



NATIONAL FORESTRY
DIALOGUE
PAPUA NEW GUINEA

REPORT FROM THE

INSTITUTE OF NATIONAL AFFAIRS
PAPUA NEW GUINEA

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NATIONAL FORESTRY DIALOGUE - PNG

Mission Report

PREPARED FOR THE INSTITUTE OF NATIONAL AFFAIRS
BY GRAHAM TYRIE

“THE AIM OF DEBATE SHOULD NOT BE VICTORY, BUT PROGRESS”

JOSEPH JOUBERT

*“RIGHT ACTION IS BETTER THAN KNOWLEDGE, BUT IN ORDER TO DO WHAT IS RIGHT WE MUST
KNOW WHAT IS RIGHT”*

CHARLEMAGNE

DISCLAIMER

The consultant accepts full responsibility for this report, drawn up on behalf of the Institute of National Affairs (INA) contracted by the Delegation of the European Commission in Port Moresby on behalf of the Government of Papua New Guinea (PNG). The report does not necessarily reflect the views of INA, the EC or the Government of PNG.

NATIONAL FORESTRY DIALOGUE PAPUA NEW GUINEA

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Acknowledgements

It was a pleasure and a privilege to work with INA and CIMC staff carrying out this task. The resolve and commitment they showed during a roller coaster of a mission was impressive. This was much appreciated and bodes well for the future of PNG, despite local difficulties.

Graham Tyrie, December 2006.

Foreword

The Institute of National Affairs was commissioned by the European Commission with the Government (through the Department of National Planning and Monitoring) to organise a three day forestry dialogue in Lae in December 2006, bringing interested stakeholders (government, resource owners, industry and NGOs) together to ascertain opportunities for sustainable forestry into the future and find potential common ground or options for the industry' future.

It is generally recognised, as highlighted in several credible independent reviews of the industry undertaken for the Government over recent years, that there are governance problems facing the industry in PNG, as there are in neighbouring West Papua and Solomon Islands. There is, for example, a lack of up to date resource information held by the PNG Forest Authority; proper project approval processes have not always apparently been followed and many projects are not being managed on a sustainable harvest basis as required under the 1990 Policy and 1991 Act, or in compliance with the forest code of practice; project agreements are being breached in various instances with landowners forfeiting particularly longer term development benefits; export prices, particularly by some operators, appear consistently well below international or even local average market prices; and extensive cases of social and human rights abuses associated with some projects and logging camps have been reported. Extensive breaches have occurred with respect to Timber Authorities, a mechanism intended for localised timber extraction for agricultural conversion or road construction purposes. They have been widely abused for major logging projects, with the infamous Kiunga-Aiambak project in Western Province, which was finally halted after lengthy legal process, being the most well-known example. Other proposed projects, as in Collingwood Bay, tried to circumvent the forestry laws and required approvals from landowners, but was again halted in the courts following action taken by the local community.

The planned Forestry Dialogue in December was not, however, about delving into reported abuses or failures by government, notably the PNG Forest Authority, in applying the forest and related laws firmly or consistently. It was, instead, intended as a constructive exercise to bring often disparate interests together, recognising that forestry is a logical industry for PNG in providing long term income and employment opportunities, particularly in rural areas, but which should be run on a sustainable basis, as required, meeting acceptable local and international standards. The workshop sought to explore changing market and investment trends and opportunities, including with respect to sustainability certification, plantations and carbon trading, as well as prevailing knowledge on sustainable resource management in PNG's conditions and the adequacy of the current policy and legislative framework. Background work undertaken by researchers from the Overseas Development Institute (ODI) and the Forestry Department of the University of Technology in Lae, were provided, and to be complemented by material provided by the Forestry Research Institute in Lae and contributions from others involved in forestry research and management, including from forestry companies, other universities and NGOs.

It was heartening that there was a strong level of support for this Forestry Dialogue, not only from organisations concerned over governance issues, non-government organisations, many resource owners and development partners, but also from government departments and agencies (including staff and management of the PNG Forest Authority, some of whom had prepared papers for the workshop) and also from several (though certainly not all) forest industry participants (involved in harvesting and processing), some of whom have shown a strong interest in improving operational and marketing performance, and seeking technical and other assistance, where available, to be able to achieve the higher standards increasingly required by international markets and by governments and the wider community in many producing countries, including landowners.

Considering that the Dialogue was requested by government, funded by a valued development partner, widely supported, including by parts of industry, and considered valuable for openly discussing issues and potentially generating a level of joint purpose and cooperation, it came, therefore, as a major surprise when the Minister for Forests, Hon Patrick Pruaitch issued a highly publicised direction for forestry staff not to participate in the workshop. Following this some of the other Departments withdrew and, with the Forestry Industry Association also indicating non-participation, the sponsor decided to discontinue the full and costly workshop. It was intended to be a constructive dialogue and, in the absence of many key participants, it was felt that it would turn into a bit of a monologue, with limited material presented and an inadequate balance of views. Nevertheless, a constructive seminar was nevertheless held in Port Moresby, with extensive, though more limited participation, provided valuable ideas and material.

This report, prepared by the INA's workshop coordinator, Graham Tyrie, presents the background to the planned Dialogue, a chronology of events and provides details of the presentations and discussions at the Seminar. A major concern by all participants, and provided in extensive correspondence, including in the press following the cancellation of the workshop, was the need for much greater openness by government (and developers in forestry) and consultation between all interested parties, including resource issues, over issues affecting them. Policy and its application, or non-application, is not simply a matter for the prevailing Government or Minister, but must embrace wider public participation and oversight.

As with planning and public expenditure, the performance of public institutions and wider governance issues, and application of the law, are all matters affecting the wider public and over which the public has, and should have an active interest. Greater transparency and accountability by public institutions and leaders is critical to the effective workings of a modern State, as it is also at the local community level. Perceptions of irregularities and special considerations to favoured interests in forestry, as in other fields, undermine the credibility and respect for the institutions of the State. Greater openness and readiness to wider consultation on future plans, as well as public scrutiny of current actions, are necessary ingredients towards restoring needed respect and a sense of ownership of public institutions, as well as achieving wider positive outcomes.

It is hoped that we can all be willing to learn from the lessons of the past and present, and, in the case of forestry, work together to ensure a bright and viable future for a sustainably-managed industry in PNG, contributing lasting benefits for the country as a whole and its resource owners, through incomes, employment and wider participation and value-added benefits, whilst minimising any negative social or environmental impact, or impact on other potential industries. There is a wide view that in forestry there is not much wrong with the law or regulations, though some improvements are applicable, but that it is their application which needs greater attention.

Paul Barker
Director,
Institute of National Affairs

List of Acronyms

CAR	Corrective Action Request
CIFOR	Centre for International Forestry Research
CIMC	Consultative Implementation and Monitoring Council
DEC	Department of Environment and Conservation
DFID	Department for International Development (UK)
EC	European Commission
EFF	Eco-Forestry Forum
EFP	Eco-Forestry Programme
ENB	East New Britain Province
EU	European Union
FIA	Forest Industry Association (PNG)
FLEGT	Forest Law Enforcement, Governance and Trade
FMA	Forest Management Agreement
FORCERT	Forest Management and Product Certification Service
FPCD	Foundation for People and Community Development
FRI	Forest Research Institute (PNG)
FSC	Forest Stewardship Council
ILG	Incorporated Land Group
INA	Institute of National Affairs
IPA	Investment Promotion Authority
IRC	Inland Revenue Commission
IRECDP	Island Region Environmental and Community Development Programme
ITTO	International Tropical Timber Organisation
LLG	Local Level Government
MTDS	Medium Term Development Strategy
NAO	National Authorising Officer
NFS	National Forest Service
NFB	National Forest Board
NTDG	National Forest Development Guidelines
NGO	Non Governmental Organisation
NTC	National Training Council
ODI	Overseas Development Institute (UK)
PFMC	Provincial Forest Management Committee
PNG	Papua New Guinea
PNGFA	Papua New Guinea Forest Authority
PSP	Permanent Sample Plot
PTA	Prepaid ticket advice
SGS	Société General de Surveillance
TA	Timber (harvesting) Authority
TFTC	Timber and Forestry Training College, Lae
TNC	The Nature Conservancy
TRP	Timber Rights Permit
Unitech	University of Technology, Lae
VDT	Village Development Trust
WMA	Wildlife Management Area
WNB	West New Britain Province
WWF	World Wide Fund for Nature

Summary

The report covers the activities of the TA consultant while organising a national dialogue on forestry options in Papua New Guinea for the INA at the request of the Delegation of the European Commission and National Authorising Officer on behalf of the Government of Papua New Guinea.

The main tasks of the mission were

1. Prepare and coordinate an inclusive dialogue on forestry options in Papua New Guinea
2. Advise on the preparation of background papers for the dialogue on forestry.
3. Write up the proceedings of the dialogue on forestry.

The consultant reached the following conclusions and makes the following recommendations.

Conclusions

- The idea of a dialogue on forestry options in PNG was well conceived. The positions of the various stakeholders have become polarised and acrimonious. This situation needs to be unwound by discussion between parties who genuinely have the interests of the people of PNG at heart.
- The way in which the dialogue was closed down reflects badly on the governance of forestry in PNG and gives rise to real concerns over the way the affairs of the country are being run.
- Given that the political situation in PNG militates against open discussion it is in the interests of the people of PNG that there is international participation in the dialogue.

Recommendations and next steps:

- A dialogue on forestry in PNG should go ahead as early as possible.
- Sufficient time should be given for the preparation to allow international participation.
- In the interim the CIMC (Consultative Implementation and Monitoring Council) sector committee on forestry should be re-convened and an agenda for forest governance in PNG drawn up with practical steps towards its implementation, taking full cognisance of the political situation.
- Public participation should be actively encouraged through the use of internet and other forms of public discourse.
- Recommendations to EC
 - The EC Delegation should support the continuation of a national dialogue on forestry.
 - Sufficient time should be allowed to plan and execute a national workshop as part of this dialogue. This type of international workshop requires a lead in time of several months, perhaps even a year or more, and active participation from the donor community at both operational and diplomatic levels.

1. Introduction

1. The consultancy to coordinate a national dialogue on forestry in Papua New Guinea was carried out from November 3rd to December 15th 2006. The work was executed according to the terms of reference which are given in annex 1, but was curtailed by the opposition of the Minister of Forestry, the Honourable Patrick Pruaitch, who ran a campaign in the National newspaper to discredit the dialogue process; this despite the high level approval and formal written requests from the government requesting that a workshop on forestry in PNG should be organised.

2. Given this opposition and the abbreviated nature of the consultancy this report records the work undertaken according to the TOR, but also tries to draw lessons from the experience which might help in preparing similar events in the future and in drawing up next steps in the process of trying to unwind the unsavoury state of affairs which currently exists in PNG forestry governance.

2. Activities of the Consultant

2.1 Introduction

The mission activities are summarised below according to the TOR requirements, which are provided for reference in annex 1. The work primarily involved coordination of the workshop arrangements and associated dialogue process, of handover and programme closure arrangements.

