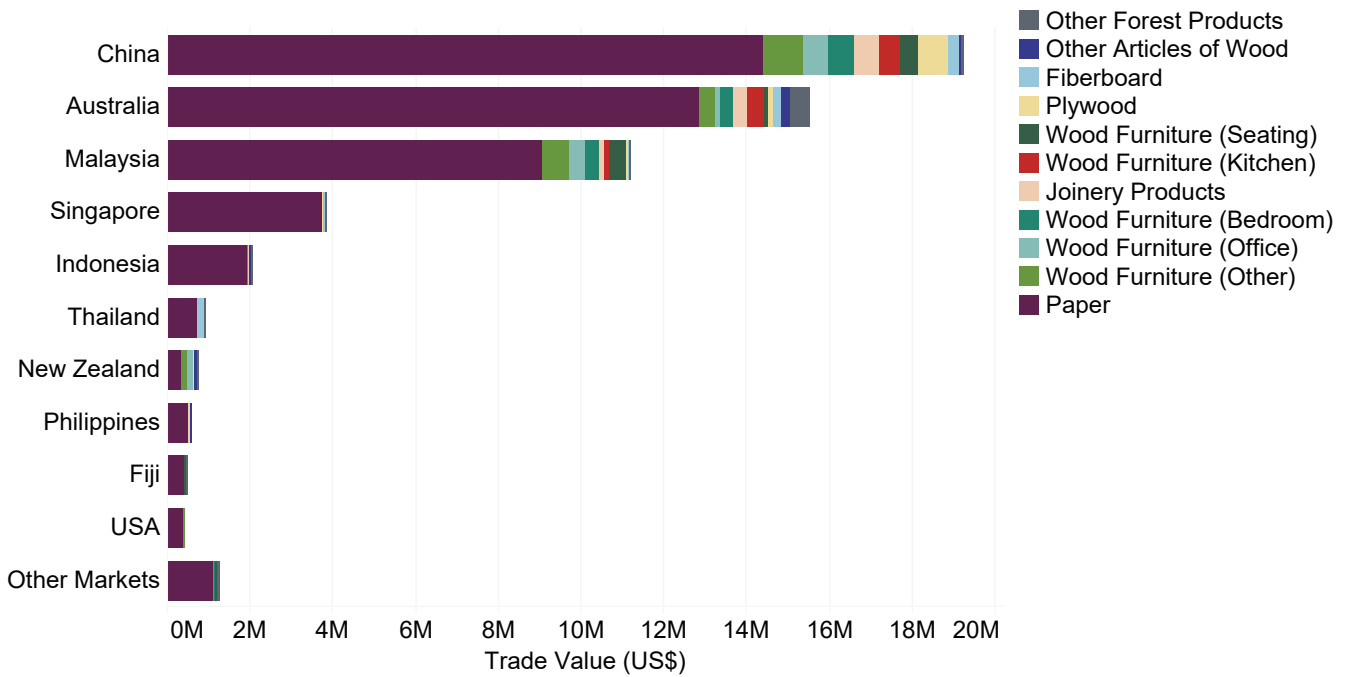
Certified Forests:

