J. NOUKIRI



# COMMISSION OF INQUIRY INTO ASPECTS OF THE FORESTRY INDUSTRY

# **INTERIM REPORT NO 3**

# THE FOREST INDUSTRIES COUNCIL AS THE STATE MARKETING AUTHORITY

VOLUME 2 APPENDICES 1 – 34A

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# INTERIM REPORT NO 3

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VOLUME 2 APPENDICES 1 - 34A

November 1988

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#### APPENDIX 1

THE FOREST INDUSTRIES COUNCIL ACT CH. NO 215.

# 1. ESTABLISHMENT AND STATUS

- 1.1 The FIC is and was established by the *Forest Industries Council Act* Chapter No 215 and was first established in 1979.
- 1.2 The Act establishes the Council as a corporation, with perpetual succession, having a common seal; with power to acquire and dispose of property and being able to sue and be sued in its own name. (Section 3).
- 1.3 The FIC is thus a corporation established by statute and the body of law applicable to statutory corporations applies to it. That body of law includes the proposition that the powers and functions of a statutory corporation must be spelt out and are limited to those spelt out in its constituent statute. Traditionally the courts have construed such such statutes narrowly. (see <a href="mailto:Drano v PNG">Drano v PNG</a>
  <a href="Mabours Board">Habours Board</a> Unreported National Court</a>
  Decision (Barnett J.) 1986 and cases referred to in the Judgement)

# 2. CONSTITUTION OF THE COUNCIL

- 2.1 The Act specifically recognises another entity described as the Forest Industries Association being representative of the forest products industry (Sections 1, 4 and 27).
- 2.2 The Governing Body of FIC is a Council of ten (10) members. All Council Members are appointed by the Minister (for Forests) by notice in the National Gazette. (Section 4).
- 2.3.1 Six of the four members are appointed by the Minister from a panel of names submitted by the Forest Industries Association

- 2.3.2 One of the four members appointed by the Minister himself must be a small producer.
- 2.3.3 The other three members appointed by the Minister himself are not required to have particular qualifications and have routinely been Departmental Heads, appointed as such, from relevant National Government line departments.
  - 2.4 What is said in 2.3 is the usual position but there are detailed supplementary and default provisions and provisions to appoint deputies.
  - 2.5 The Council members elect their own Chairman and Deputy Chairman and the remuneration (if any) of the Chairman and Council members is as the Minister for Public Service determines. (Section 7 and Section 4 (8)).

In the absence of a specific Ministerial determination no Council Member is entitled to any remuneration at all.

- 2.6 This constitution is of singular importance because all the powers and functions of FIC are vested in the Council - it is the repository authority of all FIC powers.
- 2.7 The Council is empowered to delegate its powers or functions (other than the power of delegation) in only one way By writing under its seal (Section 18).

## 3. EXECUTIVE COMMITTEE

- 3.1 The Executive Committee consists of the Chairman of the Council; the Deputy Chairman of the Council; two members elected by the Council from its six members described in 2.3.1 above and one member elected by the Council from its four members described in 2.3.2 and 2.3.3 above (Section 10)
- 3.2 The Act, though it provides for an Executive Committee contains no provision as to the powers or functions of the Executive Committee.

It follows logically that the only powers of the Executive Committee are those delegated to it by the Council pursuant to a delegation in accordance with 2.7 above.

3.3 Again this is important as without delegation in writing under common seal from the Council the Executive Committee has no substantive power at all.

### 4. CHAIRMAN

- 4.1 The only powers of the Chairman given by the Act are to call, preside over and cast a deliberative and, if appropriate, a casting vote at meetings of the Council and the Executive Committee (Sections 8,9 and 11).
- 4.2 The only other source of power of the Chairman is a delegation by the Council, in writing, under its common seal of a power or function of the Council as described in 2.7 above. The Executive Committee could not, it seems, sub delegate any of its functions (delegated by the Council) as sub delegation is prohibited.

# 5. FINANCING AND FINANCIAL CONTROLS

- 5.1 Forest Products Operators (being persons engaged in the logging, sawing, processing or marketing of forest products (as defined in the Act)) are required to register with F.I.C. (Section 20).
- 5.2 A levy is imposed on registered Forest Products Operators by FIC based on volume of harvest (Section 22) and is paid to FIC. This is the only source of direct funding envisaged by and imposed by virtue of the Act.
- 5.3 As a statutory corporation FIC was subject to certain provisions of the *Public Bodies*(Financial Administration) Act Ch. No 6 and subsequently to certain provisions of the *Public Finances* (Management) Act 1986.
  No: 28 of 1986. (Section 13).
- 5.4 The legislation specified in 5.3 permits FIC, with the consent of the Minister for Finance to borrow money.

The legislation does not permit FIC to loan moneys (other than on authorised securities) or to give guarantees or indemnities.

5.5 The provisions of the legislation specified in 5.3 above relating to contracts for works and services, and requiring the Finance Ministers approval to enter certain (major) contracts. did not apply to FIC whilst the Public Bodies (Financial Administration) Act applied. thus had at that time power to enter contracts for any sum of money without requiring Ministerial approval. When the Public Finances (Management) Act 1986 came into force on 2 January 1987 the position changed however. Section 60 of the Public Finances (Management) Act applies to all public bodies (see Section 47) and precludes entry into substantial 75. contracts without the approval of the Minister for Finance. FIC's freedom to contract was thus severely limited after 2 January, 1987.