2.2 Activities by Terms of Reference

2.2.1 Consult and liaise with all stakeholders to gain support for the aims and participation in the Dialogue, including national stakeholders (landowners, loggers, traders, NGOs, government, etc.), donor agencies and academic institutions.

3. A wide cross section of stakeholders was canvassed to ensure support for the Dialogue. These included industry representatives, both loggers and downstream processors, NGOs, academics, donors and representatives from a wide range of government departments. The contact list, given in appendix 2, records the range of people and organisations contacted. All were contacted beforehand to confirm their support and intended attendance at the seminar or involvement in the dialogue process. It was also agreed that senior representatives from the NGO sector would canvass and represent the views of that sector and similarly for local government.

4. The PNG Forest Authority was fully involved in the preparations for the dialogue. The Acting Managing Director not only supported the process, but had requested that PNGFA be given slots to present work relevant to the dialogue, these to include the involvement of local communities in the planning process, sustainability research and coordination with NGOs. In light of the subsequent undermining of the dialogue process by the Minister of Forests it is important that this is noted.

5. Not only was the dialogue process supported at the highest level within PNGFA, several PNGFA staff had willingly agreed to take on key supporting roles both in logistics and exposition.

2.2.2 Identify a suitable venue for the forum and make all logistical arrangements, including, but not limited to, airline reservations and ticketing, ground transport, hotel accommodation and receptions.

6. The University of Technology (UNITECH) in Lae was identified as a suitable venue, having an excellent primary conference venue with ample subsidiary rooms for breakout discussion and good primary facilities for projection and recording. It was simple enough to supplement any shortcomings by provisions from INA equipment, some of which was purchased or rented for the workshop. Their conference facility was inspected and booked for the dates 5-8th December 2006.
7. Catering was handled through local groups well known to the Lae UNITECH staff and through hotels in Lae.
8. Entertainment and local cultural events were handled similarly.
9. Four local hotels were inspected. Hotel accommodation was booked at the Lae International where the group dinner and reception were also booked. The Melanesian Hotel was booked to provide additional accommodation.
10. Transport was arranged through local car hire companies and the UNITECH buses arranged for daily transport to and from the hotels.
11. Airline reservations were made for all confirmed participants through Airlines PNG. Ticketing was sent out by PTA to all participants outside Port Moresby. Port Moresby based participants received tickets from the INA office.
12. Given the uncertainties surrounding the implementation of the workshop only essential payments were made right up until the last minute. Unfortunately the positive signals received over the weekend prior to the workshop resulted in some essential payments being made.
13. The consultant and John Varey, a senior INA staff member, flew to Lae to inspect facilities and confirm all arrangements. During this trip three possible field trips were inspected. Visits were made to the FRI field research permanent sample plots at Yalu, the 'Lae Builders' factory and workshops and the Gabensis village eco-forestry site. These are recorded in annex 3 for future reference.

2.2.3 In consultation with the NAO, NFA and the EC Delegation identify, invite and arrange for participation of appropriate international experts to act as technical advisors at the 'Dialogue'.

14. With the agreement of the National Authorising Officer (NAO) and at the formal request of the Department of Planning and Monitoring, the EC Delegation contracted the Overseas Development Institute to prepare three background papers on forestry in PNG. The consultant was not involved in this contract, but as required by the contract worked closely with the three ODI consultants in the finalisation and distribution of the papers prior to the planned workshop (see below). In addition certain eminent international experts were contacted and invited to attend the workshop. In truth the process of inviting experts of international standing to attend any event has to start several months in advance and in the case of conferences is usually done more than a year in advance. This lead in time was not available. The following international experts expressed their regrets. David Kaimowitz (former DG of CIFOR), Frances Seymour (DG CIFOR), Dr. Jared Diamond (Best selling author on ecology with significant PNG academic background), Sir David King (UK Chief Scientist) and Professor Gordon Conway (DFID Chief Scientific Advisor) both through the

British High Commission, Eva Galabru (Human Rights Activist) and Professor Jeffrey Sachs. Thomas Barnett the former Judge responsible for the 'Barnett Report' review of PNG forestry in the late 1980s accepted an invitation to attend the workshop and travelled to Port Moresby prior to the cancellation of the workshop. The others expressed their regret although some, such as Professor Sachs, offered to participate in a video-conference to the workshop.

2.2.4 Develop an agenda that balances independent analysis and advice with a forum for discussion, debate and consensus-building.

15. In consultation with the EC Delegation a programme for the dialogue was developed. This went through several iterations as the situation unfolded and government representatives were forced to withdraw. The final version is included in annex 4.

2.2.5 Distribute discussion papers, prepared by the Overseas Development Institute, to all participants prior to the forum.

16. The papers were finalised through a discussion among limited parties to check balance and correctness.

17. Two weeks prior to the planned workshop, the papers were posted on the INA web site along with an explanation of the Dialogue on Forestry objectives and a list of those invited to the workshop. (see annex 5)

18. Announcements in the Post Courier and National newspapers advertised the contents of the papers, the location of the web site and explained the purpose of the Dialogue on Forestry. The announcement invited the public to read the papers and to pass their comments and views to their chosen representatives from the list of invitees.

19. The papers were distributed electronically to all key participants. Key representatives of each stakeholder group were asked to prepare detailed comments to be presented at the workshop.

2.2.6 Facilitate the forum, promoting dialogue and consensus-building, and the development of monitoring tools for recommendations that may emerge.

20. Every effort was made to facilitate a balanced dialogue. It was always going to be a major challenge to develop a consensus. The intention was that a dialogue should be started and that with an agreed agenda could be continued through the CIMC process. The workshop and Dialogue on Forestry process would be the first step in resuscitating the CIMC on Forestry. As it transpired the existing polarisation and indeed deeply entrenched positions of certain major players from the logging industry, apparently represented by the Minister of Forests, proved too much of an obstacle to overcome.

21. It should be noted that the Forest Industry Association (FIA) was the only umbrella organisation which refused to attend the workshop, after the E.O. initially indicated his readiness to participate, at least as an observer.

22. It should be further noted that some of the logging sector members of the FIA did agree to attend the workshop and further that the down-stream processing sub-sector of the industry was well represented among confirmed participants, some agreeing to take an active role in exposition at the workshop.

23. It should also be noted that civil servants from PNGFA had indicated their strong support for the process and their willingness to take part in the Dialogue. They are not represented as confirmed participants because the Minister for Forests forbade them from

taking part although it is understood that legally he had little authority to impose such a direction.

24. Given the fact that the workshop could not go ahead, and that some participants had travelled from overseas to take part, it was decided to hold a restricted meeting to seek feed back on the ODI papers. This meeting was held in the INA conference room on December 6th. It was well attended. The proceedings of this meeting are recorded in the third section of this report.

2.2.7 Compile, print and distribute all reports of the 'Dialogue.'

25. Provision has been made for compilation of the ODI papers. There will need to be discussion on the next steps with respect to compiling, printing and distributing other reports.

2.2.8 Other tasks of the consultant

26. The consultant reviewed and provided comment during the preparation of the ODI background papers

27. Speaking notes were prepared for the EC Delegation.

28. Research was carried out on the climate change and the FLEGT (Forest Law Enforcement Governance and Trade) processes.

3. The ODI Background Papers (proceedings of the meeting in the INA boardroom)

3.1 Introduction

29. Given that the Dialogue on Forestry workshop was cancelled it was decided to hold a restricted meeting to air and discuss the ODI background papers so that they could be finalised and published for distribution.

30. The meeting was held at 12:30 PM on December 6th in the INA conference room. Sandwiches and refreshments were served.

31. A list of participants is given in annex 6.

32. The ODI papers will be published separately and placed on the INA web site. The presentations given at the meeting are appended to this report in annex 7. A record of the discussion is given in annex 8.

3.2 Overview of the Meeting

33. **History of Forest Management in PNG.** Neil Bird gave a well researched and interesting presentation on the history of forest management in PNG. The major points made were: that large scale natural forest exploitation was as that originally planned in the late 1970's; that the industry has responded to changes in policy usually quickly and often with dramatic effects; that the Government of PNG has taken exemplary measures in investigating reported problems and malfeasance in PNG forest management, but that it has done almost nothing about it; that the Barnett report set out a new agenda which has been partly implemented, but which has had little or no reported impact on the nature of the impacts on forests in PNG; the complete absence of a serious attempt to use the principles of sustainability in guiding forest harvests is remarkable; the more remarkable in that the

science of sustainable forest regeneration is present in PNG and has been better developed than in most tropical countries.

34. **Institutional and Legal Framework** - Adrian Wells presented a clear summary of the current legal situation of forest management in PNG. In summary it could be concluded that there are many legal mechanisms in place to support equitable and sustainable forestry in PNG, but they are not bringing about the desired result. Currently there is a great deal of litigation related to forest management in process in PNG and this is not efficient. Many of the intended institutional and administrative safeguards are being circumvented. Monitoring and checking of current practises and impacts in PNG is difficult and expensive and may not be supporting the desired process. One was left with the impression that the answer to improved forest management in PNG does not lie through the law, although the law could be improved further, but through the political process.

35. **Issues and Opportunities** - Neil Bird made a presentation based on Dr. Flip Van Helden's paper on the options for PNG forestry. Essentially a forward looking presentation based on the economics of forestry using models from other countries. The options cited included: Sustainable forest management but there was a recognition that this was not as economically viable as many would like; Forest plantations were presented as an option, but the economics may be unfavourable. No solutions were offered, but a key question formulated for government and the forest industry crystallised the requirements. Can they reduce output by bringing forest operations in line with sustainable yield principles; increase the value of exports through downstream processing; ensure compliance to meet the legality requirements of increasingly demanding international markets?

36. The chairman set two tasks for the follow up discussion:

- ◆ to correct errors of fact in the presentations;
- ◆ to look forward to the next steps required to put forest management on a sound footing for the long term benefit of the forest owners, the people of Papua New Guinea.

37. A paraphrased summary of the discussion is given in Appendix 9.

38. The papers were well received and no major errors of fact noted. As befitted background papers for the proposed dialogue solutions were not offered, but it was clear from the presentations and from the ensuing discussion that there are major questions to be answered on forest sector governance in PNG.

39. It was noted that climate change and carbon trading were not addressed by the background papers. Though not specifically mentioned in the TOR this was considered an omission.

40. The discussion covered a range of forest sector issues. While solutions remained illusive the following points are worth noting:

- While it was agreed that a grass roots approach should be a major part of the approach to improved forest sector governance, it was further agreed that there would be no solid progress until the public were better informed. Better materials more focussed on the needs, concerns and interests of the general public are required.
- The IRC is happy with the relatively improved revenues from the forest sector. Several participants warned that trying to increase returns further was not straight forward.