- FSC Certification: 15,016 ha (2019)¹⁵

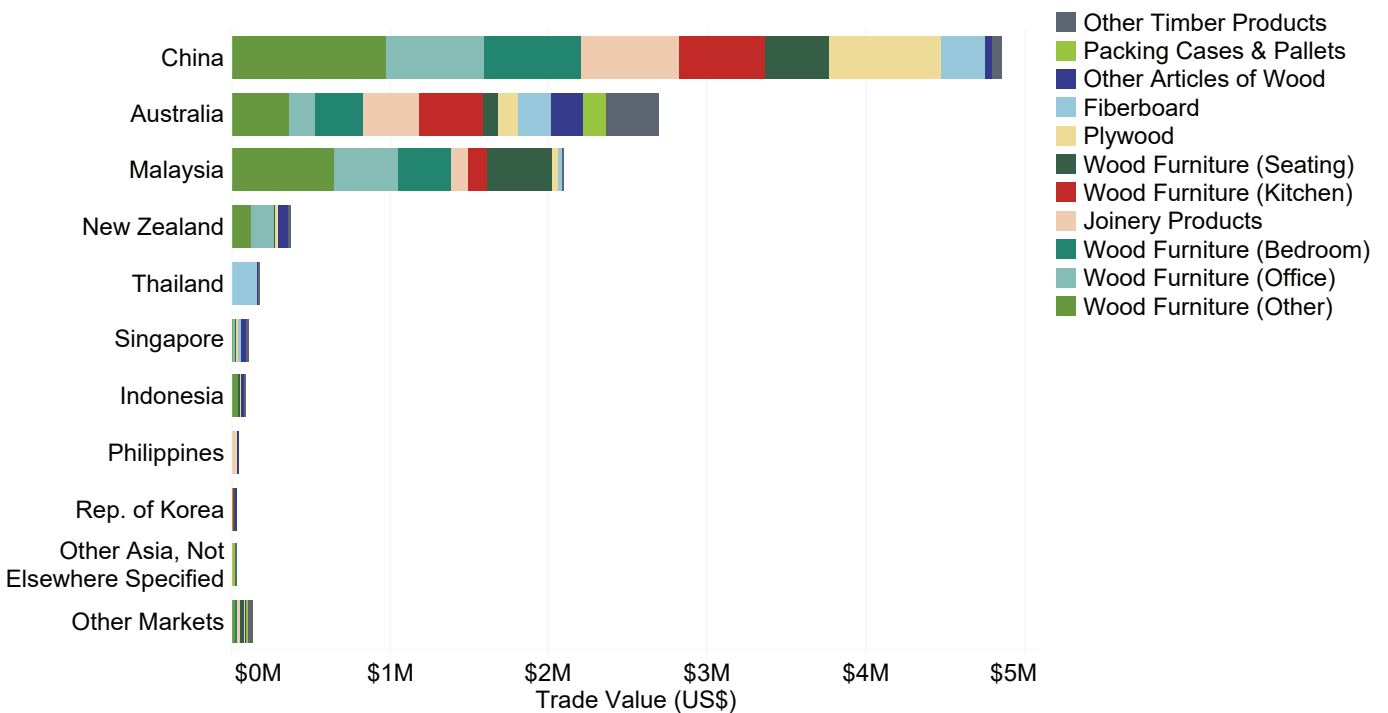
Domestic Production:¹⁶

- Wood Fuel: 5.53 million m³ (2019)
- Logs: 4.07 million m³ (2019)
- Sawnwood: 220 thousand m³ (2019)
- Plywood: 64 thousand m³ (2019)
- Veneer: 63 thousand m³ (2019)
- Charcoal: 6.98 thousand tonnes (2019)
- Paper: 288 tonnes (2019)