### 6. STAFF

- 6.1 The act confers power to appoint staff (permanent, temporary or casual) and power to determine their terms and conditions of service ON THE COUNCIL
- 6.2 This is a power which the Council could delegate but only by the process described in 2.7 above.

Such a delegation (to the Executive Director) was made by delegation dated 29 June 1988 (published in National Gazette No G 44 of 7 July 1988 p. 715) but appears to be under the hand of the Chairman rather than the Council's common seal.

#### 7. POWERS AND FUNCTIONS OF THE COUNCIL

- 7.1 In considering this subject the body of law described in 1.3 above must be constantly borne in mind.
- 7.2 Part III of the Act (Sections 17,18 and 19) deal with this subject. Section 17 provides:-
  - "(1) It is the prime function and duty of the Council to promote and develop the forest products industry.
  - (2) The Council has all the powers, necessary or incidental, to enable it to carry out its powers, functions, duties and responsibilities under this Act"
- 7.3 Whilst it is not necessary for this Commission to reach a firm conclusion on this issue there is serious legal doubt whether the Act permits FIC to engage in buying and selling logs and particularly to be an agent for another entity (the State).

If FIC is to have these functions legislative amendment would be desirable if not necessary.

7.4 The power of delegation is dealt with in 2.7 above and agents in 8 below.

# 8. AGENTS

- 8.1 The Council is empowered to enter an agreement whereby it permits another entity to act as its agent (inside or outside Papua New Guinea for a remuneration spelt out in the agreement or arrangement. (Section 19).
- 8.2 The Act gives no power to FIC to act as an agent for any other entity.

# 9. MINISTERIAL DIRECTIVES OR AUTHORISATIONS

- 9.1 The Act at all material times has contained no provision which would enable the Minister to give FIC directives or directions nor to grant the FIC authority not encompassed within its powers and functions conferred by the Act.
- 9.2 In earlier times the Act did provide for Ministerial directions.

#### APPENDIX 2

#### LOG MARKETING

#### AN OVERSIMPLIFIED OUTLINE

#### A. SOUTH SEAS LOG MARKET

Papua New Guinea is one of the suppliers in what is known as the South Seas Log (SSL) Market. Other present exporters include Sabah and Sarawak (Malaysia) and Solomon Islands. There are now no log exports from Indonesia and the Philipines. The bulk of Malaysian logs consist a limited number of species but a small rump of Malaysian log exports are "mixed species".

PNG and Solomon Islands have in general terms a multi species mix and their market position is generally described as competitive with the Malaysian "mixed species". The "mixed species" section is only a small part of the SSL market which is in turn only a small part of the world log market. The main buyers of PNG logs are Japan, South Korea and laiwan. Japan is the dominant buyer and there are other small markets such as India Hong Kong and small sawn timber markets in Australia and New Zealand.

# B. BUYER/SELLER CONSIDERATIONS

#### Species

With "mixed species" the actual species composition of a parcel of logs is very important in terms of both price and marketability. Utten a volume of preferred species is used as a means to sell a larger volume of less preferred species.

# Sizes and Scaling

The size of a log or average size of a parcel of logs appears to be an important factor and girth assortment or specification of girth percentage — above 60 cm. 49-59 cm and below 49 cm (or in old terms R. S and SS) is usual and relevant to price and marketability. Log length also seems relevant in some cases.

# Grading

Grading is a controversial area. PNG has adopted the SEALPA Grading Rules as a measure of log quality. Other nations have different rules.

Many buyers say grading is not relevant to price and marketability. Grading proponents urge persistance and say grading is being accepted as a measure.

#### Shipping Date

The date when a parcel of logs will be and is ready for shipping is an important factor in arranging the vessel and ensuring the vessel arrives when logs are "fresh cut". If a vessel is too early the contracted cargo may not be ready giving demurrage and/or deadfreight claims. If a vessel is too late logs may deterioriate and be rejected by the buyers inspector or lead to quality claims.

# Minimum Export Price (MEP)

A log shipment cannot (without specific exemption) be exported for a price below MEP. The MEP value depends on species (or Group in which a species is categorised) and grade (according to Sealpa Rules). The MEP is varied from time to time.

# C. NEGOTIATION

It seems certain that foreign log buyers know a great deal more about PNG logs and log producers than PNG producers know about buyers. The Japanese buyers in particular are very knowledgeable on species mixes from different parts of PNG and the quality of logs given producers produce.

in general terms a producer offers an approximate volume of timber with a given species and size mix and an indicator shipment date and seeks to fix a price on that shipment. The volume is of a shippable size in that is is sufficient to load a ship or is a portion of a shipment ie 1,000m3, 1.200m3, 1500m3, 2000m3, 4,000m3, 4500m3 6.000m3 etc.

Ships are generally of a capacity from 4500m3 to 6500m3 or of about 15,000m3.

Less usually a buyer seeks a particular species shipment from one or more producers. Indian buyers seek this as do specialty buyers (for Rosewood for example).

Many producers do not sell direct to buyers but use agents based in PNG, Hong Kong, Japan, Korea or Taiwan and they pay these agents a commission.

Generally a price is negotiated in UNITED STATES DOLLARS per CUBIC METRE and is fixed either across the board at one extreme or for each specific species and grade at the other extreme. Often a large buyer will be negotiating with his customers at the same time he is negotiating with the PNG producer and will pitch his price to the producer based on what his customers will pay him.