- Having said which, transfer pricing and other revenue issues need to be resolved. It is in PNG's immediate interests and the government should be proactive. Donors and the international community should assist in resolving the prices of logs traded internationally.
- Improved monitoring of field activities was called for and that this should be carried out by independent monitors. It was expected that this would lead to improved benefits to local communities. Increased costs were signalled and noted, but the call remained firm indicating strong dissatisfaction with the perceived impacts of current practices and present oversight by the administration.
- Community based forestry has a role in community well being, despite the apparently unattractive financial returns.
- It is worthwhile noting that plantation forestry, though mentioned in the ODI papers, was not addressed further by the meeting despite prompting by the chair.

4. Recommendations for Follow-up Action

4.1 Introduction

The major conclusions of the attempt to set up a constructive dialogue on forestry in PNG are presented below along with a few selected recommendations. The reader should refer to the background papers produced by the Overseas Development Institute for more detailed comment on forest management in PNG.

4.2 Findings and Conclusions:

- There is a polarisation in the positions of major stakeholders in the forest sector in PNG which the proposed dialogue sought to bridge.
- The Secretariat of the Forest Industry Association and the Minister of Forestry refused to take part in the dialogue. Their position was supported by the National newspaper, which is owned by Rimbunan Hijau, a major logging company.
- All other parties agreed that the proposed dialogue was timely and worthwhile. These included most members of the Forest Industry Association, both logging companies and downstream processors, who enthusiastically supported the dialogue.
- The Minister of Forestry refused to allow PNG Forest Authority staff to take part in the dialogue. Prior to this ban staff of PNGFA had been actively and enthusiastically involved in the preparations for the dialogue.
- All other government departments supported the dialogue and had agreed to take part.
- Key politicians, the majority of those approached directly, supported the dialogue and had agreed to take part prior to, and even after, the ban imposed by the Minister of Forestry.
- As far as could be established in the prevailing climate of uncommunicative antagonism there are valid arguments on both sides of the debate. In summary:
 - Industrial logging by large companies delivers benefits to local people and the national exchequer.
 - The benefits of large scale logging activities could be improved and the negative aspects of industrial logging as presently practised should be reduced and actively ameliorated.
 - While logging companies have a legal responsibility to carry out logging properly and to reduce unwanted impacts, it is unrealistic to expect them to be responsible for all the social impacts of logging. At best they will meet their contractual obligations.

- Independent agencies are required to deal with the major social issues, probably funded by revenues from logging.
 - Similarly independent monitoring of forest operations is required, though how this is to be funded and implemented is not clear.
 - There is no clarity on forest industry revenues and there remain many questions with respect to possible transfer pricing which could relatively easily be answered through international inquiry. These should be resolved without delay.
- There are governance issues related to current management of forests in Papua New Guinea.
 - There is a broad consensus that forest management rules and regulations are being flouted by an influential few for their own benefit to the detriment of the majority of the people of Papua New Guinea.
 - While this mission was unable to confirm or deny the validity of this broad consensus, serious and substantial reports commissioned by the government itself state that there is a case to be answered.
 - The overwhelming positive feedback to the dialogue proposal and the debate in the papers surrounding the validity of the dialogue indicates that a constructive dialogue is wanted by many and should take place. It might be best if this was preceded by an independent inquiry with the specific remit to inform a debate.
 - Given the degree of distrust on both sides there is a case for making this inquiry at least partly international, but above all it must be balanced and as objective as possible.
 - The public needs to be properly informed on forest management issues.
- The same forest governance issues will certainly undermine the stated objective of the present PNG government to be a key participant in the climate change related carbon trading market.
- All of the above supports the initiative to hold a national dialogue on forest management in PNG.
 - It was recognised from the outset that there would be political problems in holding the dialogue. These are clearly stated in the terms of reference.
 - More background work should have been done locally over a longer period of time to prepare the ground for the dialogue.
- Carbon sequestration and climate change issues were not given due weight in the TOR of the ODI consultants. This was a significant oversight.

4.3 Recommendations:

General

- Within the limited debate which did take place, proffered solutions to the current impasse and suggestions for the next steps to be taken were few. They included:
 - Improved education of the public to include improved materials with the general public as the target audience.
 - Additional oversight and monitoring of forest practices probably through independent monitors.
 - Demand market countries should take responsibility for the provenance and nature of imported forest products, insisting on transparent and demonstrated compliance with internationally agreed standards of forest management. This to be pursued through international diplomacy.
 - Given that the international community stands to benefit significantly from improved forest management in PNG, donors should assist in financing the

costs of meeting the demands of compliance and improved administrative capacity required to meet monitor sustainable forest management in PNG.

Specific recommendations and next steps:

- The dialogue on forestry in PNG should go ahead as early as possible.
- Sufficient time should be given for the preparation of a national workshop to allow international participation.
- In the interim the CIMC (Consultative Implementation and Monitoring Council) sector committee on forestry should be re-convened and an agenda for forest governance in PNG drawn up with practical steps towards its implementation, taking full cognisance of the political situation.
- Public participation should be actively encouraged through the use of internet and other forms of public discourse.
- The debate over transfer pricing should be resolved. This is in PNG's immediate financial interests. An investigation should be mounted without delay. It should be supported by donors and diplomatic pressure brought to bear on all importing countries to provide complete information. A submission to this effect should be drawn up as the first step.

Recommendations to EC

- The EC Delegation should support the continuation of a national dialogue on forestry.
- Sufficient time should be allowed to plan and execute the national dialogue. This type of international seminar requires a lead in time of several months perhaps even a year or more and active participation from the donor community at both operational and diplomatic level

Annex 1: Terms of Reference - Extract from the contract with the Institute of National Affairs

4.4 Current state of affairs in the forestry sector

The PNG Forest Authority is charged with managing the sector for the long term benefit of the people of Papua New Guinea, with the Forestry Act 1991 as the principle legislative instrument.

The National Forest Policy dates from 1990. The two main objectives of the policy are:

- Management and protection of the nation's forest resources as a renewable natural asset;
- Utilisation of the nation's forest resources to achieve economic growth and employment creation.

In terms of actual forest development, the 1991 Forestry Act allocates forest resource rights and responsibilities through so-called forest management agreements (FMAs) between customary landholders and the state. Since virtually all of PNG's forest lands (97-98%) are held under customary forms of ownership, forest development rights must be acquired from willing landholders. In other words, landholders sell temporary cutting rights to the PNG Forest Authority (NFA), up to a period of 40 years, in exchange for timber royalties. Despite the strong legal rights of traditional landowners, alternatives to industrial logging are only rarely considered prior to the allocation of forest resources. Moreover, customary tenure in PNG has not guaranteed sustainable land use, due to the difficulties of identifying traditional landowners, poor enforcement of the terms of land leases and concessions to private operators, and disputes over the distribution of benefits from logging and other non-traditional land uses. Land tenure issues are major stumbling blocks in the development of plantation forestry in PNG, and they are also hurdles to the development of new, conservation-oriented forestry activities.

The National Forest Plan was approved and ratified in 1996 and all forestry projects are required to be developed in accordance with this plan. The major problems that the PNGFA faces when implementing these policy objectives are lack of competent manpower and political interference. Lack of political will to enforce legislation and regulations on biodiversity protection on customary owned lands when converting to commercial logging and development is another problem faced by PNGFA.

Many commentators believe that illegal logging, which takes place when timber is harvested in violation of national laws, has become a growing problem in recent years. Illegal logging and the associated trade have been estimated to cost local communities vast amounts of money in lost royalties and the country in export taxes (Ref. SGS Monthly Reports). The wider damage inflicted on the reputation of the timber industry can also result in a loss of markets. Recently, the Australian government announced that it was examining the legality of imported PNG timbers.

The problems posed by illegal logging and associated trade have been recognised by ACP countries, through the East Asia Ministerial Process for Forest Law Enforcement and Governance (East Asia FLEG) in 2001, in which Papua New Guinea is a participant. This declaration expresses deep concern with the serious global threat posed by illegal logging and

associated illegal trade, and recognises the fundamental role of government in tackling the problem.

The EU is strongly committed to supporting the intent expressed in the ministerial declaration, through an Action Plan for Forest Law Enforcement, Governance and Trade (FLEGT). The Action Plan aims to support producer countries' efforts to tackle illegal logging, and to facilitate trade in legal timber between these countries and the EU.

5. CONTRACT OBJECTIVES & EXPECTED RESULTS

5.1 Overall objective

The overall objective of the project of which this contract will be a part is as follows:

Initiate a dialogue on the forestry industry within Papua New Guinea and with relevance throughout the Pacific region between a wide range of stakeholders – including but not confined to landowners, loggers, traders, government, academics and donors – with a view to reaching consensus on future development and regulation.

5.2 Specific objectives

The objectives of this contract are to:

1. Engage expertise to take responsibility for all logistical issues, including arranging a suitable venue, travel and accommodation for participants, etc.
2. Ensure considered and constructive input from all relevant stakeholders' representatives.
3. Provide for input by appropriate international experts to act as technical advisors at the 'Dialogue' and thereby provide PNG with independent analysis and advice.
4. Engage expertise to facilitate the development and monitoring of realistic and policy-oriented recommendations at the 'Dialogue.'
5. Ensure wide distribution of all reports and recommendations from the 'Dialogue.'

5.3 Results to be achieved by the Consultant

Result 1.

A Dialogue forum convened with participation of all the relevant stakeholders.

Result 2

Reports and recommendations from the 'Dialogue' printed and distributed.

ASSUMPTIONS & RISKS

5.4 Assumptions underlying the project intervention

It is assumed that the Government of Papua New Guinea will continue to support the concept of improving management and accountability in the forestry sector.

5.5 Risks

The possibility that political interference, as a result of lobbying by large scale loggers and unscrupulous foreign interests, will prevent participation by important stakeholders is very real.

There is also a strong risk that outcomes from the Dialogue, no matter how well-developed, may be ignored by relevant stakeholders after the Dialogue concludes. Every effort should be made to promote ownership of the Dialogue by government departments and / or civil society within PNG in the planning phase of the event. A monitoring mechanism for any recommendations or policy directions that emerge from the Dialogue should also be considered.

SCOPE OF THE WORK

5.6 General

It is generally accepted that a very wide range of national stakeholders in the forestry sector, including landowners, loggers, traders of forest products, builders, exporters, financiers, NGOs and government, are interested in a sustainable industry. This necessitated that the sector adopts appropriate management practices and ensures economic returns at all stages of the extraction, processing and marketing continuum. However, the forestry sector is rife with allegations of illegality, unfair treatment of landowners, transfer pricing, etc by the 'Greens' and insistence by large scale loggers and government that all timber extracted is legally obtained and all taxes and levies paid.

Despite the obvious difference in the opinions and position taken by the opposing sides there has not been an opportunity to engage both sides in open discussions at the same venue. The EC Delegation has been requested by government to convene such a forum and invite all concerned parties.

The EC Delegation has contracted the services of the Overseas Development Institute of the UK to prepare 3 background papers which will be used to stimulate discussions. Research for the papers is currently underway. The contractor will work closely with the ODI team.

