Navigating a Way Forward for PNG’s Timber Industry – Responding to Market Perceptions and Diverse Markets

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Market Perceptions

The Private Sector

Illegal logging undermines the financial viability of the legal forest products industry.

Consumer aversion, largely the result of misleading ENGO campaigns, to the use of tropical timbers, a renewable resource, impedes efforts to achieve rural based growth, employment and poverty alleviation.

Declining returns from legal forest activities creates a perverse incentive for forest owners to seek higher returns from alternate land use activities. Permanent forest conversion, such as to commercial agriculture, often results.

Increasingly complex, diverse and variable, “rules” of doing business add significantly both to the costs of doing business and the perception of uncertainty which undermines investor/forest manager confidence.

REDD+, initially welcomed as having significant potential for post harvest management, re & afforestation on degraded lands, plantation establishment and greater involvement of forest owners in these activities, is now “private sector excluded” and dominated by a carbon/green aid approach by donors & recipient governments.

Market Perceptions

The ENGOs

Logging companies destroy over 250,000ha of primary forest each year in PNG – most of it illegally. Greenpeace Pacific, Nov 2010. (90% is their latest estimate, up from 70% quoted 2 yrs ago.)

Over 90% of log exports will leave PNG unchecked by SGS – SGS checking is only a paper exercise. Transparency International, Oct 2010.

PNG, where there is particularly strong evidence – in published reports - regarding the legality of concession allocation . Illegal Logging and related Trade, Chatham House, July 2010.

In PNG it is estimated that 70% of logging is illegal. World Bank, 2006

The Source of All Knowledge

"The authors of the Bank report did not attempt to produce their own original estimate of illegal logging in PNG – but had evaluated available (reports) on the subject". When convenient, it is nice to be able to claim one has no direct knowledge of the subject being discussed.

The estimate of 70% originated in a Seneca Creek report for US industry on the extent of alleged illegal logging in Indonesia. Despite PNG being a different country, with different forest legislation, and Seneca not having evaluated the situation in PNG, it was assumed, in the report that the 70% must also apply to PNG.

Market Perceptions

The Dilemma

At present there is no agreed (by the ENGOs) national definition of illegal harvesting. The PNGFA uses the FAO/ITTO definition which is the "harvesting, transporting, processing and trading of forest products in violation of national laws".

In the absence of an agreed definition, commercial forest activities are being judged based on Greenpeace's definition. This is a much broader definition and encompasses areas of responsibility which are beyond the mandate of PNGFA. Based on this definition, it is fair to conclude that commercial harvesting activities in almost all countries in the world, both developed and developing, can be said to be illegal in one aspect or the other.

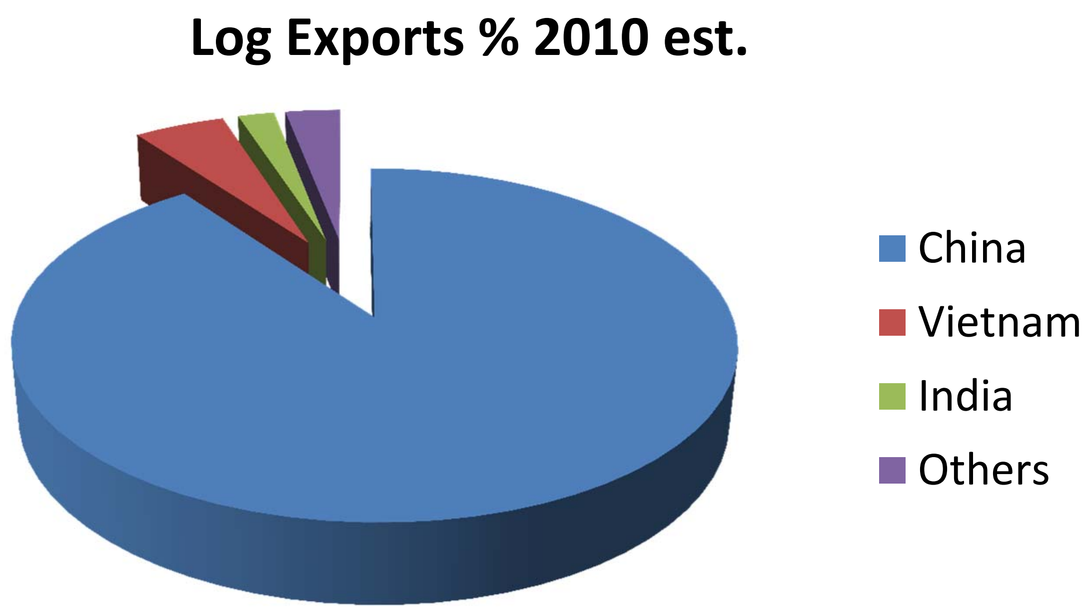
This being the case, is there any justification in singling out PNG?