Agreement is generally reached with a recognition exact quantities cannot be fixed and for an approximate quantity. A sale is generally on a Free on Board (FOB) basis but in some cases on a Carriage and Freight (CNF) basis. Insurance cover seems rarely to be taken (except by Indian buyers). In an FOB sale the shippers obligations and risk end when the goods are aboard the vessel. Generally CNF price = FOB price plus freight. In a CNF sale shipping and payment of freight are the shippers responsibility and logs at sea are at his risk.

Negotiation is also affectd by market factors. In a poor or falling market buyers are scarce. In a good and rising market there are many buyers. Expected trends are relevant also as they influence attitudes of both buyer and seller. Weather conditions in Malaysia and factors such as the timing of Chinese New Year are very relevant as are the alleged covert meetings of the buying groups to formulate buying strategies.

# D. SHIPPING

When a sale is concluded the question of shipping arises. Usually sales are FOB so the buyer arranges shipping. When a sale is CNF the seller arranges shipping.

Japanese shipowners are predominant in the SSL market transport and have a shipowners association NANYOZAI for SSL transport. Some non NANYOZAI members and non Japanese shippers are also involved in SSL transport.

Periodically NANYOZAI announces guideline freight rates for SSL transport but actual rates are usually negotiated well below the published guidelines levels.

NANYOZAI also has a standard Charter Party widely used by members and non members.

Ships are available from snipowners or ship operators and are often if not usually engaged through shipbrokers. Where a broker is involved he usually receives a percentage of freight as commission. Most ships are arranged on single voyage charter but longer term arrangements are possible. When a ship is arranged the contract is either a Charter Party or a Fixture Note and it sets out the terms of charter. Relevant factors are:-

#### (a) Volume

A ship is generally chartered for a given volume of logs - or a series of volumes depending how the charter is arranged. Often the volume is either 10% or 5% more or less than a specified quantity (because quantities are not certain). The "more or less" is usually at the shipowners option ie he decides whether he will accept the additional or lesser quantity for loading.

Generally it would seem there is a relationship between volume and freight rate in that a shipowner expects a given return for a given voyage. That return is the volume contracted to be carried times the freight rate. If a lesser volume than that contracted for is in fact shipped then the owner claims DEAD FREIGHT for the shortage.

# (b) Loading and Discharge Ports

The loading and discharge points are very relevant to the freight rate. Generally the longer the voyage the higher the freight rate. Also it is easiest for a ship to load at one port and discharge at one port. The number of loading and discharge ports appears to affect the freight rates.

# (c) <u>Loading</u> and <u>Discharge</u> Rates

A Charter Party provides for the rates at which the vessel expects to load at a loading port and discharge at a discharge port.

Vessels keep Time Sheets and Statements of Facts which record what is happening on a voyage and account for time. When a ship arrives and is ready to begin loading a notice of readiness is served and accepted. The time allocated or allowed for loading is then running.

If loading takes longer than the contracted time the shipowner claims DEMURRAGE for the extra time taken which the shipper usually has to pay.

If loading takes less than the contracted time the shipper claims DESPATCH for the time saved which is usually deducted from the freight. The same type of system also operates at the discharge points with the buyer bearing demurrage and claiming despatch.

On loading demurrage rates are in the order of USD2.000.00 to USD2.500 per day. The despatch rate is usually half the demurrage rate.

(d) Bills of Lading and Manifests

When cargo is taken aboard a vessel for transport:-

- 1) A Bill of Lading is issued which is the title to the goods. Rills of Lading are signed by the Master and describe the cargo for logs the description is usually by the number of pieces (logs) loaded and the volume in cubic metres. The Bill of Lading records the CONSIGNEE to whom the cargo is consigned and the NOTIFY PARTY who is to be notified the cargo is available for discharge.
- ii/ the cargo is entered in detail (usually by reference to the Bill of Lading) in the ships manifest - or cargo list.

#### (e) Demand

As with most trading activities shipping is subject to the exidencies of supply and demand. When demand is high shipping is hard to procure and higher freight rates can be demanded. When demand is weak shipping is easier to procure and rates may drop.

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# E. EXPORT FORMALITIES

There are several formalities associated with log exports which are briefly, and thus not accurately described below.

#### (a) Inward clearance

A ship entering PNG waters to transport export logs must be inward cleared by Customs and Quarantine authorities.

# (b) Export License

Before logs can be exported the exporter must obtain an export license from Department of Trade and Industry which consults with Department of Forests. The test is whether the price obtained represents a fair return to PNG. Previously any export at or above MEP was automatically approved but it now seems a harsher test approaching "best market value" is being applied.

#### (c) Export Permit

Export of logs is prohibited without the consent of the Minister for Forests. It seems a system has been developed whereby the Provincial Forest Officer issues an export permit which is accepted as constituting the Ministers approval.

One factor considered in this respect is whether monthly log returns are filed up to date and whether all assessed royalties have been paid.

#### (d) Export Duty

Log exports attract export duty of 10% of the value. An exporter is required to complete a form of Export Entry setting out details of the export and to pay this duty to Customs.

#### (e) Outward Clearance

Before a vessel carrying export goods leaves PNG it requires outward clearance by Customs. It seems compliance with the earlier listed requirements is necessary for outward clearance.

# F. FINANCING - LETTERS OF CREDIT

As with most cases of export of goods between countries a means has to be found whereby the seller can be sure he will be paid by the buyer. That means is almost invariably a Letter of Credit (L/C). In some instances where the sale is to a company in the same Group payment is by telegraphic transfer.