5.7 Specific activities

The contractor will:

- Consult and liaise with all stakeholders to gain support for the aims and participation in the Dialogue, including national stakeholders (landowners, loggers, traders, NGOs, government, etc.), donor agencies and academic institutions.
- Identify a suitable venue for the forum and make all logistical arrangements, including, but not limited to, airline reservations and ticketing, ground transport, hotel accommodation and receptions.
- In consultation with the NAO, PNGFA and EC Delegation identify, invite and arrange for participation of appropriate international experts to act as technical advisors at the 'Dialogue'.
- Develop an agenda that balances independent analysis and advice with a forum for discussion, debate and consensus-building.
- Distribute discussion papers, prepared by the Overseas Development Institute, to all participants prior to the forum.
- Facilitate the forum, promoting dialogue and consensus-building, and the development of monitoring tools for recommendations that may emerge.
- Compile, print and distribute all reports of the 'Dialogue.'

5.8 Project management

The EC Delegation to Papua New Guinea, Solomon Islands and Vanuatu will manage the project.

A Steering Committee, comprising representatives of the EC Delegation, the NAO's office, the National Forest Service and Institute of National Affairs (INA), will be formed to assist and advise on arrangements for the forum.

LOGISTICS AND TIMING

5.9 Location

INA will carry out the work in Port Moresby and Lae primarily but may be required to travel to other centres in Papua New Guinea to obtain first hand information on forest activities. Consultation with a wide range of stakeholders, government, landowners, loggers, Traders, NGOs, etc. will be essential.

5.10 Commencement date & Period of execution

The commencement date will not be later than 1st November 2006 and the period of execution of the contract will be approximately 8 weeks from this date. An earlier start is desirable.

REQUIREMENTS

5.11 Personnel

Key expert: Team Leader

The team will be led by a senior expert having wide experience in the issues associated with tropical forestry. He/She will be expected to assess the potential contribution of each group which could usefully participate and establish an understanding with each as to their roles and the expectations of the organisers. He will act as overall coordinator of the forum.

Other staff:

Support staff should be recruited as required.

MONITORING AND EVALUATION

5.12 Definition of indicators

Given the short-term nature of the activities, monitoring will be undertaken on the basis of regular meetings between the project team, the Delegation, the NAO's office and INA. Performance will be evaluated according to the quality of the documentation provided, the timing of its provision and the delivery at the forum.

5.13 Special requirements

None

Annex 2: List of invitees - DIALOGUE ON FORESTRY

Primary guest and contact list (includes final confirmed guests or contact not always the first contact Some government departments confirmed representatives)

NO.	GROUP	NAME	TITLE	ORGANIZATION
1	Government	David Sode, LLB,	Comm Gen	IRC
2		Simon Tosali	Secretary	DOTreasury
3		Ian Mesibere		DAL
4		Dr. Gae Gowae	Deputy Secretary	DEC
5		Mathias Lasia	Deputy Secretary	Fin and Planning
6		Alois Tabereng	Secretary	Trade and Ind
7		Dr. Rona Nadile	FAS	Labour
8		Gei Ilagi	Secretary	PLLGA
9		Joshua Kalinoe	Chief Sec.	DPM
10		Kevork Baboyan	Economist	IRC
11	Industry	Oscar Mamalai	GM	Innovision
12		John Sweet	GM	Lae Builders
13		Athol Smith	Manager	Timber saws
14		Dr Richard Pickworth	Director	Golden Square
15	NGO	Theresa Kas		TNC
16		Thomas Paka	Chairman	Eco Forestry Forum
17		Kenn Mondiai	ED	Partnership Melan
18		Peter Dam	Manager	ForCert
19		Ted Mamu	SFO	WWF
20		John Ericho		Conservation Forum
21		John Gonapa	Prog. Mgr	Con. Melanesia
22		Aung L. Kumal		Village Development Trust
23		Val Philips		Greenpeace
24		Dorothy Tekwie	Campaigner	Greenpeace
25		Damien Ase	Senior lawyer	CELOR
26	PNGFA	Goodwill Amos		PNGFA
27	SGS		Chairman	SGS Geneva
28	SGS	Bruce Telfer	MD	SGS PNG
29	Tourism	Jerry Agus		PNGTA
30		Peter Vincent	CEO	PNGTA
31	Church	Wesley Kigasung	Bishop	Lutheran
32		Pr Thomas Davai	President	SDA
33		Rt Rev Sir Brian Barnes	Bishop	Catholic Diocese
34	Civil Society	Kanawi Pouru	Chairman	PNGSD
35		John Sowe	Head. Social/Envir.	NRI
36		Ila Geno	Comm Gen	Chief Ombudsman
37		Brown Bai	Chairman	RIC

38		Graham Ainui	EO	RIC
39		Mike Manning	Chairman	Transparency International
40		Paul Barker	Director	INA
41		Roy Gagau (NARI)	HRM Mgr	Land owners
41	Donors/Dip Missions	Andrea Cole		Aus Aid
42		Dr Benson Ateng	Country MGR	World Bank
43		Ms. Helen Kulumbu		ADB
44		Jonathan Ward		USA
45		H.E., Aldo Dell'Araccia	Ambassador	EU
46		HE Jean Pierre Godat	Ambassador	France
47		HE David Gordon Macleod	Ambassador	High Commissioner
48	Academics	Phil Shearman	RSU TL	UPNG
49		Ruth Turia	Lecturer	UNITECH Dept. of Forestry
50		Michael Hafagema	Lecturer	UNITECH
51		Prof Simon Saulei CRPS 326 7504/501	Dean	UPNG/carbon
52		John Kaupa	Lecturer	UPNG

Resource Personnel

1		David Freyne	Rural Dev. Mgr	EC Delegation
2		Timothee Maurice		EC Delegation
3		Graham Tyrie	Team Leader	INA
4		Alois Francis	Senior Project Officer	CIMC
5		Wallis Yakam	Project Officer	CIMC
6		John Varey	Program Co-ordinator	CIMC
7		Gertrude Takendu	Administration Officer	CIMC
8		Rose Elk	Finance Officer	CIMC
9		Geraldine Paul	Press	CIMC
10		Neil Bird	Research Fellow	ODI
11		Adrian Wells	Research Fellow	ODI
12		Bob Brown	Art work	

	Contacted	Pending or declined		
1	Politicians	Hon. Dr. Puka Temu, MP	Minister for Lands/Physical Planning	Minister for Lands
2	Politicians	Hon. Bart Philemon, MP	Member	Lae Open
3	Politicians	Hon Patrick Pruaitch, MP	Minister	Minister of Forests
4	Civil Society	Prof Lawrence Kalinoe	EO	Const Law Reform Comm
5	Donors	Tessa Temata	NZ Aid Manager	New Zealand High Comm
6	Government	Ms. Ageta Pokatou	R Forestry Officer	Regional Forester Momase
7	Industry	Mr. Steve Powiesnik		Cloudy Bay Timber Products PNG LTD
8	Industry	Mr. Charles Sia		Stettin Bay Lumber Co. LTD
9	Industry	Sir Bob Sinclair	Managing Director	Lae Builders
10	International	Eva Galabru		Human rights activist
11	International	Prof David King		UK Chief Scientist
12	International	Prof Jared Diamond		Author
13	civil society	Roy Gagau (NARI)	HRM Mgr	Land owners

14	Local Govt	Hon. Mal Smith, MP	Governor	EHP
15	Local Govt	Hon. Luther Wenge, MP	Governor	Morobe
16	Local Govt	Hon. Bob Danaya, MP	Governor	Western
17	NGO	Annie Kagir	ED	ELC
18	PNGFA	Terry Warra	AMD	PNGFA
19	PNGFA	Dike Kari	Director - Policy	Policy PNGFA
20	PNGFA	Max Peki	PNGFRI	FRI
21	PNGFA	Anda Akivi	PNGFA	Eco-forestry

Annex 3: Field visit sites identified

Site visit – Forestry Research Institute

Purpose – Sustainable Forest Management. Permanent Sample Plots (PSP) Yalu

Sustainable Forest management (SFM) has been identified by the ODI team as a key issue for PNG. How is it measured? Who uses the information? This site visit gives some of the answers. However, it is optional because it requires a drive over dirt roads in a four wheel drive vehicle and then a walk of about 1 hour up a steady climb to the plot site with a return trip down the ridge through some regeneration research being funded by CIFOR. Total time 2 hours plus talking.

FRI set up a series of research plots throughout the country in different forest types. These plots measure the rate at which trees recover and grow after logging. Within each plot, every tree greater than 10 cm in diameter is mapped and measured. Young trees are counted as recruits when they reach this size. Old, damaged or diseased trees die and are noted as mortalities. The remaining trees provide information on the recovery and regrowth rates which inform the rate at which the forest can be logged to be managed in a sustainable way. This work has been ongoing at least since the early 1990s when ITTO assisted in the analysis of the available data. A regeneration model was produced called PINFORM. By international standards PNG is quite well off for scientific data on forest regeneration after logging. The rates of recovery predicted by PINFORM are not those currently employed by the PNGFA.

The Yalu PSP site is located about 30km from Lae to the north of the airport road. The area was heavily logged in 1994 by Lae Builders under a Timber Authority (TA) permit which allowed the extraction of 5000 m³ of timber. Visual observation suggests that every saleable tree was removed, leaving only small trees and trees with bad form. The forest has been largely left to regrow undisturbed. It is presently dominated by pioneer species, but the forest ecology is showing signs of recovery. There was evidence of local people using the area for hunting, always a good sign. The PSP is well marked. It was last measured in 2004 and provides a good insight into this method of research.

On the way back down following the ridge the path cuts through some enrichment planting research set up by CIFOR. Here we see some commercial seedlings which were planted 7 years ago. These seedlings are of course heavily shaded. They have managed to grow to a height of 2 metres and a diameter of scarcely 2 cm. Estimated time to maturity 60-70 years. Points to note:

1. PNG has high quality research on sustainable forest management.
2. This research is not always well supported. The plots at Omsis mentioned in the Gabaensis notes are the subject of a rent payment dispute. Many plots have been lost due to lack of resources.
3. The science is not being used to support forest management planning in PNG.
4. Planting commercial species under forest regrowth does not necessarily give a return on investment.

Site visit - Lae Builders Company

Purpose – Downstream processing in PNG

One of the major conclusions of the ODI paper on options and opportunities for the PNG forest sector is that downstream processing is one of the most profitable ways to use PNG timber. It gives a good return, creates jobs, local investment and multiplier effects in the economy.

Lae Builders employs about one thousand people in the Momase region of PNG. More than 30% of their employees are women, many are well trained and working in skilled positions on the production side. The company produces high quality garden furniture for the export market selling to Australia, New Zealand and Europe. It also produces high quality office and home

furniture for the local market specialising in large tables suitable for boardrooms and formal dining.

Sir Robert Sinclair founded Lae Builders as a local construction company in 1970 concentrating on building small houses for site construction, but quickly diversifying into offices and buildings. The Lae International Hotel where some of you are staying was built by Lae Builders and is partly owned by the company.