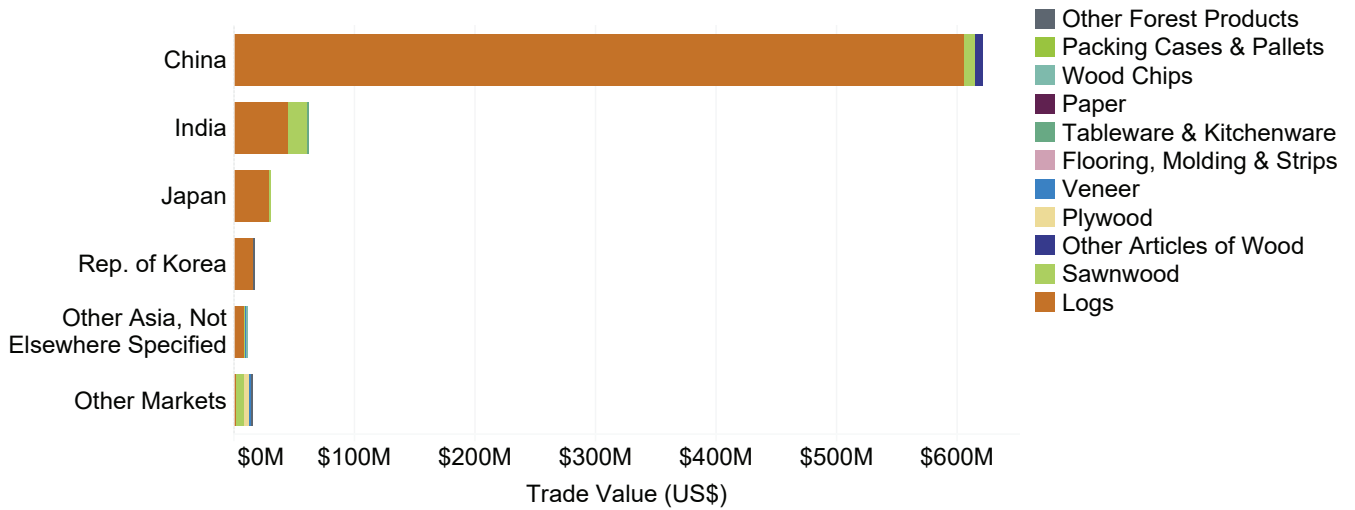
PAPUA NEW GUINEA'S TOP SOURCE MARKETS FOR FOREST PRODUCTS BY VALUE (2019)¹⁹



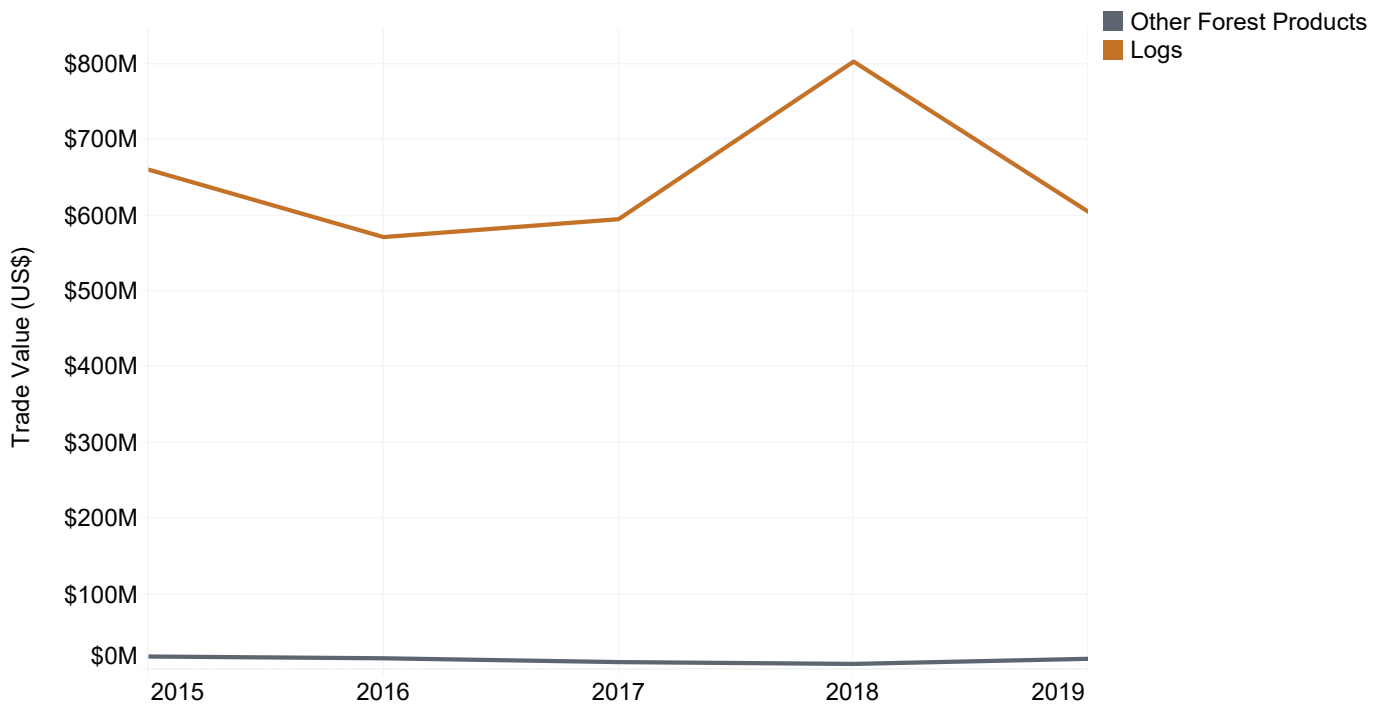
PAPUA NEW GUINEA'S TOP SOURCE MARKETS FOR TIMBER PRODUCTS BY VALUE (2019)²⁰



PAPUA NEW GUINEA'S TOP DESTINATION MARKETS FOR FOREST PRODUCTS BY VALUE (2019)²¹



HIGH-RISK EXPORTS: TIMBER EXPORTS TO CHINA (2015-2019)²²



- **Papua New Guinea's (PNG) logging and land clearance for agricultural projects occurs predominantly in natural forest areas. The majority of exports are roundlogs. There is little plantation production and only a limited number of processing facilities.**

Papua New Guinea (PNG) comprises half of the island of New Guinea (the other half is part of Indonesia) and over 600 main islands, the largest being the island of New Britain, roughly the size of the state of Maryland in the United States. About 35.9 million hectares are forest, accounting for roughly 79 percent of the total area of the country.²³ The island of New Guinea is home to the world's third largest rainforest, containing an estimated 5 percent of global biodiversity.²⁴ Logging is a major industry in terms of the land area potentially impacted (in 2014 there were 14.9 million hectares, or one-third of PNG's total land area under existing or proposed logging concession)²⁵ and contribution to export earnings (~10 percent in 2018).²⁶ In addition, in 2014, there were 38,242 km² of rainforest inside Special Agriculture and Business Leases (SABLs). Between 2002 and 2014, 2,047 km² of forest within SABLs was cleared or logged.²⁷

Much of the country's commercially accessible forests under logging concessions have been degraded by selective but poorly regulated and highly destructive logging practices, while the clearance of primary forests, ostensibly for conversion to agriculture, has increased dramatically and accounted for 20-30 percent of the volume of logs exported each year since 2010.^{28,29} The production forest area has been estimated at 21.3 million hectares and the PNG Government (through the Forest Authority) has acquired timber rights over 8.4 million hectares from the customary owners for economic development.²⁹ Plantations account for less than 3 percent of log exports.³¹