An L/C is in effect an irrevocable offer made by a bank to pay money on the fulfilment of certain conditions. The conditions usually are the production of specified documents and there are bank usages and codes regarding L/C's.

As indicated above the currency of the timber trade is UNITED STATES DOLLARS and L/C's are written in USD. In broad terms an L/C is established for a particular sum of money for a specified volume of logs shipped from PNG on either an FOB or CNF basis.

The L/C specifies what documents have to be presented to obtain payment and when payment is to be made.

The usual documents are:-

- (a) a DRAFT for the amount claimed for negotiation under the  $L/C_{\bullet}$
- (b) an INVOICE for the goods shipped which is within the terms of the L/C and which shows how the amount claimed in the draft is calculated.
- (c) a BILL of LADING evidencing shipment of the number and quantity of goods specified in the invoice and which is completed as required by the L/C as to
  - i) the CONSIGNEE named
  - ii) the NOTIFY PARTY named
  - ili) payment of freight which is usually "FREIGHT COLLECT" for an FOB sale or "FREIGHT PREPAID" for a CNF sale.
- (d) a log list which lists log by log by reference to log number and volume the cargo shipped and which tallies with the number of pieces and volume shown in the Bill of Lading and any specifications in the L/C.
- (e) on occasions an Inspection Certificate in which the buyers inspector indicates his acceptance of the cargo as being to specification.

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The payment time and method is spelled out in the L/C and may be Al SlGHT or a specified period after sight or after a particular date or event.

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An L/C may permit transfer - in which case the beneficiary of the L/C can transfer it in whole or part to someone else.

An L/U may permit part shipments where the total goods can be shipped in parts and claims made for each part shipped.

There may also be other conditions.

In some cases a letter of credit may contain a RED CLAUSE which is a clause permitting the beneficiary to obtain some funds against the L/C before be presents the documents and for which he must give credit when he presents the documents.

benerally a shipper presents the specified documents to his bankers who then convey them to the bank issuing the L/C to obtain payment. At the time of negotiation the shipper generally directs his bank what to do with the proceeds which are claimed in USD.

Sometimes there are problems with L/C negotiations in that the issuing bank either delays payment or refuses payment usually on the basis of discrepancies in the documents produced. Korean buyers are often criticised as being too strict in this respect and it also seems negotiating very detailed Indian L/C's is a work of art.

#### G. USD RETENTIONS

In some cases and noteably in FIU's marketing activities the whole of the funds claimed in negotiating a claim under an L/L are not remitted to PNG and converted to Fina.

there are sensible and powerful commercial reasons for this practice.

Freight contracts are written in USD and commission arrangements with overseas agents are usually written in USD or based on percentages of a USD price.

Similarly some toan, management service and leasing agreements are written in joreign correctes.

By leaving the funds set aside to meet these obligations offshore in USD the person obliged to pay either completely eliminates his exchange risk or removes from the area of exchange risk fluctuations between the USD and the Kina.

Conversely however there is scope for abuse without adequate control over or disclosure of these funds or in the case of LIC where the funds exist outside of the accounting system kept in PNG and beyond the reach of the system of checks and balances imposed on statutory bodies.

#### H CLAIMS

When PNG logs arrive at their destination and are obtained by the buyer the possibility of claims arises. The range of claims is only limited by the fertility of the human imagination but they generally fall within limited categories. In Japan and South Korea there is import duty on PNG logs. Imports are thus recounted and remeasured by bovernment registered checking agencies in those countries.

Under the PNG Brereton Scaling technique:-

- (a) the short diameter measurement must be taken at right angles to the long diameter measurement at both log ends.
- (b) there is no deduction for hollows and dejects.

Under Japanese rules the scaler need not take the short diameter at right angles to the long diameter measurement and can deduct for hollows and detects. It is believed Korea has similar rules.

One therefore expects volume measurement differences. Ashenden (1983) says it is accepted one PNG measured cubic metro is equal to 0.95 m3 by Japanese measurement.

The usual categories of claim are: -

- shortage in the number of pieces received fewer logs arrive at destination than are said to have been shipped.
- 1) volume shortage the volume at designation is less than the volume said to have been shipped.

- iii) species shortage the species composition of the shipment is different from that on which the price was based. Usually this occurs where a substantial volume of one or two preferred species (such as Rosewood, Pencil Cedar, Taun, Mersawa) were used to sell a volume of less preferred species and the volume of preferred species falls below that which was promised.
- iv) quality claims the shipment is said to be below the expected quality standard in terms of length, average volume, girth percentage, splits, hollows or general deterioriation and age.

These claims are usually negotiated.

Also despatch and demurrage claims are often resolved as are deadfreight claims after shipment. Here the shipowners insurance is his power to refuse discharge or to appoint a receiver and sell the cargo to cover his freight if he is not paid. Again these claims are usually negotiated.

# 1. OTHER EXPRESSIONS

The other usual expressions arise where a third party is involved in marketing — clues are usually found in the letter of credit, invoices and/or Hills of Lading. In most such instances the letter of credit to PNG does not come directly to PNG from the overseas recipient of the goods (which is usually the Bill of Lading notify party or company of the inspector named in the L/C).

Instead the L/C is opened by that recipient to a third party who then transfers part of the L/C to PNG (TRANSFERRED L/C) or who uses the L/C to open his own (BACK to BACK) L/C to PNG.

On negotiation the invoices follow the reverse path from PNG to the third party who then reinvoices (back to back invoice) the recipient of the goods.

In cases such as this there is an opportunity for the third party to include a margin between the price he obtains and the price he pays to PNG and in any such structure there exists the potential for export transfer pricing.