The company is a privately owned company. Much of its profits have been ploughed back into developing the business which now controls a chain of operations dealing with logging in the Momase region, buying rough sawn timber from local suppliers, kiln drying, preparation of finished timber and mouldings for export, and the export of finished products. It is interesting to note that Lae Builders competes with bulk production from Vietnam and Indonesia, but manages to compete on quality, actually charging a premium for its garden furniture.

The processing operation is spread over various sites in the Lae port area. We will visit the head office and you will tour three factory sites. The first is the sawmilling operation and preparation of timber. The second is the kiln drying. At this site you will also see the quality control. The garden furniture is assembled to ensure quality and fit before being dismantled and flat packed for export. The last site, adjacent to the head office, is the joinery shop where the components of the furniture are made before assembly.

Points to note:

1. Lae Builders moved into logging 15 years ago because they needed to secure a larger quantity of timber to maintain their downstream processing operation. They buy large quantities of rough sawn timber locally, but cannot buy logs despite advertising.
2. They have invested heavily in capacity and have plans to go onto 24 hour operation. These plans are presently shelved because they cannot secure enough timber. Their drying kilns currently operate at 50% capacity.
3. Lae Builders produce a high quality product which competes on the international market. This requires training of staff and constant supervision. Their MD, John Sweet, explains that they think about quality at every step, not just the finished product. They also use every single piece of timber including the sawdust, but could improve their rate of recovery if the rough sawn timber they buy, usually from local portable mills, was more carefully prepared. We will see one of these portable mills at Gabensis village site.

Site visit – Tien Eco Forestry Project - Gabensis Village - Thursday 7th December
Purpose – Local logging and processing

The area around Lae has been logged fairly heavily over the years. It is not possible to visit a large scale logging operation. However, the Gabensis village operation about 30km from Lae has been the site of logging for many years. It is currently being managed by Michael Tetang who runs a family operation. He receives management advice from VDT (Village Development Trust) and is currently trying to have his operation certified with the assistance of ForCert. This will allow access to the international market for certified timber and hopefully return higher prices. The ODI paper on options and opportunities points out that this type of operation is scarcely economically viable without outside assistance.

Our guides on this trip will be Kentis Igao and Aung Kumal

We will travel to Gabensis village on tarred road. Just past the village we will head up into the hills for about 3-4kms on good dirt road to the field operation. The forest you will travel through was first logged 50 years ago as part of the Omsis block. There is still a forestry station of this name nearby, which carries out research into forest regeneration.

At the site VDT will explain the forest management system which aims at sustainability for the management of the block of 1750 ha. Mike and his family team will demonstrate the sawmilling operation and will show us their product. They are happy to answer questions on their operation. They also practice forest regeneration, collecting wildings and replanting them in their forest areas. If time permits we might see some of this work.

Points to note:

1. The project is being put onto a sustainable management footing through external assistance.
2. The project has been in operation since the early 1990s. Their purpose is to use their own forest to produce timber for local projects. This is quite common in PNG. They have supported the building of houses, clinics, schools, and four churches. They have even sent timber to the highlands. Their operating practice is to ask how much a client can pay and then to mill the required timber accordingly. They have more commercial modes for buyers like Lae Builders, who they have supplied in the past.
3. In 2005 they formed an ILG (Incorporated Land Group) – which is required before the project can be certified. They milled 185 m³ of round logs and sold 38.8 m³ of sawn timber.

Annex 4 Detailed programme Dialogue on Forestry (draft 26th November)

To be held at Unitech Lae 6-8th December

Day 1 – Wednesday 6th December

Registration 8-9AM

Mistress of Ceremonies: Ms Theresa Kas - TNC

Time	Agenda
Opening Session	
9:00AM	Prayer
	Official Opening: Hon. Luther Wenger, MP. Governor of Morobe Province
	Key Note Address: Rt Hon. Sir Rabbie Namaliu, CSM, KCMG, MP – Minister for Treasury
	Address: H.E, Aldo Dell’Ariccia – EU, Ambassador
	Purpose of the Dialogue on Forestry: Graham Tyrie - INA □□□Ü
10.30-11.00AM	MORNING TEA
Session 1	Chairman: Valentine Kambori
11-11:20	Speaker: Neil Bird (ODI) – What can be learnt from the Past – A History of the Forestry Sector in PNG
11:20 – 11.40	Prepared comments
11.40 – 12.15	Discussion
12.30 – 1.30 PM	LUNCH BREAK:
Session 2	Chairman: Dr. Benson Ateng – Country Manager – World Bank
1:30 – 1:50PM	Current Institutional and Regulatory set up of Forestry in PNG - Adrian Wells ODI
1.50 – 2.10	Prepared comments
2.10-2.45	Discussion
2.45 – 3.00 PM	AFTERNOON TEA BREAK:
Session 2 ctd	Chairman Dr. Benson Ateng
3.00- 3.20	Issue and Opportunities for Forestry in PNG – paper prepared by Dr. Flip van Helden (ODI)
3.20 -3.40	Prepared comments
3.40 – 4.00PM	Discussion
4.00 – 4.20	Worldwide Forest Product Trade – European Union
4.20- 5.00PM	discussion

	Day 2 Thursday 7th December Start 8:30AM
Session 3	Chairman - Professor Simon Saulei
8:30 – 8:50	Sustainability research and carbon sequestration – Dr. Mex Peki FRI
8.50- 9.30	Discussion
9.30 – 10.00	Agreement on Key issues and Presentation on tasks of groups
10.00 – 12.00	Group Discussion - Coffee served during discussion
	Lunch – packed lunches issued - lunch on the move
12noon – 6PM	FIELD TRIP
Session 4	▪ Chairman: Mr. Kenn Mondiai – Executive Director – Partnership Melanesia
12-2.00PM	Down Stream Processing – John Sweet –Lae Builders Group
2.00 – 6PM	Gabensis – Tien Eco- Forestry Project– Mr. Aung Kumal – VDT
optional	Regeneration, PSP Plots – FRI - Dr. Mex Peki - PNGFRI
7 PM	FORMAL DINNER in the Bulolo room of Lae International Hotel
	Speech from H.E. David Gordon Macleod British High Commissioner
	Toast from HE Aldo Dell’Ariccia EC Head of delegation
	Day Three –: Friday 8th December Start: 8.30am
Session 5	▪ Chairman: Mr. Brown Bai CBE– Chairman – Rural Industry Council
8.30-10pm	▪ Group Discussions (Preparation of Findings) tea served during discussions
10-12noon	▪ Report to plenary (1,2,3,4)
10-10.30	Group 1 presentation and discussion
10.30 – 11.00	Group 2 presentation and discussion
11.00-11.30	Group 3 presentation and discussion
11.30 – 12.00	Group 4 presentation and discussion
12noon-1PM	Finalisation of Conclusions on NEXT STEPS -
12 – 2PM	Lunch and Prepare Final Statement – committee (chairs of groups plus appointees)
Final session	▪ Chairman: Mr. Brown Bai CBE – Chairman Rural Industry Council
	▪ Presentation of draft final statement
	Questions
2.45 –3.00 PM	AFTERNOON TEA BREAK:
3-4PM	▪ Closing ceremony - Dialogue on Forestry – Rt Hon Sir Michael Somare – MP. Prime Minister

Annex 5 Web site introduction to the Dialogue on Forestry

Not so long ago Papua New Guinea was covered by forests. Even now more than 80% of the country has forest cover, though much of that has been depleted through large scale forest harvesting since the 1970s. Forests are an important part of the traditions of Papua New Guinea. It is impossible for Papua New Guineans not to care about the forest. The wide scale logging that has taken place has brought considerable financial bonuses to some of those landowners who have agreed to the logging of their forests. Not that those bonuses have always been wisely spent. Disgruntlement with the perceived problems of industrial scale logging and lack of benefits, has led to orchestrated campaigns which have opened up a debate on forest management in PNG that has not always if ever been cordial or informative.

The positions of the various interested parties have become polarised. Where does the truth lie? The answer is a matter of national importance, not only as it impacts directly on the good name of Papua New Guinea as custodian of a natural resource of international importance, but because the way the forest is managed has and will continue to have an impact on the benefits the forest resource brings to the citizens of Papua New Guinea, including through trade and employment.

The Institute of National Affairs, as the Independent think tank in PNG, has agreed to facilitate a dialogue on forestry within PNG, aimed at addressing key options and opportunities for a sustainable forestry industry in PNG. The Overseas Development Institute, a well respected international research organisation with considerable experience of tropical forestry, has prepared three objective background papers to inform the discussions. You can access those papers on this web site www.inapng.com

The first of these papers

‘What can be learnt from the past? A history of the forestry sector in Papua New Guinea’ by Neil Bird

is posted today, Friday the 24th November. Two more papers will be posted over the weekend:

‘The current legal and institutional framework of the forest sector in Papua New Guinea’ by Adrian Wells

and

‘Issues and opportunities for the PNG forest sector’ by Dr. Flip Van Helden

A workshop for selected participants will be held in Lae from the 6th to 8th December. Invitations have been restricted, but all stakeholder groups have been invited. You are encouraged to read the papers and to send comments to your representative. A list of the invitees follows this introduction. The European Union is funding the research and the workshop, which has been initiated at the request of the Government of PNG.

We hope that all stakeholder groups will take part and that the openness of the debate will lead to considered and measured conclusions. The conclusions of the workshop will also be made public and will be used to inform continued dialogue within the Consultative Implementation and Monitoring Council’s (CIMC) Sectoral Committee on forestry, which has not been active recently, partly as a result of the polarisation of positions. This dialogue will not provide a solution to all forestry issues, but surely discussion can contribute to a sustainable way forward which benefits the people of Papua New Guinea.

Hard copies of the papers will not be distributed by INA. Invitees are encouraged to facilitate information dispersal among those who are likely to have comments on the issues and opportunities for the forest sector in Papua New Guinea.

