



PAPUA NEW GUINEA FOREST AUTHORITY
NATIONAL FOREST SERVICE

Forest & Log Export Monitoring System in Papua New Guinea

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WHEN YOU NEED TO BE SURE

SGS



- PNG Forest Sector
- PNG Forest Concessions
- Role of PNG Government in Monitoring
- Role of SGS in Monitoring
- Log Smuggling
- Legality Issues Problems
- Potential Solutions





- **Total land area of 46 m ha. Forested area is 39.3 m ha of which 15.2 m ha (39%) has been classified as Productive with 11.2 m ha having harvest rights secured by Government.**
- **National Allowable cut is quotes as 5.7 m m³ but the actual annual harvest is nearer to 3 m m³.**
- **Log exports currently at a level of 2.5 m to 3.0 m per annum.**
- **About 80% of export logs go to China and 10% to Japan.**



- **The ownership of almost all forested land in PNG remains with the traditional landowners and access can only be gained to these after Government has negotiated an agreement with these landowners.**
- **Monitoring and control of all forest operations is the responsibility of the PNG Forest Authority (PNGFA).**
- **The PNGFA has appointed SGS (since 1994) to monitor all export log shipments on its behalf.**
- **Therefore the role of export monitoring for PNG's logs is shared between the PNGFA and SGS.**



- **Under the Forest Act of 1991 (& subsequent amendments) the PNGFA issues a Timber Permit (permission to harvest logs) only after an exhaustive 34 step process:**
 - **Begins with an awareness process with traditional landowners**
 - **These landowners must sign up to a Forest Management Agreement**
 - **Development Options Study then completed by PNGFA**
 - **Tender Process for the selection of a developer**
 - **Extensive consultation processes through all steps at the landowner, Provincial and National Level.**
 - **Successful bidder is granted a Timber Permit to operate which stipulates harvest/export quotas, development required in the area, benefits to be provided e.g. royalty, levies etc**



BUT

- **Most of PNG's current forest concessions are operating under Permits that precede and are preserved by the 1991 Forest Act. These are mostly:**

- **Timber Permits (TP) issued under a Timber rights Purchase Agreement signed between Government and traditional landowners.**

OR

- **Local Forest Areas (LFA) signed directly between traditional landowners and developers.**
- **In many cases the TPs and LFAs are held directly by landowner companies who engage a developer under a Logging and Marketing Agreement**



- **All PNG forest concessions are subject to planning, monitoring and control regulations established by the PNGFA. These are designed to ensure that logging:**
 - **proceeds in an orderly fashion as per the Timber Permit,**
 - **is excluded from socially and environmentally sensitive areas &**
 - **takes place in accordance with sound silvicultural and environmental principles - PNG Logging Code of Practice (1996)**

- **Monitoring is carried out by the 120 staff of the Field Services Division of the PNGFA. Major concessions have Project Supervisors based on site.**



- **PNGFA Field Services Division has formal documented procedures for monitoring, reporting and approval processes.**
 - 5-year, annual & coupe logging plans are field checked
 - PNG Logging Code of Practice

- **PNGFA licenced log scalers are the only people authorised to measure logs**

- **PNGFA ensures that companies affix SGS bar-coded log tags at time of first log measurement.**



- **PNGFA Marketing Division in Head Office is responsible for approving the export of logs and forest products.**

- **This Division issues an Export Permit via the following process:**
 - **Project must have some form of proper licence (e.g. Timber Permit, LFA)**
 - **Exporter applies for Price Approval for each species**
 - **PNGFA checks that the proposed volume is within the projects approved quota.**
 - **Royalties and other forest charges must be paid up to date**

- **Department of Trade and Industry must issue a separate Export Licence for each shipment.**
 - **Fairly automatic after PNGFA issue Export Permit.**



SGS Group Profile

SGS is the world's leading inspection, verification, testing and certification company. SGS, a Swiss company, is recognized as the global benchmark for quality and integrity. With more than 48'000 employees, SGS operates a network of over 1'180 offices and 321 laboratories in 145 countries around the world.

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- **SGS QUALIFOR:** a founder-member of the FSC back in 1994, today a global leader in forest certification with a network of 100 auditors, and accreditations under the main global and national schemes. Also offers PEFC Certification.