Around 87 percent of PNG's population are rural, and logging and deforestation pose serious threats to the legal rights and livelihoods of communities that rely heavily on natural resources for basic needs such as food, building materials and water.^{32,33} The country's Constitution recognizes the customary rights of indigenous communities to land and forests, with 97 percent of land under some form of customary ownership. However, laws designed to realize and protect these rights are poorly implemented and often violated due to government corruption, cooption of community leaders by companies, and limited oversight by the state.³⁴

Landowners have extremely limited access to information, awareness of their rights, or involvement in government decision-making processes.³⁵ Logging operations rarely proceed with the free, prior, and informed consent of customary landowners.³⁶ Those voicing opposition routinely face intimidation and sometimes violence at the hands of police and other actors working for logging companies.^{37,38} The limited financial returns to resource-owners have substantially fallen in real terms over the last decade. Sums that are paid are not equitably distributed and rarely reach the poorest members of society.³⁹

- **There are reportedly serious governance and corruption challenges highly relevant to the forestry sector. Multiple official inquiries and independent studies have documented widespread corruption and failure to enforce laws.**

Papua New Guinea ranks in the bottom quartile globally in the categories of "Rule of Law" and "Control of Corruption" according to a meta-analysis of governance indicators carried out by the World Bank, and ranks low on Transparency International's Corruption Perception Index for 2020, at 142/180.^{40,41} Both petty and high-level corruption are widespread and estimated to cost the government billions in lost revenue.⁴² The Oakland Institute think tank published detailed reports on PNG logging companies in 2016, and 2018 suggesting that logging companies in PNG engage in illegal logging, tax evasion and financial misreporting, costing PNG millions of Kina in lost revenue (or more than \$100 million)^{43,44}. The illicit financial flows out of the country into financial centers in Australia, Singapore, and Hong Kong have been the subject of numerous studies and exposés.^{45,46,47} Tax evasion is estimated to cost the country significant sums in lost revenue each year and has long been an issue in the forestry sector.^{48,49,50}