(adapted from Asumadu, TFU 16/4, 2006, ITTO)

Diverse Markets

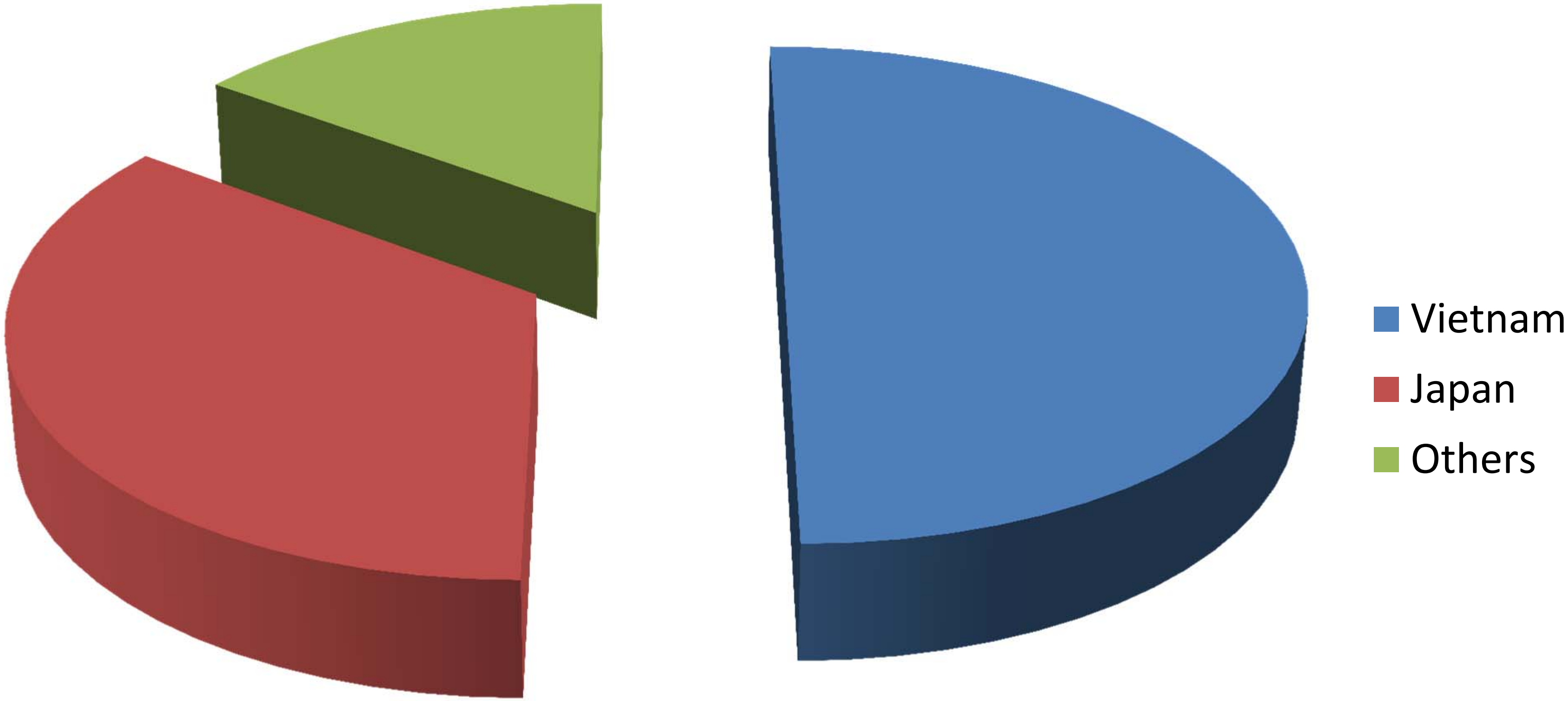
Production is export driven –

- domestic markets are weak, cyclical and disconnected
- processed products assuming greater importance to both maintaining market share and enhancing domestic economic opportunities & growth
- in log markets PNG is, perhaps wrongly, perceived as a low value, species diverse, spot supplier
- in the long term, reliance on one log market, China, may be unsustainable