Paul Barker
Director Institute of National Affairs

Annex 6 - List of participants (Meeting December 6th 2006)

Name	Organisation
Andrea Cole	AusAID
Ellen Kulumbu	ADB
Dr Hartmut Holzknacht	ANU
HE David Gordon Macleod	BHC
Alois Francis	CIMC
Wallis Yakam	CIMC
John Varey	CIMC
Alois Gaglu	CIMC
Sarah Goodall	DFAT – Australian High Commission
Dr Rona Nadile	DLE
Timothee Maurice	EC Delegation
David Freyne	EC Delegation
HE Aldo Dell' Ariccia	EC Head of Delegation
Tos Barnett	Former judge to PNG
HE Jean-Pierre Godart	French Embassy
Valerie Philips	Greenpeace Aust Pacific
Dorothy Tekwie	Greenpeace Aust. Pacific
Paul Barker	INA
Aubrey Charette	INA
Graham Tyrie	INA
Kevork Baboyan	IRC
Peter Kochanek	IRC
S Dinanayaki	IRC
Caroline Korus	IRC
Dama Kets	Koiari Development Corp.
Adrian Wells	ODI
Neil Bird	ODI
Ila Geno	Ombudsman Commission
Kenn Mondiai	Partners with Melanesians
Emily Taule	Transparency Int.
Prof Simon Saulei	UPNG
Jonathan Ward	US Embassy
Helen Sutch	World Bank

Annex 7 Text of ODI Presentations

ODI paper 1 - Forestry in Papua New Guinea: what can be learnt from the past? by Neil Bird (a tropical forester, now policy analyst)

Structure of the presentation

- The evolution of the legal framework that governs forest use
- Issues associated with the customary ownership of forests in PNG
- National benefits derived from the international trade in PNG's timbers
- The governance challenges that have faced the sector since Independence
- Finally, a reflection on current evidence to demonstrate sustainability of timber harvests

Forests and the Law - Custom and State

There is an inherent tension between the customary ownership of forests and the State's view of forests as a national resource

This tension can be seen in the evolution of the legal framework that has seen a tussle played out between:

- the State's desire to control timber harvesting and derive revenue from timber sales
- and landowners' desire to be involved in the sale of a customary-owned asset

Forest Legislation

The Forestry (Private Dealings) Act 1971 granted customary owners the right to apply to have their forests declared a Local Forest Area (LFA) and to sell their timber direct to outsiders, subject to the approval of the Forestry Minister. This Act bypassed the procedures that had previously governed the exploitation of timber, where the State acted as the intermediary in timber sales.

Further legal reform?

The most recent piece of legislation, the *1991 Forestry Act*, re-asserted the State's monopoly over timber sales. If a Forest Management Agreement is concluded, it is the Forest Board, not the landowners, that selects a forest industry participant to implement the agreement and recommends to the Minister that a timber permit be granted.

- Key challenge:** what legal safeguards are required to give resource owners more say in the sale of their timber?

Forests and Tradition in PNG

Mechanism to assert ownership

- A major innovation concerning customary ownership took place with the enactment of *the Land Groups Incorporation Act of 1974*.
- Incorporated Land Groups* were designed to empower landowners and allow them to assert their ownership rights established under customary law in a contemporary setting.
- However, the implementation of ILGs associated with large forestry projects has met with significant constraints. The first of these concerns the issue of prior informed consent; the second the following of due process; and the third how to manage the interaction of large numbers of ILGs within one project area.

Mechanism to assert ownership

The 2003/2004 Review Team made the following recommendation with regard to ILGs:

It is the view of the Review Team that in the interest of ensuring more democratic and accountable management of landowner financial benefits, that there needs to be some form of

direction (perhaps regulation) regarding a logging project wide body which properly represents the Incorporated Land Groups.

In addition it behoves the State, as part of its responsibility for the well-being of its citizens, to provide some form of administrative assistance and guidance to the representative bodies until such time as they prove that they can manage their own affairs.

Involving owners in forest management

- The involvement of forest owners in decisions concerning timber harvesting within their forests has gone through a number of phases of experimentation.
- The *Forestry (Private Dealings) Act* of 1971 attempted to give landowners more autonomy to negotiate timber sales directly with buyers.
- Other schemes have included Forest Development Corporations and, more recently, Landowner Companies.
- However, none of these mechanisms has a strong record of success.

Many Landowners Companies have been found to be deficient in their accountability to the wider community.

- Public meetings of such companies are rare
- Statutory returns to the Registrar of Companies are frequently not made
- Financial reports of income and expenditure are not presented to resource owners in the project area.

Key challenge: to determine better ways of involving landowners in the decision-making process concerning timber utilisation

3. Forests and Trade - A model of large-scale development

A forest development model was established in the post-war period, strongly supported by the World Bank in the early 1960s. The consensus of the time was well summed up in the 1964 Annual Report of the Department of Forests:

'Whilst small-scale enterprise by Papuans and New Guineans is encouraged, economic exploitation of the major timber resources has and will devolve materially on overseas timber operators who are in the position to provide the capital, management and expertise necessary for large scale timber and processing operations.'

The switch to log exports

•The Government's 1979 White Paper set out a revised forest policy in response to the world-wide recession, which had had a strong negative impact on PNG wood exports since 1974. The revision of the national forest policy focused on the export segment of the major forest products industry, and gave the go-ahead for log exports.

•This policy change towards the active promotion of log exports by government paved the way for an array of foreign logging companies to begin operation and led to a huge rise in log exports.

Social costs and benefits

•The low level of development in many rural areas has driven government policy to seek early returns from forest development.

•In the absence of local government capacity, central government has looked to project operators to provide much rural infrastructure, including health care facilities, schools, roads and other forms of communication. Although such benefits may be transitory, declining as

logging operations drawn to conclusion, they also appear to be very tangible when and where they exist.

•**Key challenges:** how might these social benefits be secured in the long-term? How might the transition between private-sector and government as service provider be managed?

4. Forests and Governance - Undermining control

Three factors at Independence in 1975 conspired to erode previous controls within the forest sector:

- An unprecedented urgency within the public administration to identify revenue earning activities
- The rapid loss of experienced staff from within the forest administration
- The introduction of provincial government with forestry becoming a concurrent function, without a proper division of those concurrent functions

The Barnett Inquiry

A Commission of Inquiry into Aspects of the Timber Industry was established in 1987. The Commission of Inquiry revealed:

- An imbalance of power between the Minister of Forests and the Department of Forests, that effectively gave the Minister of Forests total power over the allocation of concessions and licenses.
- A high level of corruption amongst parliamentary ministers and, to a lesser degree, amongst the heads of the Department of Forests, the Forest Industries Council and the provincial governments.

The independent forest reviews

Government commissioned five reviews on the administration and practice of the logging industry between 2000 and 2005:

- Review of Forest Harvesting Projects Being Developed Towards a Timber Permit or a Timber Authority (2000-01)
- Review of the Forest Revenue System (2001-02)
- Independent Review of Disputed Timber Permits and Permit Extensions (2003)
- Review of Current Logging Projects (2004-05)
- Compliance Audits (2004-05)

Key challenges

Despite the reforms of the early to mid-1990s, the recent independent reviews have highlighted continuing significant instances of unlawful behaviour in the forest sector.

- This suggests that reform within the sector is nothing but difficult and slow (yet government has carried out reviews).
- It may also reflect a more general malaise in Papua New Guinean society that tolerates such behaviour. Finding solutions in such circumstances is bound to be take time and requires strong political leadership.

6. Forests and Sustainability

Sustainability – a simple concept?

The PNG Forest Authority has adopted the approach of dividing the total estimated volume of commercial species within a project area by 35 (the proposed cutting cycle period) as its main strategy to secure sustainability. The resultant volume estimate is termed the annual allowable cut (AAC).

However, there are two problems with this approach:

- First, it depends on an accurate survey of commercial trees over a huge area, which has proven very difficult to achieve.
- Second, it depends on 35 years as being a sufficient time period for the forest to rebuild to a similar level of commercial tree volume.

The underlying science

The science exists to guide improved practice. Two areas of research carried out in recent years, in particular, have the potential to guide sustainable forest management in PNG.

•First, is the work of the University of PNG to develop a satellite coverage database containing information on the present forest cover, the condition of the forests and an assessment of the spatial impact of large-scale forest activities.

•Second, is the work of the Forest Research Institute (FRI) to develop a forest growth model, based upon a comprehensive network of permanent sample plots in the forest.

Policy implications

The forest growth model demonstrated that current logging levels, using a felling cycle of 35 years and a 50 cm diameter cutting limit, **results in an initial felling that is excessively heavy.**

Subsequent cycles have lower yields and the initial post-logging period shows substantial stand damage with the attendant risk of initiating a cycle of stand degradation – **sustainability cannot be assured.**

Key challenges

If sustainability is to be better guaranteed, **then strategic planning needs to be strengthened.** Presently, there is a large gap in the long-term planning required to ensure sustainability. Elsewhere, this planning is formulated and described in a **Forest Management Plan.**

Reliance on only one control measure – volume control – is a high risk strategy. Elsewhere a combination of volume **and area control** provides a better guarantee of sustainability within project areas.

ODI Paper 2 by Adrian Wells Forestry in Papua New Guinea: the legal and institutional framework

Structure of the presentation

- Introduction
- Current legal challenges
- The role of landowners
- The need for procedural clarity
- Institutional architecture
- Transparency and information
- Prioritisation of reforms

Fit for purpose?

- Legislation must take account of a country's administrative realities
- An over-ambitious legal and policy framework is more likely to create distortions than improved performance.
- 1991 Forestry Act one of good intent; reflects an ambitious period Post-Rio
- But 15 years on, there is a need to take stock of whether the current legal and institutional framework is fulfilling its intended purpose.

Key issues

- Increasing litigation over constitutional rights and duties, and due process in administrative decision-making
 - Centralised administration with limited capacity to monitor and manage the resource while also fulfilling its authority function
 - A deterioration in checks and balances enshrined in the 1991 Act
 - The need to strengthen and enhance information systems
 - The need to strengthen oversight mechanisms with the power to both investigate and to seek prosecution
 - Reforms to expedite conflict resolution.
- Legal challenges (1)

—Sustainability (*East Awin* and *Wawoi Guavi*):

- the veracity of resource inventories as the basis for licensing
- whether extensions to permits conform to sustained yield management practices
- forest development in the absence of a valid National Forest Plan (S.46 of the Act), certified resource inventory and updated NFDGs (S.47)

Legal challenges (2)

—Due process (*East Awin*, *Kamula Doso* and *Wawoi Guavi*):

- approval of Environmental Plans, payments of performance bonds
- valid acquisition of resource rights
- whether the National Forest Board and PFMC recommendations were accounted for
- application of rules on competitive selection
- extensions to saved permits under S.78 and in spite of cut off date in S.148 (subsequently permitted under 2005 amendment to S132)

Legal challenges (3)

(iii) Constitutionality of the Forestry Act (*Section 19 Constitutional Reference No 5 of 2005 to the Supreme Court by the Ombudsman Commission*)

•NGDPs on **equal participation by resource owners**, as well as **rights to consultation and participation** under the Forestry Act itself – do FMAs, resource allocation and the removal of S.59 of the Act comply?

•**Equality of Citizens** under s.55 of the Constitution – does removal of S.59 of the Act discriminate against forest resource owners as compared with provision for consultation and participation under the Part III, Div 6 of Oil & Gas Act 1998.

Legal challenges (4)

- **Protection from Unjust Deprivation of Property** under s.53 of the Constitution, as well as s.38 on valid qualifications of rights and freedoms: does S.1 of the Act comply by adequately specifying and affording reasonable justification of a public interest?
- Does.137(1E) of the Act (as amended in 2005), comply with **conservation principles, sustained yield management, and logging practice** required by the Constitution as well as the Forestry Act ?