# J. FIC MARKETING

The bases for F1C marketing are dealt with in detail elsewhere. As will be seen the performance of FIC in financial terms can only be evaluated by regarding its total claim on a part shipment; accounting for the proceeds both in terms of the part converted to Kina and the part left unconverted in USD and finally by looking not only at the cash results but also the potential claims and contingencies which may when chrystallised have a future impact on FIC's finances.

#### K SECRET OFFSHORE RECEIPTS

In regarding marketing practices from a Papua New Guinean perspective one is necessarily limited by the documents available and produced in Papua New Guinea unless — as with Stettin Bay Lumber Co and to a lesser extent Gaisho Co (New Guinea) and Shin Asahiqawa — companies investigated will produce documents located in other countries. In some cases end recipient documents become available which indicate what occurs but these are difficult to procure and in the case of Japan almost impossible to procure.

If there are irregularities detected in documents in Papua New Guinea that may mean no more than that the involved have been careless. The absence of irregularities in PNG documents does not necessarily mean there are not irreqularities. It may only mean those involved have not been careless. There always exists and must exist possibility that well conceived and concealed arrangements have been made overseas which are not detectable reference to documents in PNG.

Some such arrangements, of which some evidence has been seen, include:-

- (a) Shipping freight manipulations where a third party has been inserted between the true shipowner or operator and the charterer disclosed in PNG. In such cases the third party "creams off" a margin between the freight he is paid out of PNG and the freight he has to pay the shipowner or operator.
- (b) Undisclosed "kick backs" from a shipowner, ship operator or broker. Here the arrangments appear to be to pay a high freight rate regular on the face but a secret commission is paid offshore to the shipper or his agent or one of their offshore affiliates.

- (c) Commission sharing where a commission is paid at an inflated acceptable rate to an agent who then secretly shares that commission offshore with persons involved in the sale. Usually the shared commission is not earned in any way by the recipient.
- (d) "Bill switching" where a ships agent or sub shipper is interposed between the shipowner or ships operator and the charterer and that agent substitutes bills of lading for a greater quantity than is disclosed as being exported from PNG this is used to disquise what is nothing less than smuggling.
- (e) Undisclosed remeasurement credits where a quantity is disclosed as being shipped from PNG and the whole transaction is regular on its face yet there is a secret arrangement outside the letter of credit that the goods will be remeasured and any excess above the invoiced quantity will be paid secretly offshore to a person associated with the sale. Again this is nothing less than smuggling.
- (f) Undisclosed "kick backs" from buyers where the sale appears regular on its face but a secret additional price margin is paid offshore to someone associated with the sale.
- (q) Parallel L/C arrangments (sometimes involving a back to back L/C) where only part of the transaction is disclosed or detectable in PNG and the other or parallel part of the arrangement which results in a secret payment overseas is not disclosed in or detectable from documents in PNG.
- (h) "Management" or "Service" arrangements where a management or service fee is paid offshore which is grossly excessive for the service provided. such fee being paid to an offshore affiliate of the PNG producer or contractor.
- (1) "Loan" arrangements where an operation with an inadequate equity base is financed by offshore affiliate loans and what would be "profit" from an adequately (financially) geared operation is "creamed off" in loan repayments with interest at commercial rates.

"Goods supply" where an operation acquires goods through an offshore affiliate which are "marked up" or provided on a "leasing" basis and what would otherwise be "profit" is "creamed off" to pay the mark up or as inflated leasing fees. Again this is likely where there is not a proper loan/equity gearing ratio and the operation is undercapitalised.

These are but examples of cheating which is possible and are but some of the range of covert devices which are inaccurately said to be included in the expression "transfer pricing". The range and structure is again limited only by the fertility of human imagination and ingenuity and the success of the schemes is promoted by the deficiencies in PNG monitoring and surveillance procedures and performance.

TO

MINISTER

Date 11 November 1982

# **MINUTE**

File No. 377-1-2

SUBJECT

STATE MARKETING CORPORATION - FORESTRY

# 1. Background

Under the 1979 White Paper "Revised National Forest Policy" certain measures were proposed in order to ensure that both the short-term revenue benefits and the long term benefit of establishing a market base for the sale of processed wood products would be obtained from the increase in log exports which was advocated in that document and has since been put into effect.

# 2. Central Marketing Authority

# 2.1 Objectives

One of those proposed measures was for the State to establish some sort of "Central Marketing Authority" or "marketing agent" to:-

- promote PNG's lesser known species;
- diversify PNG's export markets: and
- sell directly to end-users not via intermediaries.

This body would take up the 25% option which certain companies (and hopefully all companies will) have in their timber permits.

Several alternatives have been examined with the intention of eventually establishing such a marketing entity.

# 2.2 Alternatives

# 2.2.1 Joint Ventue

The State would enter into a joint wenture with a company with considerable experience and experience in marketing PNG logs or similar species.

# 2.2.2 State Murketing Corporation

This would be wholly owned and controlled by the Stat and could be similar to a statutor, a thority.

# 2.2.3 Forest Industries Council (FIC)

FIC could be restructured to enable it, as a quasi-government body, to undertake the necessary marketing functions.

# 2.3 Selection

Arguments have been made for and against each alternative. So far no inter-departmental consensus has been reached. This is not because of any negligence on the part of the government. On the contrary much has already been written and spoken on the subject, but the delay in reaching a decision merely emphasises the complexity of the problem and the serousness with which it has and will be treated.

