

## EURO LIBERIAN LOGGING COMPANY—CONCESSION AREA F

On May 28, 2013, representatives of the USAID-GEMS team, the NBC, and the FDA made a site visit to the Euro Liberia Logging operation in Grand Gedeh County.

The Euro Liberian Logging Area F is the second largest concession at 253,670 hectares, approximately 130 miles from the port of Greenville and 116 miles from the port of Harper.

According to the Bid Prospectus, which was not readily available from the FDA but was subsequently provided by Euro Liberian Logging, the concession area contains an estimated 15,670 hectares of in-operable area. The estimate is derived from the .002 percent sample of the gross area.

*“Overall, the estimated total volume of trees in all species categories over the statutory cutting limits in the entire Forest Management Contract area is **52 million cubic meters (rounded down)**. The average tree size is 6.1 m<sup>3</sup> and average volume stocking is 204.8 m<sup>3</sup>/ha.”<sup>19</sup>*

The estimate of forest stocking, as provided in the Bid Prospectus, indicates variability in the amount of volume distributed throughout the species classes. The stocking table provided confirms this observation.

The Bid Prospectus reduces the gross area to net by subtracting the inoperable area and then applies the unbiased estimate of stocking to the net area to derive the Reliable Minimum Estimate (RME) merchantable volume (all species categories over cutting limits) of **32 million m<sup>3</sup> (rounded down)**.

Finally, *“For the purposes of ensuring **sustainable forest management** within an agreed Management Plan, FDA will restrict overall offtake to a maximum of **15% of RME volume in each block, based on a 25 year felling cycle...**”<sup>20</sup>*

The annual allowable cut for all tree species over the statutory cutting limit is **21 m<sup>3</sup> per hectare per year**. In comparison to the information provided in Section 4, Yield Table Model, the tree growth projections within the Upper Guinean Rainforest is significantly less. There is a conflict within the **sustainable forest management model**.

The allowable cut exceeds growth. This does not meet the basic tenet of the law; e.g., sustainable management and protection of Forest Resources to achieve maximum environmental, social, economic, and scientific benefits for present and future generations.

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<sup>19</sup> FDA Bid Document Forest Management Contract Area-F

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Representatives from the USAID-GEMS team traveled to the Euro Logging concession in Grand Gedeh County in company with two representatives from the NBC and two representatives from the FDA. A meeting was convened on the 29<sup>th</sup> of May with the GEMS, FDA and NBC personnel, together with representatives of the FDA Region 4 office in Zwedru and field personnel of Euro Logging. The meeting was open and cordial. The purpose of the USAID-GEMS



project was explained, the purpose of the visit was explained, and the role of NBC in concessions monitoring and management was explained. Euro Liberia Logging then explained its operations and the difficulties it faces in being profitable under current market conditions, and given the constraints of operations in Liberia. A number of problems were discussed, including a lack of a market for Class A trees. Prices are such that, with Class B trees, the operation can only break even, and, with Class C trees, the company loses money. Currently the Euro Liberia Logging's market is only for Class C species due to:

- A lack of trained mechanics to repair the equipment, much of which uses sophisticated electronics,
- Excessive down time (up to five months/year) due to the rainy season and time lost waiting for spare parts to be shipped to Liberia (no spare parts are available in Liberia), and
- The requirement of transporting the fuel to the concession site from Monrovia.

FDA personnel from Monrovia requested several documents from the Euro Logging managers. Those documents were delivered to them later in the day

After this meeting the group departed for a tour of the concession area. The group drove to the first staging area in the forest. The camp was furnished in a very rudimentary manner; there were no semi-permanent or permanent structures.



The landings were jammed with approximately 2,000 m<sup>3</sup> and apparently the logs were brought in hurriedly to get as many logs out of the forest as quickly as possible. In addition, many of the logs were not tagged.

This could be the result of a delay in tagging logs cut from the main stem, and it could also be a result of the speed with which the logs were dumped in the yard. The lack of tags may not be a long-term problem, but it is an issue that should be addressed.

About a dozen pieces of equipment were scattered about the first log yard. None were in operational condition.



The group then proceeded down the logging road to the second staging area. The road was muddy and deeply rutted. It was virtually impassable.

The second staging area was at least half a mile from the first staging area. Logs were scattered around the area, but there was no equipment at this site. Again, tags seemed to be missing on a number of the logs.