Legal challenges (5)

(iv) The rule of law is increasingly contingent on litigation

- *Sep Galeva and others v Paiso Company Limited and others* [2003] OS 427
- *Warangoi Blockholders* [1999]
- *Ben Ifoki & ors v the State, Registrar of Titles, Keroro Development Ltd, Deegold (PNG) Ltd, PNGFA* [1999] OS 313, & OS 556, consolidated
- But is this an efficient means of running the sector?
 - A disproportionate burden borne by civil society
 - At significant cost to the State (PNGFA faces an increasing case load)
 - Significant reputational consequences for the industry

Legal challenges (6)

- Resolving all these challenges requires pro-active engagement in:
 - (i) Re-examining the role of landowners
 - (ii) Strengthening procedural guidance
 - (iii) Re-balancing the institutional architecture for administration and public oversight
 - (iv) Enhancing information systems and public transparency

The role of landowners (1)

- *Supreme Court reference by the Ombudsman Commission* is fundamental to the fabric of the Forestry Act – i.e. whether the resource acquisition model constitutes equitable participation

The role of landowners (2)

- This in turn raises a number of other issues needing discussion (amongst others):
 - Whether the current compensation standard constitutes adequate consideration?
 - *De facto* land demarcation under ILG incorporation by the NFS giving rise to claims of ownership; arguably outside the purview of the ILG Act (Kalinoe, 2001).
 - The role of NFS in providing ongoing support to ILGs once incorporated; *Duman Dibiaso Incorporated Land Group No. 1664 and others v Kola Kuma and others (2004) SC805*.
 - The fiduciary duties of ILG chairs. At present the Land Group Incorporation Act makes no provision imposing legal duties of accountability on leaders (Whimp, 1998).
 - The implications of proposals by the Task Force on Land Development.

Procedural clarity (1)

- Notwithstanding amendments to Forest Law and over 300 forms under the 1st Schedule of the 1998 Forestry Regulations, significant gaps in procedural clarity prevail.

Procedural clarity (2)

•Possible areas requiring procedural clarity

- Standards for “awareness raising” and Free and Prior Informed Consent
- Resource acquisition (landowners lack independent legal advice; lack of government oversight over acquisition for TAs)
- Means of verifying authenticity of tenure and landowner consent;
- Participation in resource allocation processes (Guidelines, DOS, negotiations); procedures should have been clarified before S.59 cancelled.
- Structures for distribution of landowner benefits; representation of ILGS by VDCs and/or by IBGs and Landcos.
- Ambiguities over the prosecution of offences; guidance on compounding, ensuring proper legal counsel.
- Administration of domestic log movements, mill processing, sawn timber exports

Institutional architecture (1)

Institutional architecture is core to the credibility of the forest control system

- **Allocation of functions within the forest-sector administration.**
- Risk of overstretch; policy, regulation, revenue, monitoring and forest management. Takes on functions of PFMCs, responsible for ILG incorporation and reforestation activities.
- PFMCs unable to act independently in verifying tenure, consent. Revisit concurrent powers with the provinces and LLG.
- Further outsourcing of monitoring function, to free up resources for NFS to perform authority function
- Taking into account concerns not to “hollow out” the NFS but to strengthen its capacity.

Institutional architecture (2)

Internal checks and balances need strengthening

- Where the Board is exposed to external interference, an independent Board Secretariat is an important guarantee, e.g.
–power to mandate audits of information submitted by NFS and the propriety of Board decisions
- Proposed in 2005 Amendments but rejected
- An equivalent also needed for PFMCs

Institutional architecture (3)

Blend of external checks and balances is required

- Ombudsman has only limited powers (prevented from enforcing decisions through litigation)
- Horizontal oversight by IRC and Treasury of price approvals
- Human Rights and/or Anti-Corruption Commission with powers to investigate and seek prosecution.
- Existing courts an inadequate solution - civil procedure complex and onerous, poor management of court registries, delayed judgements, high cost.

Institutional architecture (4)

Alternatives that have been suggested include:

- administrative tribunals (less bound by rules of evidence etc);
- consolidated land and NR courts (recently endorsed by National Land Task Force and Minister for lands)

- Information systems
- SGS only captures part of the timber administration system; a need to extend it upstream to cover log sourcing, scaling and royalty assessments
 - Not possible to reconcile data on timber production, mill throughput and recovery rates (currently not monitored) and exports of processed material (exempt from export taxes and so not subject to SGS verification). Of real concern as the proportion of processed timber exports expands exponentially
 - Complementary action on customs collaboration (prior notification, HS codes)
 - Strengthening local government information platforms to allow PFMCs to do their work; that are also publicly accessible (an enforceable right under s.57 of the Constitution)

Prioritising actions

- Phase and prioritise reforms in line with available public finances and institutional capacity
- Possible actions include:
 - Realistic but strategic entry points; a Board Secretariat might be one such option.
 - Certain reforms may also have benefits that go much beyond forestry, e.g. administrative appeals tribunal.
 - A need to scale back on forestry operations in line with the funds and personnel available to supervise them. It is unlikely that administrative structures will otherwise ever be given the chance to catch up.

ODI paper 3 Written by Flip Van Helden presented by Neil Bird

Forestry in Papua New Guinea: Issues and opportunities

Structure of the presentation

- Forestry and the national economy
- Available information on forest resources
- Forest plantations
- Downstream processing
- Community-based forestry
- Forestry and the fiscal regime

The national benefits of forestry

Forestry is an important sector in the PNG economy, contributing on average 5.1% of GDP in the 1990s.

Forestry is the third largest source of foreign exchange behind mining and oil, slightly ahead of individual agricultural crops in recent years, notably coffee and oil. palm

To PNG society the benefits derived from the forest sector fall in three components:

- i) government revenue
- ii) rural jobs and payments
- iii) the provision of infrastructure and services

These benefits create a variety of multiplier effects in the PNG economy as a whole.

Forestry and the national economy - The future of forestry?

In the debate on the economic future of forestry in PNG most attention focuses on the conclusions from the independent forestry reviews that:

- Logging was found to have little long-term beneficial impact on the country
- The logging industry itself was not profitable and therefore unable to make long-term investments

More recently, the PNGFA has warned of a looming resource shortage: The draft *National Reforestation Policy* reads: 'An overview of the timber resources of PNG indicates that most of the provinces have almost depleted their resources while New Ireland has over cut its available timber resource.'

PNG is a large and geographically complex country with highly diverse forests. The availability of data on the status of its forest resources remains very limited. In the absence of a certified national inventory there is considerable uncertainty over the extent of the forest resource.

Since the late 1980s PNG has seen a debate on the nature of sustainable forest management, focusing on the size of the forest area suitable for commercial harvesting and the appropriate sustainable harvest levels.

Available information on forest resources

- In 1996, the *National Forest Plan* defined a production forest area of 11.9 million hectares
- In 2006, the PNGFA stated the production forest area as 15.2 million hectares

By expanding the production area well beyond the 11.9 million hectares of production forest defined in 1996, areas deemed unsuitable for harvesting due to the fragility of the landscape may now be opened for logging.

- The development of the plantation sector has been slow due to the fact that the economics of such investments are generally unfavourable.

- Recent figures estimate a plantation estate of only 62,000 hectares

Of key importance to further plantation development are: i) the stability and conduciveness of the overall business and investment climate; ii) the availability of land and the security of land tenure arrangements; iii) the availability of a skilled workforce and iv) supporting research and development.

Reforestation and plantation policies

Since 1990 the PNGFA has collected a reforestation levy from operators, to be used for reforestation and regeneration activities.

Most companies seem to regard paying the levy as less costly than the implementation of a plantation programme. This suggests that the levy is not achieving its objective and that it may have to be increased to a level that induces the necessary action on the part of operators.

The levies are paid into a trust fund to be used for reforestation activities. Some of these funds may have been used for payments to the provinces. Whether that has led to any reforestation is unknown.

An increase in downstream processing

Downstream processing, like plantation development, has been hampered by the high cost structure of the PNG economy.

Recently, the processing of logs has rapidly grown in importance. Key factors have been:

- the depreciation of the Kina (since the early 1990's)
- lower discount rates that have reduced the costs of capital investment
- the exemption from export taxes on processed exports
- downstream processing is increasingly becoming a requirement for the granting of forestry projects

Financial and economic viability

Several studies have been carried out to look at the financial and economic viability of different processing options. The studies have all come to similar conclusions, namely that:

- i) MDF and plywood are the least viable processing operations
- ii) that the viability of sawmilling operations increases with scale
- iii) that a combination of sawmilling and mouldings/joinery provides the highest returns.

These findings suggest that downstream processing policy has to be targeted in a strategic manner, as larger and more capital intensive operations are not necessarily the most attractive.

Community-based forestry - An alternative model?

Community-based forestry programmes have gained considerable attention since halfway through the 1990s. Donors and NGOs have looked upon eco-forestry as an alternative to large-scale commercial logging and have pursued innovative models to get these operations certified.

However, key operational obstacles are i) the transport of timber; ii) mechanisms that enable communities to make the initial capital investment and iii) the international marketing of low volumes of generally low quality rough sawn timber of a highly diverse species mix.

Financial and economic viability

The 2002 Forest Revenue Review Team concluded that "walkabout" sawmill operation with equipment replacement after 5 years generates an FIRR of 18%. This is just profitable, yet is particularly vulnerable to any drop in revenue.

The general consensus appears to be that without donor support, such operations become negative in financial terms. As a result, this type of project needs to be subsidized for extended periods of time.

In remote areas where the opportunity cost of labour is low and where there are few other opportunities community-based forestry may have a role to play in providing employment and in using an otherwise inaccessible resource (as well as for providing local/provincial consumption needs etc).

Forestry and the fiscal regime - Is large-scale logging profitable?

An analysis of income tax paid by logging companies by the Government-commissioned Bogan taxation review in 2002 showed that of the 27 companies responsible for almost all PNG log production, 14 had not paid company taxes for several years and that tax arrears over the last couple of years exceeded taxes paid by almost two to one

The lack of transparency in the fiscal system with respect to logging operations makes it difficult to draw conclusions on the profitability of the log export sector, the distribution of costs and benefits from logging between operators, government and landowners, thus preventing a transparent debate about what a 'fair' and economically efficient tax level might constitute.

The export tax on logs:

As of 1st January 2007 the export tax on logs will be revised. The most important changes will be i) that the current progressive tax will be replaced by a flat percentage rate of 28.5% and ii) that an additional 8 Kina per cubic metre, a so-called 'log export development levy', will be paid out to the landowners in addition to existing royalty payments (but not for landowners whose logs are processed).

The decision to put in place a flat tax at a percentage of FOB prices runs counter to the advantages of the more suitable progressive export tax which optimises the efficiency of resource use and the collection of government revenue.

Transfer pricing

The current price endorsement mechanism for log exports appears to lack institutional checks and balances in two ways.

- In the first place the Marketing Branch of the PNGFA does not have a set of procedures and an objectively verifiable source of information to determine whether the FOB price provided by the exporter for his shipment is indeed in line with prevailing market circumstances.
- The price endorsement procedure is located within the PNGFA, without a role for the Government bodies tasked with the collection of revenue. The key objective of the PNGFA is to regulate the industry, which generates a different set of considerations than those at play in the Internal Revenue Commission or the Treasury.