# 3. Forest Marketing Scrvices

In this context it can be appreciated why no detailed response to the Forest Marketing Services! (FMS) proposal was made. As the Government has not selected the joint venture approach as the alternative to be pursued there seemed little point in discussing a proposal from one company to enter into such a joint venture. However there was an error of omission on the part of the Office of Forests in not acknowledging receipt of the proposal. As can be seen from the enclosed draft response to FMS this is now apologised for yet at the same time one must wonder why it took one year before FMS decided on despatching their follow-up latter. Basically FMS should be treated like any other company which has expressed an interest in the joint venture option (and there have been several) and advised that they will be notified when Government has made a decision.

# 4. Future Action

The Office of Forests is currently having discussions with the New Zealand High Commission with the intention of having a study funded which will investigate the present marketing of PLG logs and will make recommendations on appropriate marketing strategies for the future including the establishment of a "Central Marketing Authority". It is envisaged that a decision on such matter will be made once the findings of the study are known in, say, six months' time. This may seem a considerable length of time but when one considers the magnitude of the log export industry now, and the potential for the future, it is important that all options are carefully and cautiously evaluated before a decision is made.

#### **DISCUSSION PAPERS**

377-1-2



# SUBJECT: TIMBER MARKETING CORPORATION

AMIN

# 1. Background:

The White Pap r 'Revised National Forest Policy', 1979 provided the establishment of a Central Marketing Authority for proper marketing of PNG forest products.

# 2. Objectives:

2.1 To assist the small producer for marketing their products - a commitment by the Central Government.

-a markety by.

2.2 To reduce/eliminate transfer Pricing.

3 If we set up

To deversity markets, achieve competitive prices, promote markets for lesser known species, increase the revenue, sell directly to end - users, etc; and

the second

2.4 To make MEP more effective through information of actual market prices.

# Possible Alternatives:

# 3.1 Joint Venture

The state would enter into a Joint Venture (50:50) with a company having considerable experience and expertise in marketing PNG logs or similar hardwoods.

# Major advantages

Availability of overseas marketing expertise, ready contracts, no direct responsibility of the Government, etc.

# Major disadvantages

Dependence on another expatriate company - old wine in a new bottle, revenue drain out, profit-hungry, non-co operation from other companies, etc.

# 3.2 Forest Industries Council (FIC)

marketing functions including export sales. It has got a running set up and present manpower which could be increased to a desired level. This organisation was created by the Government through a legislative Act to serve many of the jobs - promotional activities like market diversification, marketing of lesser known species, competitive prices, market information, etc. They may also provide marketing services to the small producers through information of market prices, finding overseas buyers, negotiating the contracts and organising shipping arrangements. This is a no-loss no-profit statutory organisation which could serve the purpose of the Government in a better way with certain changes in its organisation, objectives and activitives.

Major problem might be its constitutional re-organisation through change of lagislative Act.



# 3.3 Timber Marketing Corporation

This would be a statutory Autonomous organisation wholly owned and controlled by the National Government.

### Merits

True market information, assistance to small producers, better marketing of L.K.S, market diversification, effective MEP, etc, all objectives are likely to be achieved.

#### Demerits

Finding a suitable captain for sailing a boat in a sea of cyclones, a new headache for the government, risk of the loss of government revenue, a strong opposition from FIC, etc.

# 4. Actions so far taken

Discussions were held on several occasions in the Inter-departmental meetings represented by Officers from NIDA, previous Commerce Department, Foreign Affairs & Trade, States Solicitors Office and the Office of Forests. None from the Department of Finance turned up. Arguments were made for and against each alternative, but no inter-departmental consensus has so far been reached. However, bulk of the opinion seemed to have gone in favour of forming a National Marketing Corporation closely in line with the Fish Marketing Corporation.

Meetings were also organised with the Director, Office of Fisheries and the representatives of the Fish Marketing Corporation to discuss the backgrounds, formation, functions, merits and demerits of the Fish Marketing Corporation.

Finally, discussions were held in a senior Forestry staff meeting to arrive at a Forestry Departmental Consensus. Chairman of the meeting (Mr Andrew Yauieb) asked the personal opinion of the officers and the majority of the staff expressed their opinion in favour of the Marketing Corporation. In accordance with this Forestry departmental consensus we were asked to prepare a draft NEC Submission in line with the Fish Marketing Corporation. Draft NEC Submission was prepared and circulated for comments of the officers.

Final round of discussions were held on 4th November 1982 to decide the next course of actions and was decided that opinion of the Finance Department should be received before NEC Submission.

We were halted at this stage to wait and see the outcome of the proposal for New Zealand Aid for carrying out Japan Market study by the Ashenden & Associate.



# 5. Proposed actions

- 5.1 Minister for Forests should be briefed and got to be convinced.
- 5.2 Discussions should be held with the Department of Finance.
- 5.3 Draft NEC Submission should be revised incorporating the suitable suggestions received from different sources.
- 5.4 NEC Submission is to be made.
- After approval of the NEC Submission, one Senior Forestry Officer should be deputed to work for the corporation.

  Arrangement should also be made for his secondment to the corporation to work as the Assistant General Manager (Resources) as proposed in the set-up on Page 4.

The Marketing section will assist him in doing the initial activities for setting up the corporation.

5.6 Advertisement should be made in few widely circulated Dailies & Weeklies in PNG, Hong Kong, Singapore, U.K and Australia to find a suitable General Manager of the Corporation.