Corruption and illegal practices in the forestry and agriculture sector have been widely documented over the past several decades and continue to this day.⁵¹ An official inquiry in the late 1980s led to a reformed forest law⁵² intended to strengthen protections for community rights and the environment.^{53,54} However, due to weak implementation and enforcement, the 1991 Forestry Act has had limited impact in practice. By 2019, only 12 percent of logs were produced under sustainable forest management concessions (FMAs) established by the Act, and a 2018 report by Global Witness identified systemic illegalities even in these operations.^{55,56} Between 2000 and 2005, in response to a widely held view that forest management in Papua New Guinea was not providing long-term benefits to the country or its citizens, and to assess the implementation and effectiveness of the new governance regime introduced in the PNG Forestry Act of 1991, the government commissioned five separate reviews of the administration and practice of the logging industry. These reviews, supported by the World Bank, found that

widespread violations of laws continued, including illegal extensions of pre-reform permits in an apparent effort to circumvent more stringent rules.⁵⁷ In 2018, Global Witness documented instances of the PNG Forest Authority collecting fees for extending expired permits despite the law having no provisions for such fees or extensions.⁵⁸

As a result of corruption and mismanagement in the sector, government resources for enforcement are limited. Poorly equipped forestry officers are responsible for policing vast and hard to access areas of forest, while police are frequently paid and housed by logging companies.⁵⁹

A number of independent reports have documented the systemic nature of the illegalities that continue to characterize the forest sector. A review by Chatham House concluded that the majority of timber production in PNG was likely to be illegal in some way.⁶⁰ Preferred by Nature's 2017 legality risk assessment identified multiple risks in every category of their evaluation, including, for example, failure to obtain the free, prior, and informed consent of customary land owners, bribery in issuance of permits and licenses, failure to monitor compliance with harvesting rules, tax evasion through trade misinvoicing, labor violations including use of illegal migrant workers and forced labor, and failure to follow CITES-implementing legislation.⁶¹

- **NGOs continue to document sector-wide illegalities.**

Civil society reports have documented illegalities involving every type of natural forest logging and land clearance permit. Remote sensing analyses by researchers at the University of PNG published in 2015 found, among other things, examples of logging outside of concession boundaries and re-entry logging in violation of limits set under logging rotation rules under Local Forest Area (LFA) permits.⁶² A satellite-based analysis of logging operations under four major types of permits published by Global Witness in 2018 found evidence of violations of the Forestry Act in each.⁶³ The study assessed Forest Management Agreements and Timber Rights Purchases accounting for a third of log exports in 2017 and found numerous breaches of the law, including excessive forest clearance around logging roads, logging in buffer zones around waterways, swamps and wetlands, on excessively steep slopes and in prohibited areas, and failure to comply with annual cutting limits.

- **Forest clearance permits intended for agricultural development, often used as a pretext for gaining access to timber, have become a major source of logs exported from PNG over the last decade. These permits are frequently issued illegally and without transparency or due process, in particular violating laws around customary land rights.**

Over the past decade, large-scale forest clearance permits have been issued over vast areas of intact forest, mostly on the pretext of agricultural development of the land and without following legally required processes for obtaining the consent of customary landowners.⁶⁴ The failure of nearly all of these operations to result in viable agricultural projects indicates they are being used to access timber while avoiding the rules for sustainable forest management established under the Forestry Act. Between 2012 and 2016, nearly a third of all log exports originated from clearance operations authorized under a leasing scheme that was determined in 2013 by an independent inquiry to have involved systemic violations of customary land rights, as well as fraud and corruption.⁶⁵ Despite public commitments from senior government officials, there have been no penalties against companies or officials for legal violations under the scheme, with millions of cubic meters of timber stolen from customary landowners exported by companies, in some cases even after operations were declared illegal by the government or courts.⁶⁶ While these operations have wound down, new clearance permits continue to be issued, often to the same companies and with similar doubts regarding their legality. An investigation by Global Witness published in 2020 revealed evidence that one such forest clearance permit, issued for the conversion of intact rainforest to rubber plantation, was allocated illegally – without the consent of customary landowners and in violation of other legal requirements.⁶⁷ The report concluded that the operation was a front for illegal logging: logs valued at nearly \$2 million were cut and exported, while no rubber was planted. Forest clearance permits accounted for about 20 percent of PNG's total log exports in 2019.^{68,69}