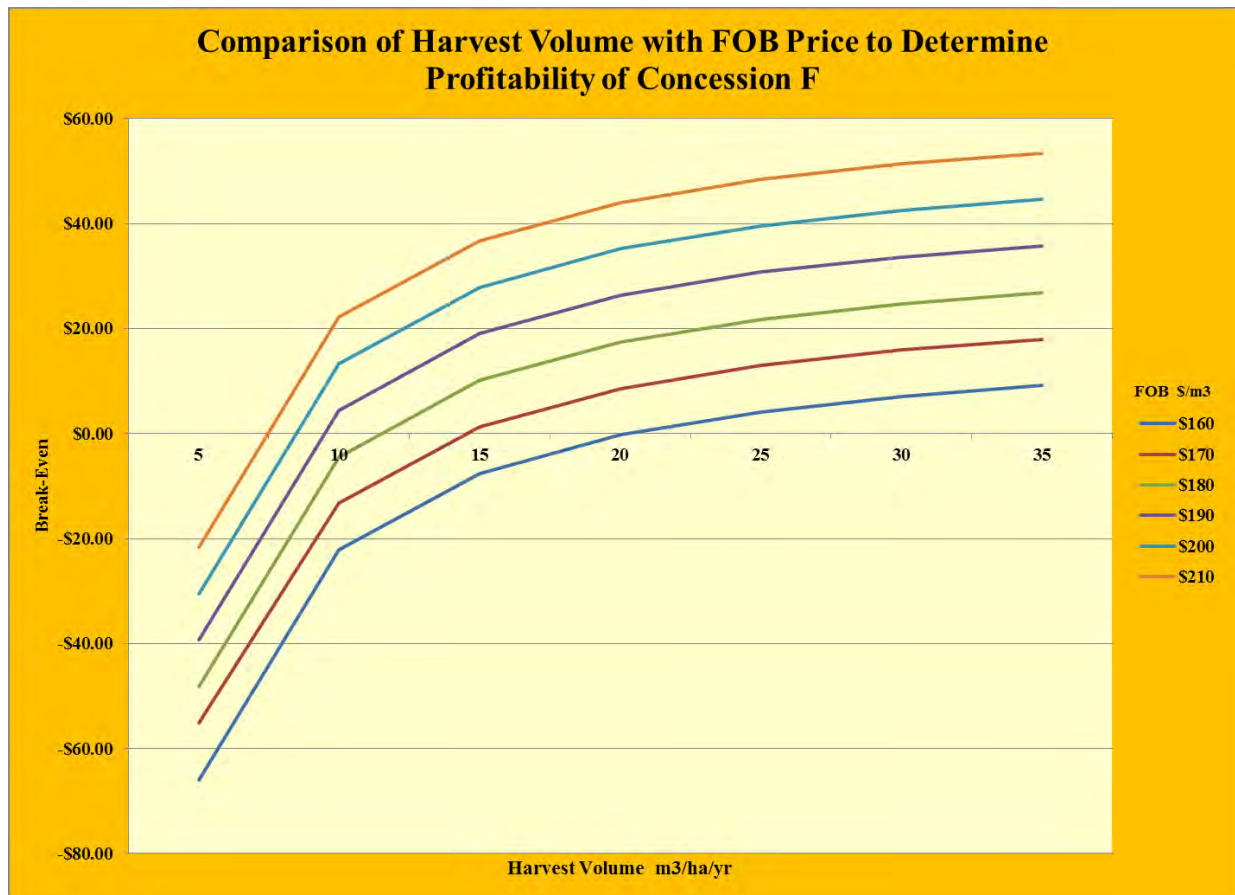
The trip was very beneficial for the NBC, FDA and GEMS personnel from Monrovia. It gave them first-hand information about the state of this concession, the problems the concessionaire faces and the difficulties this concessionaire will have to make this concession profitable.

On a positive note, Euro Logging reported no problems when

transporting goods between the logging site and the port in Greenville from which the logs are shipped.

However, the company faces serious problems, among them being arrears in payments of funds to the Government of Liberia, possessing too little functional equipment, having a lack of trained mechanics, and working in a market for species that have a very low price on the market

**Figure 5—Comparison of Harvest Volume with FOB Price, Area F**



The graph shows the estimated harvest volume at a given FOB price for the Euro Liberia Logging—Concession Area F to become profitable.

Using an average FOB price of \$180 per m<sup>3</sup> for all species combined, the operation must extract roughly 12 m<sup>3</sup> per hectare to break-even. This does not include corporate taxes.

## REVENUE PROJECTIONS

Estimating forest value within confidence limits for implementing forest-based revenue reform is, inherently, difficult to undertake as the revenue projections are directly related to multiple data sets entered into a complex system. The most basic of these inputs are existing standing timber volume, tree growth, direct cost of extraction, and administrative fees.

On the other end of the equation, having a severe impact on the forestry sector are volatile timber markets that distort competitive market prices, a complex revenue collection system of royalties, fees, and taxes, and an inadequate infrastructure of roads, bridges, and ports, intensified by the lack of a skilled work force. In theory, the forestry sector should support rural economic development and provide a wide range of environmental and social goods and services to the people of Liberia.

As shown in the National Bureau of Concessions 2012 Annual Report, only 5% of the annual bid premium, land rental, and contract administration fees were collected, that is \$1,859,551 out of the \$36,409,431 owed. An additional \$9.2 million was collected during the same period in stumpage and export fees, as would be expected given the type and timing of fee (production fee based on volume at the time of sale). Interestingly, \$3.3 million was collected in 2011, a change which can be directly related to the expanded use of the Private Use Permits (PUP). *It is safe to assume that the majority of the outstanding fees owed are attributed to the annual bid premium. The system is broken.*

Given the constraints and complexity of the revenue collection system, it is unlikely that an “ideal” set of revenue charges exists. However, through an evaluation of Liberia’s own particular objectives and circumstances, including discussions with stakeholders from the Government, industry, and community, the most appropriate forest-based revenue reform may be identified.

Forest resources represent a significant asset that is used to generate government revenues that support economic development and provide a wide range of environmental and social goods and services. A major concern for all involved is when short-term measures to raise revenue override sustainable management and protection of forest resources.

In 1976, Nobel laureate economist Paul Samuelson noted that “applying what is sound commercial practice to government’s own utilization of public forests ... is a sure prescription for future chopping down of trees”. He observed that “everybody loves a tree



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# FOREST CONCESSIONS—COMMERCIAL FOREST REVENUE PROJECTION MODEL FINAL REPORT



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