- **SGS Forestry Monitoring Programme:** established to operate outside accredited certification programmes; since 1995, has developed and implemented independent Verification of Legal Timber (VLT) programmes in several countries
 - **Government export monitoring contracts in Cameroon and Congo (Brazzaville) as well as Papua New Guinea**



- **Government of PNG appointed a Commission of Inquiry into Forestry 1980's.**
- **This revealed widespread abuses in the Forest Industry and major financial losses to the Nation**
- **particularly transfer pricing through mis-declaration of cargo and artificial pricing.**





- All log producers required to affix bar-coded tags to logs at time of original scaling
- Exporter notifies SGS directly of impending shipment with details of all logs to be exported

Region	Company Name	Company Type	Value	Volume	Weight	Other
IWKI	KIBUNAWI PTSM	MV JAN ARI	180.00	4426	15/1/10	15/1/10
	SARKEN	CAKARA ALAM (AG) PTY LTD	5,350.00	4854	15/1/10	
	ANEPMETE	CAKARA ALAMA (AG) PTY LTD	2,896.00	4766	30/1/10	
	ARUPIN / MENYUWU	TIMBER (PNG) P/L	1,550	4820	18/1/10	
	LOANG	SEAL (MANUS) PTY LTD	50	947	15/1/10	18/1/10
	DRUMDRUM BAY	MONARCH INVESTMENTS	770	4719	15/1/10	
	LOANG	SEAL (MANUS) PTY LTD	250	4720	10/1/10	
	N'DRUMDRUM BAY	RIVERGOLD NO 6 PTY LTD	3,000	4887	22/1/10	21/1/10
	CAPE ORWARD	NIUGINI LUMBER MOBILE P/L	6,050	4935	14/1/10	
	MEVO	WTK REALTY (WNR)	2,450.00	4940	18/1/10	
	LOANG	SEAL (MANUS) PTY LTD	1,750.00	4942	20/1/10	28/1/10
	N'DRUMDRUM BAY	MONARCH INVESTMENT PTY LTD	280.00	4946	15/1/10	
	N'DRUMDRUM BAY	RIVERGOLD NO 6 PTY LTD	195.00	4928	10/1/10	
	IWKI	KIBUNAWI PTSM (AG) PTY LTD	50	4960	15/1/10	
	AKUNUM	ILUMU FOREST MANAGEMENT	MV TIGER STAR	2,600.00	4978	15/1/10
CAPE RADAR		MEDIA ASSETS (AG) PTY LTD	3,500.00	4991		
CAPE RADAR		MEDIA ASSETS (AG) PTY LTD	2,370.00	4990		15/1/10
AKUNUM		ILUMU FOREST RESOURCES P/L	1,700.00	4993		
ULUA - WB		ILUMU FOREST RESOURCES P/L	1,874.00	4994		
ARUPIN / MENYUWU	TIMBER (PNG) P/L		1,400	4995		
	TIMBER (PNG) P/L		1,400	4996		



- **SGS completes a pre-shipment check of all logs for correct species identification and measurement.**





- SGS tallies shipment & issues Inspection Report (used by Customs and Forestry Dept. to clear a vessel)

SGS

Log Inspection Report

(PNGF 08)

Exporter Value Added Timber Ltd Pegi-Pulan (21002)	Vessel Name Fu Xiang Xing SSS Reference 10619 Export Permit No. 701143 Export Licence No. N/A Loadport Vanimo
PLACE OF INSPECTION Yard Contact Mr. Peter Ngu	INSPECTION DATES Proshipment From 30-01-07 To 30-01-07 Loading From 30-01-07 To 1-02-07

Description of Logs Inspected

Product/Group	Species	Pieces	Volume	Product/Group	Species	Pieces	Volume
Saw/Veneer				LAB 2 6.316			
Group 1				Total for Saw/Veneer, Group 2 30 109.306			
BUR	17	62.456		Group 3			
CAL	2	6.892		AMB	11	31.769	
CAR	40	142.757		CAM	7	24.874	
CEP	22	70.746		CEH	2	6.346	
DIL	16	58.948		CEL	6	20.251	
ERI	20	81.607		CRY	5	16.425	
KWI	133	407.855		DYS	1	4.593	
MAL	37	121.487		END	3	12.380	
MER	9	29.438		GAG	4	9.652	
PLR	11	34.397		GUW	15	46.935	
TAU	47	123.513		HER	14	45.976	
TER	53	195.285		LIT	9	24.507	
WAL	7	22.491		SAP	8	35.172	
Total for Saw/Veneer, Group 1	414	1,357.872		SIW	1	2.602	
Group 2				Total for Saw/Veneer, Group 3 86 281.482			
AGL	4	11.025		Group 4			
AM0	11	36.763		ALB	1	2.782	
BAS	11	50.644		ALW	1	2.376	
CEM	1	2.163		ASS	2	7.788	
CER	1	2.395		BIP	3	9.434	