What future for forestry?

The key question therefore appears to be whether the government and industry are able to simultaneously:

- i) reduce output by bringing its existing and new forest operations in line with sustainable yield principles at the level of the project
- ii) increase future access to raw material through plantation development and reforestation policies

iii) increase the value of exports through downstream processing

iv) ensure compliance with all relevant laws and regulations to safeguard the interests of its citizens and meet the legality requirements of increasingly demanding international markets.

Annex 8 Minutes of the Meeting (6th December)

(courtesy Alois Francis)

The meeting was asked to look at any errors of fact in the 3 papers and to consider the next steps required to improve forest governance and the benefits to the people of PNG.

Dr Hartmut Holzkecht, ANU: Looking at the 3rd paper, perhaps the top down approach or system of forest management is not working well. Hence, there is a need for bottom up structures or system to manage the sector. Also, it is important to look at how landowner companies can be checked properly to ensure they manage the funds of landowners properly.

Ila Geno, Chief Ombudsman: In relation to the amendments to the Forest Act of 2005, the Ombudsman Commission undertook a review into the Act to look at violation of the rights of landowners and to ensure equal participation by them in the harvesting of their resources.

PNG agencies like the Ombudsman Commission are doing everything they can to ensure the laws are followed by all concerned in terms of properly protecting the independence of these agencies, but at the moment there are shortcomings as human beings who man these offices can be led astray or bribed and so on.

In the Melanesian society, Democracy will not work without strong democratic institutions such as the Ombudsman Commission, to protect oversight agencies from outside influence, especially political interference in their work. A lot of Constitutional Office holders are under constant threat by people under higher authority.

How strong are the Constitutional Offices such the Ombudsman Commission, Internal Revenue Commission, Courts, etc, to stand up against corrupt practices? I support the dialogue but it all boils down to political will. The Public Office holders like the OC and others can do so much. Where does PNG stand?

Helen Sutch, World Bank: Forestry institutions are eroded because of the high stakes involved. High level of corruption and lack of political will are paving the way for the sector to be mismanaged. Fundamental checks and balances are an effective recourse. There's also need to support the media and civil society to provide these checks and balances. A lot of information is not going out to the districts and rural areas.

It may be good to get villagers from a logging area whose lives have been affected by logging to relate their experiences to those villages which are intending to take on logging projects.

Kenn Mondiai, Eco-Forestry Forum: Amendment to the Forestry Act came into effect in August last year. Some of the matters we are thinking of taking up.

Tos Barnett, former Judge: I applaud the legal paper. Certainly, collaboration with Customs and like mandated agencies is a good way to go. Currently discussion is centred around how to trace log smuggling.

General Comments:

Paul Barker, INA: A Moratorium on new logging approvals is certainly a good way to pursue restraint whilst assessing the situation, undertaking inventories etc. Log prices are now high again, i.e. where they were in early 1990's when the state and land owners forfeited major

income from the then unduly low tax and royalty rates. A system of progressive tax regime is needed to ensure that PNG (State and resource owners) are not forfeiting too much. Where are we going now? The New Government should consider a logging moratorium as a first step, as did the last Government in 1999, whilst analysing and determining policy measures and interventions.

Hartmut Holzknicht, ANU: The top down approach of State to conduct forestry business is not good. There is significant lack of interest within PNG communities to be much more involved themselves through such initiatives as introduction of portable sawmills, etc. Bringing sawn products to markets is non-existent. State institutions like the NFA need to move from a top down approach to a more facilitating role. How can NFA work as partners with landowners?

Helen Sutch, World Bank: There is currently huge market demand, mostly from China as an external driver that is not likely to change soon. Government must increase royalties on natural resources. These are currently too low. A submission on this must be the entry point. That is "EPD". Is it possible to hold a workshop on this? Also there seems to be a clear need for wider dissemination of information, as well on human resource abuses. This must be put out to the wider world. Also carbon trading was not mentioned in the last paper. Was this deliberate or was it because PNG just cannot manage it?

Kenn Mondiai, Eco Forestry Forum: There is going to be a new government next year. We must be looking to talk to the new government. Most NFA officers are qualified technical people who are responsible to their superiors. The only thing needed is political will and how do we get this happening next year?

Graham Tyrrie (chair): How do we create the kind of environment which is being called for to promote the required information exchange? One way is through awareness programs to showcase the impact of logging on livelihoods of people. Another way is to look at sustainable livelihood activities to be undertaken by people and landowners especially. Any other suggestions?

Internal Revenue Commission Lawyer: The role of civil society and the media are very important in constantly asking Government about these issues and projecting them to the public so it increases chances for public scrutiny.

Dorothy Tekwie, Greenpeace: Revenue is needed by government, but the long term cost and degradation is far greater than any revenue. Also why is IRC not putting up a list of companies failing to submit returns?

IRC Officer: The issue is not the failure to lodge returns itself. This is dealt with adequately. The issue is transfer pricing. There is no proof of expenditures in the respective categories. What level of income will need to be raised in the assessment to operate under the law? What is taxable and under what law? The only thing is good governance.

David Gordon-Macleod, British High Commissioner: There is so much institutionalized corruption in PNG. What action can the community take to get Canberra to become involved in this? Likewise, what action can the community take to get Government of Malaysia to take action on Malaysian companies logging in PNG? The same goes for EU, etc. And then start looking at legal court cases on behalf of landowners. Obviously they lack money to do so themselves.

Tos Barnett, former judge: It is important to monitor logging, but in the easiest possible ways for PNGeans to do this themselves. Work out ways to get help to local people in the logging areas to monitor log exports. Maybe in pairs for some fixed payments. The Inquiry I presided

over had wide powers to summons people to give evidence. Perhaps it is good to look at another Inquiry with wide terms of reference drawing on the taxation office, etc. Also there's a need to look at transfer pricing issues. It helps to publicise what IRC cannot do under its own laws.

In terms of the Inquiry findings, the Government of the day did not chose to print the report. It only chose to table a copy in Parliament. Coincidentally the World Bank team in PNG pressed on the PNG Government to take on the 39 Recommendations through some of its Structural Adjustment Program (SAP) (and the NFLAD). Prosecutions did not happen. The World Bank again helped out.

It is important to educate people in the logging areas. One example would be through comic/cartoons/small books or handouts that provide simple messages of the implication of different choices

Graham Tyrie (Chair): Even with great technologies available today getting information out is very hard. It needs to be addressed. Bob Browne of Grass Roots fame was to play a reporting role in the planned workshop, any other suggestions?

Aldo Dell'Araccia, EC HoD: These documents (ODI papers) are frankly very boring (from a layman's prospective). Can we look at making them more appealing? Also carbon trading is an attractive subject, why isn't carbon included in the papers?

Neil Bird, ODI: (in answer to EC HoD) Firstly, because carbon is not a direct feature of our terms of reference. Secondly, because governance is an issue in PNG. Without credibility carbon transfers are meaningless. There are other ways of summarizing information in the documents so we will be doing that. The starting point is to analyse the findings.

It looks like the critical message is that the people are hungry for information. It would be good to devise an information access system from which rural people can access information to be able to work out options they have on the basis of what type of information is available to them.

Tos Barnett: We may want to look at making information available through clinics and other community facilities throughout the country.

IRC Officer: Schools are useful avenues for effectively disseminating information. School children can take them to their villages and explain to their parents and people. Especially university students.

Graham Tyrie (Chair): Monitoring Capacity of the Forestry Management Service is not adequate, so does it needs to be improved? Should we look at extending the independent monitor's mandate upstream to harvesting, perhaps?

Kenn Mondiai: NFA's engagement of SGS for monitoring of log exports has a lot of value in it but it is at log point only. There's a need to set up independent monitors (outsiders) to monitor the operations of the loggers. At present it is very complicated because NFA officers (some of whom live in logging camps) do the inspections. They cannot be independent and are not objective.

Helen Sutch: The World Bank's TA review of statutory authorities such as NFA indicate that lives are being threatened, etc. The idea to extend the SGS' mandate is good. An independent monitor is also good. If people see value in it, it could be a good inhibitor. But first it is important to ask what do you monitor? Log exports or the monetary value? Or Social impact? Step back and assess and see what really it is that the policy is trying to monitor?

EC HoD: There's a need to ascertain technical aspects of monitoring, what is actually needed, etc? Then decide on what it is that we want to monitor and for what? Clarity should be on how to use the monitoring. Monitoring is not a goal per se. Crucial allies are required in the Ministry of Finance and Treasury.

Hartmut Holzknecht: We need to ascertain the possibility of employing logging monitors from villages in a logging project. If there are 29 Forest Standards to be met by loggers, 27 could be given to landowners to work in pairs and monitor utilizing simplified guidelines weekly. E.g. In West New Britain, where is the evidence? On what day did this happen? So those are things the people are trained to monitor.

Or look at a combination of community monitoring and external monitoring. Overseas monitoring undertaking an exercise following rigid standards.

Graham Tyrrie: Or it would be good to look at taxing at the stump rather than at the ship? There is an enormous amount of waste at present. The issue is the drain on tax. Monitoring might help to fill that gap. Any thoughts on this?

Tos Barnett: SGS was recommended following the Commission of Inquiry. NGOs could be established to monitor themselves, to be educators of their own people rather than making claims. There is a need to look at "non refundable performance guarantees", something like this could work for PNG.

Graham Tyrrie (Chair): In summary we have looked primarily at four issues

1. Do not isolate villages - village(r)s are exposed to threats
2. Information is required to improve oversight, local choices and overall governance.
3. Monitoring is not the objective but a means – certification meets some of these needs.
4. Establish direct links between the village and the importing country, bypassing the logging companies.

Plantations have not been mentioned.

What do we think about Community Based Forestry?

Rona Nadile, Dept. of Labour & Employment: The issue of work permits in the forestry sector: Many overseas staff lack skills. Many companies ask for exemptions to educational qualification requirements. On our part, it is the need to transfer skills to PNGeans that is really important. Abuse of PNGeans is happening and we want to limit that.

IRC Lawyer: There are project agreements with the state which very much rely on past agreements and consideration of non discriminatory clauses.

Dorothy Tekwie: Market viability of small scale forestry needs to be looked at. The focus should be to make the communities better their living standards, better housing, etc.

EC HoD: There is a need to be a lot more realistic when we are dealing with big multinationals in the industry who are hell bent on making profits and are not keen on improving people's living standards.

Kenn Mondiai: Eco-Forestry has a place in PNG, even though not attractive in the sense that it is a means to generate income. It has a role to improve the lifestyles of people.

EC HoD: Do not put in community forestry in competition with industrial logging because it will be unsuccessful. It may be worthwhile to look at where the original investment is coming from?

Helen Sutch: A lot of solutions lie in looking at the demand in developed countries. Maybe good to look at log DNA technology and microchips- as methods to identify illegally logged timber.

EC HoD: Illegal micro-chips have been discovered in use in Asia. Some EU member states are opposed to these measures.

The meeting was brought to a close at 3:30PM