Advertisement should also be made in PNG only to recruit other staff and officers. All appointments should be decided only after arrival of the General Manager.

- 5.7 A temporary bank account should be opened to transfer certain amount to meet the small expenses by the A.G.M. (Resources) for the corporation's work.
- 5.8 All other arrangements Office accommodation, appointment of other staff, transfer of fund, etc. should be made by the General Manager after his arrival in PNG.

M. N. Amer 5/4/83



# DEPARTMENT OF PRIMARY INDUSTRY OFFICE OF FORESTS

# **REPORT**

# FEASIBILITY STUDY ON THE TIMBER MARKETING CORPORATION AGENCY

CFTC PROGRAMME

M.N. Amin

# Feasibility Study on THE TIMBER MARKETING CORPORATION

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# SUMMARY

Feasibility Study on Timber Marketing Corporation

### 1. BACKGROUNDS

# 1.1 Present Status of Marketing

PNG timber marketing is unorganised and unsatisfactory. Industries are owned and controlled by the overseas companies, markets are too limited, exports are made through agents and brokers, species are all lesser known or unknown, MEP system is hardly worthwhile, prices are unreasonably lower, loss of revenue is heavy and finally, the conditions of the small and national timber companies are grave and alarming due to lack of marketing expertise and financial insolvency. Loss of foreign exchange has been estimated at K16.00 million (minimum) a year.

# 1.2 Importance of Forestry Sector

Forestry is one of the most important sectors of the economy which earned K62.53 million as foreign exchange, K2.00 million as timber royalty and K4.95 million as export duty in 1982. There were more than 10,000 people working in this sector. Forestry is the main source of employ ent, rural economic infrastructures and regional developments in many provinces.

# 1.3 A Commitment of the Government

With the provincialisation programme in 1978,
marketing service has remained as a delegated
National Government function to provincial governments,
its rural people and small enterprises. The Revised
Forest Policy has a commitment to establish a

Centralised Marketing Authority with the purpose of achieving the following objectives:-

- (a) Increase in national ownership and control,
- (b) Increase of Revenue,
- (c) direct export to end users,
- (d) diversify market,
- (e) promotion of lesser known species and
- (f) assistance to small producers.

The White Paper, Revised Forest Policy says that National Objectives of log exports "will not be met unless there is some direct selling of logs by a Central Marketing Authority" (P-43).

# 2. CENTRALISED MARKETING AUTHORITY (CMA)

There may be two alternatives of Centralised Marketing Authority - (A) appointment of an agent and (B) establishment of a Timber Marketing Corporation.

# (A) Appointment of an Agent

The Government may prepare a list of multinational timber companies and appoint one/two of those to buy and export PNG logs on behalf of the government.

# **Merits**

- (a) availability of ready market contracts,
- (b) no financial involvement, no risk of loss,
- (c) no botheration of staff recruitment.
- (d) no objection is likely from FIC/overseas subsidiaries in PNG.

#### Demerits:

- (a) objectives/interests of the overseas agent company will be different from those of the Governments,
- (b) transfer pricing may be authorised and widened.
- (c) the agent company may form cartel with other overseas companies in PNG; or receive no co-operation,
- (d) no real control on the policy and operations, no way to modify. It may proof just wastage of years.
- (e) no objection is likely from FIC/overseas subsidiaries, because they know it won't burt the system.
- (f) A number of overseas timber companies are already in operation in PNG under good agreements with the Government.

  Appointment of another overseas company may just be putting the old wine in a new bottle.

# (B) <u>Timber Marketing Corporation</u> The Government may undertake

The Government may undertake a 7-year market development plan and set up a Centralised Trading House 'Timber Marketing Corporation, (TMC) to assist the small producers and export their products at the best possible prices for the best interest of Papua New Guinea. With the progress in achieving the major targets, the ownership of the Corporation will gradually be

transferred to the small producers through the sales of shares.

The major responsibilities of the TMC will be to (1) organise the small producers into a one supply block and arrange for sorted and graded log shipment, end use species shipment, and direct export to end-users at the best available prices, (2) provide interest free short loans or arrange bank loans under TMC's guarantee, (3) supply actual market information to the Government to activate MEP system more effectively, (4) assist all FDCs in marketing thier products before and after the localisation of the management company, (5) undertake appropriate promotional measures for market diversification, promotion of lesser known species, reduction in middle-man stages, implementation of Government policy etc in the greater national interests.

The proposed TMC will charge only K2 per cubic metre from the producers either as sales commission or as gross charge from FOB/CIF prices which will be enough to (a) meet its entire expenses, (b) create a loanable fund for the small producers and (c) earn an average profit of K252,000 (gross) a year.

The setting up of the TMC will require K150,000 which should be provided by the Government as market development expenditure, as was the casc with the Fish Marketing Corporation. This amount will be withdrawn gradually from 4th operational year through the sale of shares to

the small producers. The amount will not bear any interest; the government will receive the corporation tax of K73,000 a year on average which should offset any amount of interest accrued from the paid up capital.

The establishment of the TMC will follow the same procedures of the Fish Marketing Corporation though its operational strategies will be different. The General Manager of the TMC will be hired from overseas for a term of three years. There will be other 5 members of the staff including an understudy General Manager, a log grader and an Accountant.

The TMC will operate as an autonomous commercial organisation free from government interference. However the policy matters should be coming from a Board of Directors comprised with the following public Servants:-

- (1) Director of Forests Chairman
- (2) Assistant Secretary, Trade
  Assistance Branch, FA&T Member
- (3) Assistant Secretary, Projects
  Finance Member

The General Manager and Assistant Gene<u>ral Manager</u> (understudy to General Manager) will be other two members of the Board.