- **The vast majority of logs are destined for China where they account for approximately one-third of the annual import of tropical logs. The EU and U.S. do not import wood products directly from PNG, but import a number of wood products manufactured in China that potentially contain wood from PNG.**

PNG is the world's largest exporter of tropical logs. Nearly all logs harvested in PNG are exported in unprocessed form, with China the main destination (86 percent by volume in 2019), followed by Vietnam (6 percent), Japan, and India (3 percent each).⁷⁰

Species from PNG are used in the manufacture of a range of wood products in China, such as flooring, plywood and furniture, some of which is exported to the U.S., EU, Japan and elsewhere. PNG's most commonly exported species is taun (*Pometia pinnata*), accounting for 19 percent of exports by volume in 2019.⁷¹ In 2017, Global Witness documented the use of taun from PNG for flooring manufactured in China and exported to the U.S. and estimated that around 20 percent of the taun used in

China came from forest clearance permits with a high-risk of being illegal.⁷² PNG species such as bintangor and pencil cedar are used for veneer that may be found on the face of plywood used in furniture and cabinetry exported to the U.S. The Chinese media outlet Sixth Tone published an investigation in 2019 showing that major Chinese plywood manufacturers were not aware of the origins of the wood used for their veneer.⁷³

- **The log export monitoring system developed by the SGS Group (SGS), which covers taxes paid, species and volumes, is not designed to verify timber legality. A national Timber Legality Standard, under development since 2010, has not been finalized and continues to contain significant gaps in coverage according to civil society experts.**

A log export monitoring system implemented by a subsidiary of the SGS Group (SGS) keeps track of payments of taxes and duties and audits the reported species and volume of exported logs, typically at the point of export.⁷⁴ The system was not designed to verify timber legality. Standard log tags issued by SGS are required for export but are self-administered by logging companies. “Stakeholders” in PNG with support from international NGOs are in a process, begun in 2010 with support from the U.S. and Australian governments, of developing a Timber Legality Standard and accompanying verification procedures. Civil society stakeholders have identified key gaps in the scope of the standard, such as the inclusion of laws relating to customary rights, measures to prevent tax evasion, and procedures for allocating permits.⁷⁵

In 2021, PNG’s Internal Revenue Commission (IRC) announced a crackdown on the logging industry – accusing it of being “one of the most delinquent sectors insofar as tax compliance is concerned”, and guilty of “egregious” transfer pricing, “entrenched” tax evasion, and “deceptive behavior.” The IRC has launched an audit of twenty companies as part of efforts to scale up compliance activities, including potential prosecutions.⁷⁶

REPORTS & ADDITIONAL RESOURCES

A list of relevant reports and additional online tools to complement this country report are also available at the IDAT Risk website: <https://www.forest-trends.org/fptf-idat-home/>

Key Reading:

1. Lawson, Sam. 2014. “Illegal logging in Papua New Guinea.” Chatham House.
2. Global Witness. 2017. “Stained Trade: How U.S. Imports of Exotic Flooring From China Risk Driving the Theft of Indigenous Land and Deforestation in Papua New Guinea.” Global Witness.
3. Global Witness. 2018. “A Major Liability: Illegal Logging in Papua New Guinea Threatens China’s Timber Sector and Global Reputation.” Global Witness.
4. Preferred by Nature. 2017. “Timber Legality Risk Assessment – Papua New Guinea.” Preferred by Nature.