Friday, 2 February 2007

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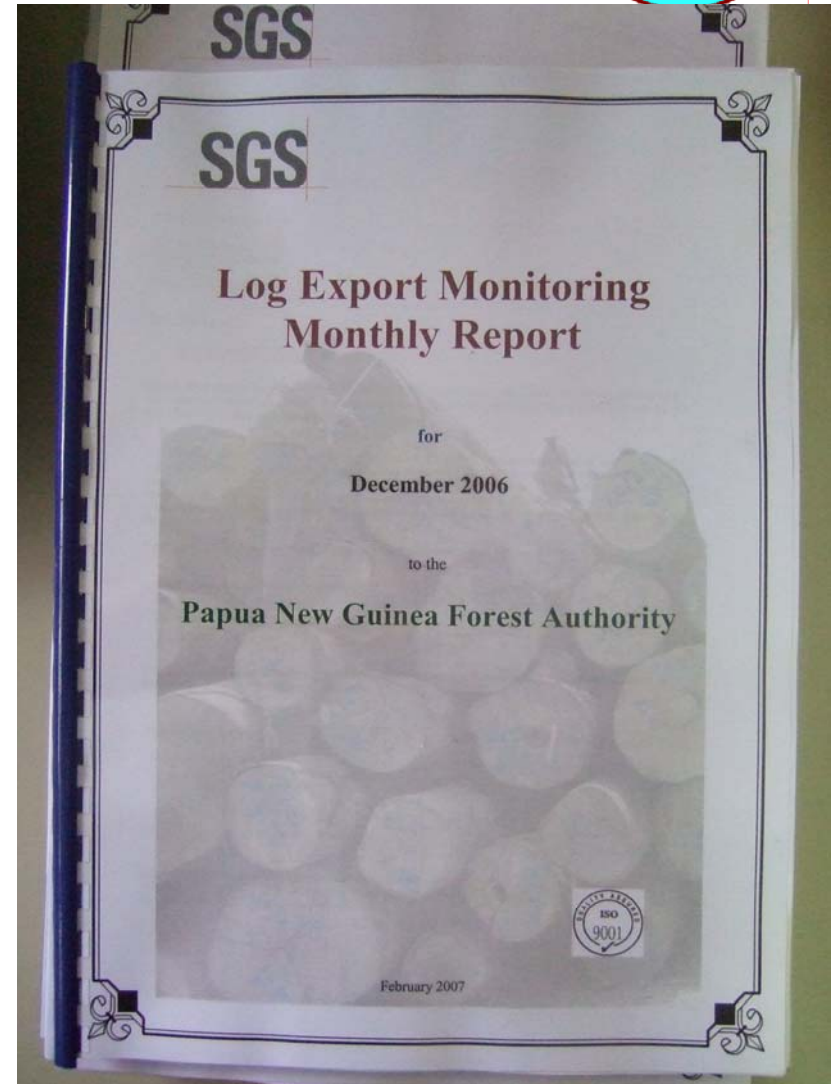


- All field inspection data sent to SGS HQ
- Exporter sends all commercial documentation to SGS HQ (Bill of Lading, Invoice, Letter of Credit and Customs Export Entry)
- SGS HQ enters all information into a specially designed database





- **Comprehensive monthly reports are provided to Government Agencies including Forestry, Central Bank, Treasury, Finance, Trade, Customs, Taxation and Prime Minister's Dept.**
- **Major problems are reported for prompt action by the Forestry or Finance Departments.**