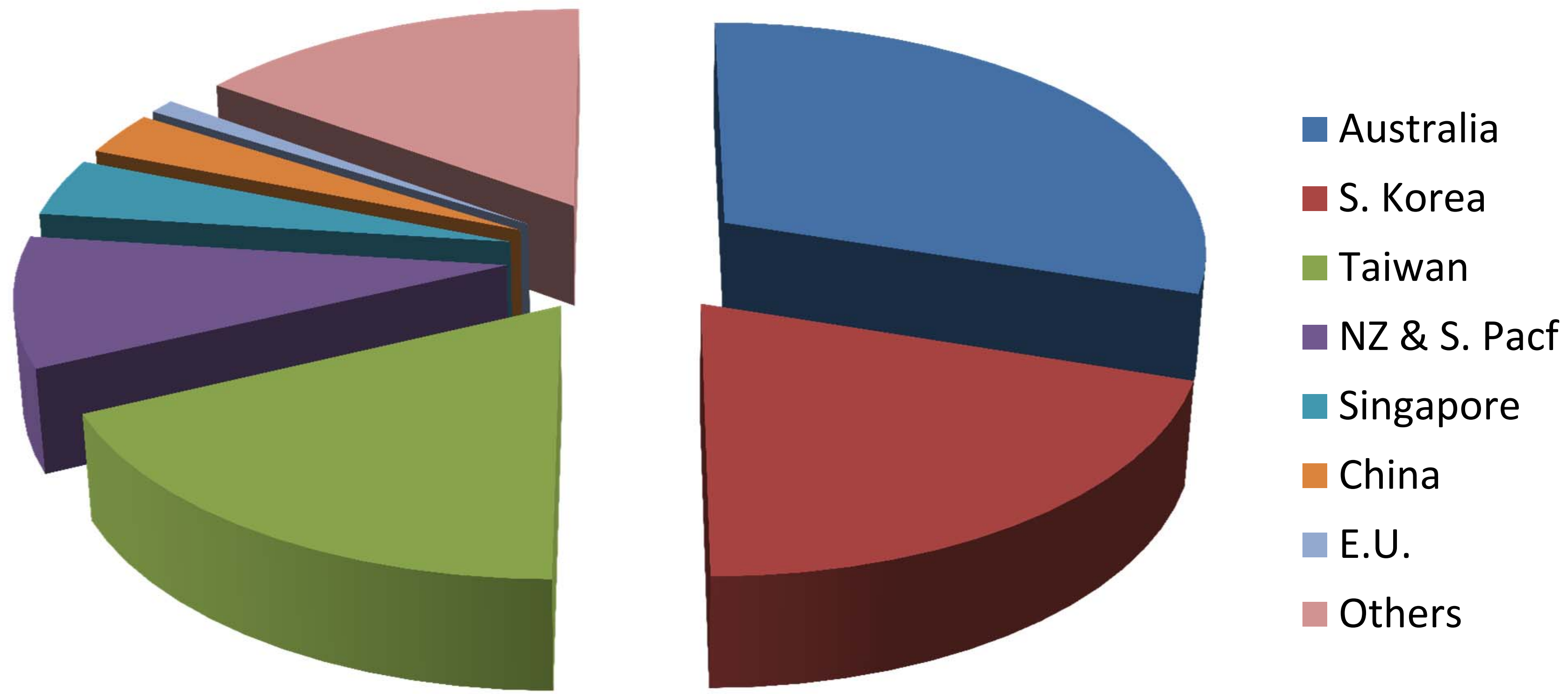
Diverse Markets

Plantation Log Exports % 2010 est.



Diverse Markets

Processed Exports % 2010 est.



A Way Forward

A recognition of national sovereignty and laws – the EU regulations would appear to endorse such an approach.

Under such laws, forest conversion, & the forest products resulting there from, may well be legal.

Sustainability, particularly in developing countries with high population growth rates, e.g. PNG, is not necessarily the primary determinant of forest use.

Forest certification schemes, such as FSC, require legality, chain of custody verification, sustainability and an emerging, no conversion requirement.

The “collapse in confidence” of importing countries in the ability of producing countries to administer their forest resources in the national interest, necessitates independent verification of compliance with national laws.

Effective chain of custody systems can also provide end user confidence in legal sources of supply.

The PNG Situation

The annual sustainable log harvest, 3.9m.M3, has never been exceeded.

A Way Forward

All log exports are independently checked by SGS, for species, measurement, volume, taxes & royalties paid, validity of harvesting permit and validity of export permit and licence.

SGS carry out this work under contract to the Government of PNG: one of the few countries in the world to adopt such a system.

Voluntary legality & chain of custody verification schemes have been instituted by the private sector involved in processing; including the SGS, TLTV system which includes VLO & VLC compliance and chain of custody, and FSC, Controlled Wood certification.

To date – 5 member companies are TLTV certified or in the process

2 member companies are in the FSC, CW system, and

1 company is in the process of full FSC certification.

PNG has met, and exceeds, the oft cited target of 10% set aside of forests for conservation. (unique land ownership issues notwithstanding)

A Way Forward

Necessary Outcomes

1. A consensus and recognition of credible, independent, 3rd party legality & chain of custody verification schemes among importing countries. Lead by E.U., Australia, U.S., i.e. significant importers who have imposed import restrictions/requirements outside the normal course of trade.

And

2. If REDD+ is to achieve results, in developing countries where governance & systems are weak, a re-engagement with the private sector that will achieve M R V results and enhance &/or rebuild forest carbon sinks as part of broader SFM objectives. The sustainability of “carbon aid” projects, where development and economic objectives are uncertain, could be further strengthened with the existing commitment to long term forest management by the private sector.

Acknowledgements, References, Further Reading

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*These, and much more on the PNG forestry scene, are available at www.fiapng.com