METHODOLOGY & TERMINOLOGY NOTES

- ^a Risk scores reflect Preferred by Nature’s Timber Risk Assessment which measures the risk of illegality occurring in 21 areas of law relevant to timber legality, as well as Forest Trends’ national governance scores which provides an average relative governance and corruption risk score for 211 countries globally. Preferred by Nature’s scores have been flipped to ensure compatibility with Forest Trends’ national governance scores, where higher scores are associated with greater governance and corruption challenges. An average of both the Preferred by Nature and Forest Trends scores has been calculated for 66 countries where both are available as of 2021. For all other countries, the risk score reflects Forest Trends’ national governance scores. Countries scoring less than 25 are considered “Lower-Risk,” countries scoring between 25 and 50 are “Medium-Risk” and countries scoring above 50 are “Higher-Risk.” It is important to note that it is possible to source illegal wood from a well-governed, “Lower-Risk” state and it is also possible to source legal wood from a “Higher-Risk” country. As such, the risk scores can only give an indication of the likely level of illegal logging in a country and ultimately speaks to the risk that corruption and poor governance undermines rule of law in the forest sector.
- ^b The term “forest products” is used to refer to timber products (including furniture) plus pulp and paper. It covers products classified in the Combined Nomenclature under Chapters 44, 47, 48 and furniture products under Chapter 94. While the term “forest products” is often used more broadly to cover non-timber and non-wood products such as mushrooms, botanicals, and wildlife, “forest products” is used to refer to timber products plus pulp and paper in this dashboard.

- ^c Except where otherwise specified, all trade statistics and chart data on Papua New Guinea's trade with China is sourced from the General Administration of Customs, P.R. China, compiled and analyzed by Forest Trends. All other data comes from UN Comtrade, compiled and analyzed by Forest Trends.
- ^d Regulated markets reflect countries and jurisdictions that have developed operational measures to restrict the import of illegal timber. As of 2021, this included the U.S., Member States of the European Union (as well as the United Kingdom, Iceland, Liechtenstein, Norway and Switzerland), Australia, Canada, Colombia, Indonesia, Japan, Malaysia, South Korea, and Vietnam. Some measures are more comprehensive in scope, implementation, and enforcement than others.
- ^e Annual primary forest loss data for Papua New Guinea for the years 2015-2019 was obtained from Global Forest Watch and a yearly average value was calculated for this time period. Primary forest was defined as "mature natural humid tropical forest cover that has not been completely cleared and regrown in recent history" and identified by researchers at the University of Maryland using Landsat images using the methodology described in Turubanova et al., 2018. Global Forest Watch used primary forest area data together with tree cover and annual tree cover loss data from Hansen/UMD/Google/NASA to calculate annual primary forest loss.
- ^f These land ownership figures are as defined by the Food and Agriculture Organization of the United Nations (2020) as of 2015. Nearly all forested land in Papua New Guinea is owned by indigenous communities based on customary rights.
- ^g For this chart, Chinese data comes from the General Administration of Customs, P.R. China; Vietnamese data comes from the General Department of Vietnam Customs, compiled and analyzed by the Vietnam Timber and Forest Product Associations (VIFORES), the Forest Products Association of Binh Dinh (FPA Binh Dinh), the Handicraft and Wood Industry Association of Ho Chi Minh City (HAWA), and Forest Trends. All other data comes from UN Comtrade, compiled and analyzed by Forest Trends.

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- ¹⁹ UN Statistics Division, "UN Comtrade"; Government of the People's Republic of China, "Customs Statistics."
- ²⁰ UN Statistics Division, "UN Comtrade"; Government of the People's Republic of China, "Customs Statistics."
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- ⁴¹ Transparency International. 2020. "Corruption Perceptions Index, Papua New Guinea." Transparency International. Accessed October 1, 2021. <https://www.transparency.org/en/cpi/2020/index/png#>
- ⁴² Transparency International. 2020. "TIPNG Supports the Establishment of ICAC to Combat Corruption and Help Fix Budget Woes." Transparency International Papua New Guinea. Accessed June 30, 2020. <https://www.transparency.org.pg/tipng-supports-the-establishment-of-icac-to-combat-corruption-and-help-fix-budget-woes/>
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The Dashboards have been compiled from publicly available information sources to support risk assessments on the legality of timber products entering international supply chains. The Dashboards are for educational and informational purposes only. The Dashboards have been drafted with input from the Environmental Investigation Agency (EIA) and are subject to external peer review. The Dashboards will be updated periodically based on newly available information.

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