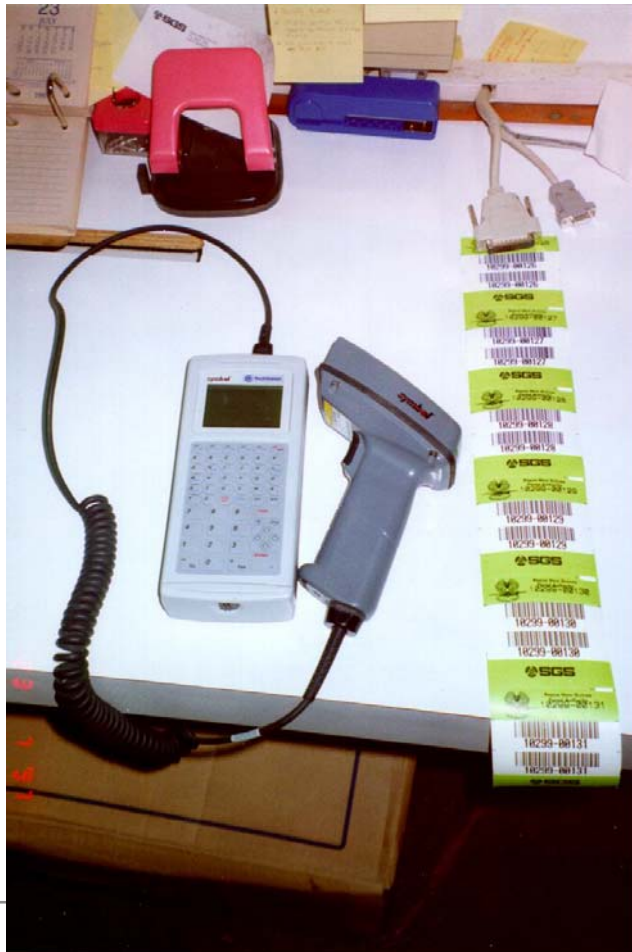


- Bar-coded log tagging system with unique site identifier





- Portable Data recorders & barcode scanners together with project field audit software





- Special training programmes for all staff





- **Field audit & reporting database is used in combination with scanners & PDTs.**





- **Provides Regular Compliance Reports and Statistics to:**
 - **Forest Department for forest management purposes (& compliance to Regulations)**
 - **Central Bank to monitor foreign exchange remittances**
 - **Tax Department for Company tax audits**
 - **Customs for duty calculation**



- Currently inspecting 2.5 to 3.0 million m³ p.a.
- From 42 active export sites
- Project employs 50 staff including 35 PNG foresters.
- One main office plus 4 small branch offices around the Nation.





- **Volume Inspected 26.1 million m³ with an fob value of US\$ 1,543 million from 80 logging camps**
- **Project Cost – US\$ 17.7 m**
- **Additional Foreign Exchange Earnings – US\$ 120 m**
- **Additional Revenue to Government – US\$ 92 m**
- **Additional Revenue to Landowners – est. US\$ 10 m**



- **No examples uncovered in 12 years of operation**

- **July 2001 news reports (arising from the National Surveillance Co-ordination Centre) of 3 “illegal log ships” in Gulf Region investigated:**
 - **One ship had actually been inspected**
 - **Other two vessels were actually Ok Tedi copper concentrate carriers**

- **Some secret surveillance of ship loading in Gulf Region 2005 revealed no log smuggling**



- **Through the SGS system the PNG Government is providing log buyers with an independent third-party assurance that these exports are:**
 - **from a known source (concession of some kind)**
 - **have an Export Permit from the PNG Forest Authority**
 - **have an Export Licence from the Dept. Trade & Industry**
 - **have had Export Tax paid**
 - **And in most cases we see evidence that the foreign exchange is actually remitted**

Problems!!



Rabaul volcano late 1994

SGS PNG Rabaul office January 1995



Criticisms and problems with the System



- Does not address the increasing demands of stakeholders (especially ENGOs) for evidence of “legality”.
- In PNG these demands are focusing on resource acquisition and consultation processes with traditional landowners plus the compliance of timber companies with social and environmental regulations.
- The PNGFA and other Government Agencies (e.g. Dept. of Environment and Dept. of Labour) lack the funding and other resources needed to provide adequate monitoring.
- The word “legal’ in the PNG timber industry means different things to different people – no accepted standard

Criticisms and problems with the System



- There are claims from some stakeholders that “legal timber” is not enough it must also be proven to be produced “sustainably” (i.e. raising the bar).
- Lack of formal link between log production records (PNGFA) and export records (SGS) makes log tracking very difficult at present.
- SGS system only covers log exports and not processed products which are growing in importance to the PNG economy.



- **Have an international 3rd party legal compliance auditing by a recognised inspection company such as SGS. Current log export verification system is a good basis on which to build this.**
- **Both the PNGFA and the PNG Forest Industries Association are actively exploring the concept of developing a “legal standard” for PNG forest operations (for example as has been done by the Forest Ministry & LEI in Indonesia recently).**
- **This would enable companies to enter voluntary legal verification programmes such as the SGS TLTV (Timber Legality and Traceability Verification) service.**



- **Expand the role of independent verification of Government systems. Specifically the PNGFA is considering 2 main areas:**
 - **Add processed forest products to the scope of the present SGS contract**
 - **Combine log production, processing and export records into a single central database to facilitate the chain of custody verification that must go hand in hand with any legal verification of forest operations.**



Thank you

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