TMC will operate as a Centralised trading house for the small producers and the FDCs. The monthly production of logs by the small producers together should form well over 25,000 cubic metres which should be the target base resource for TMC. All shipments will be organised centrally well planned with full loads of selected, graded and end-use species lots. Every emphasis will be given on CIF shipments using national log carriers. TMC will have its base camp at Rabaul.

Minimum export prices will be moved up or down on the basis of the prices received by TMC.

#### <u>Merits</u>

- (1) TMC will be a strong arm of the government to (a) implement governments policy for the best interest of the country,
  - (b) export at arms length prices,
  - (c) reduce underpricing (transfer prices),
  - (d) ensure promotion of lesser knownspecies, (e) diversify markets and(f) provide an active assistance to thesmall producers as their strong Centralisedtrading house.
- (2) TMC will assist in exporting FDC's products and develop a strong, efficient and independent system to provide security of profitable marketing in future when the managements of FDCs are partly or fully localised.

- (3) TMC will be able to supply actual Market information the Government assist activating MEP System most effectively.
- (4) No conflict of interests, no possibility of cartel, no chance of non-co operation.

### **Demerits**

- (1) TMC appears to have no technical demerits but an ordinary doubt of loss and profit. The financial viability of TMC has been studied carefully and there is no reason for its incurring losses. TMC will simply operate as a Central trading house (Marketing Agent) of the small producers and the F.D.C. It will manage the shipments of 24,000 m<sup>3</sup> of logs a month and receive a fixed charge/commission of K2 per cubic metre which will enable TMC to earn an average profit of K251,000 (gross) a year. The operation of TMC is simple and the internal rate of return (IRR) is so high that there is no chance of any loss, even/if run at a reasonable efficiency level.
- (2) Nonavailability of essential expertise
  may be considered as another hinderance.
  But it is again an unfound fact. TMC
  will operate simply as a Marketing agent
  with a total staff strength of six
  peoples. It will require only one
  expert General Manager who will be hired
  from overseas for a particular period to
  set up the system, start up the corporation

and train up his local counterpart. There are hundreds of timber businesses run by the overseas hired managers all over the world. In fact, all commercial enterprises are run by the hired managers, as all planes are flown by the hired pilots across the world. The marketing expert, (General Manager of TMC), may be hired comfortably through advertisements in Hongkong, Singapore and London.

There is every possibility that an expert General Manager will be promptly available at the proposed terms of benefits. All other 5 members of the staff may not be necessarily expert or experienced who are believably available in PNG without any difficulty, particularly at the proposed terms of benefits.

(3) The overseas timber companies based in PNG may protest vehemently through FIC against the establishment of TMC. The reasons are obvious and understood.

#### 3. FACTS AND CONSIDERATIONS

3.1 The facts of PNG Timber Marketing are no doubt, matters of grave concern - Prices are unreasonably lower, loss of foregin exchange is more than K16.00 million a year, species are lesser known, markets are extremely limited, national companies are too small, unorganised and

and deprived, both production and marketing are controlled by the overseas companies.

necessary more on national grounds. The jobs got to be done for national interests than for simple profit motivation. The jobs will be less attractive to any private company particularly to overseas companies who are more hanker after profits than anything else. It is unlikely that multinational companies will compete each other in one market for the interest of a third party – the country of Papua New Guinea. The birds of the same feather should flock together.

Any overseas agent/s appointed by the government, will get no regular business. The high cost of the multinational agent/s won't allow better price to the small producers. The profits of the potentialities will just be shared equally by all the overseas companies for their own interests. PNG timber marketing will continue to remain out of control and may go even worst.

- 3.3 How long should PNG depend on others' feet?

  The country needs its own independent and strong marketing body who must have a control over the supply of a larger volume of logs reasonably sufficient to ensure regular supply and export in end-use category. Emphaisis should be given on 4 conditions (a) strong body,
  - (b) independent marketing (c) large supplierand (d) desperate efforts on national grounds.

These conditions immediately reject the appointment of any multinational company to act as governments' agent/s. It is only the TMC which can be strong, independent, large supplier (organising the small producers) and work in the best national interests.

It is wrong to feel that all public enterprises are lossing money while all private enterprises are earning profits. It is also difficult to name any country where there is no business arm of the government. In a situation like PNG where there is no possibility of private efforts on national grounds, the government has no alternative but to undertake responsibility of creating the essential business arm for the purposes of safe-guarding the national economic interests.

All public investments are made for certain crucial objectives either to gain straight way or to minimise the total lossess. The purpose of establishing the TMC will be justified from both these viewpoints.

3.4 Finally, the establishment of the Timber
Marketing Corporation appears necessary for a
short period to ensure a big push to break
through the vicious situations and establish
a gainable marketing system for the small
producers' and the PNG timbers at large. While
the major objectives are achieved the ownership
of the TMC should be transferred gradually to
the small and member producers through the sale
of shares.

### . SUCCESS OF TMC

The success of TMC appears certain due to (a) its control over 25,000 M<sup>3</sup> of logs produced by the small producers a month, (b) graded and sorted (end-use category) shipment,

- (c) independent sales policy, (d) export to end-users
- (e) no high profit grips, (f) best terms of offer to the producers and the users, (g) capability of regular supply with reasonable volume of every species,
  - (h) confidence of all parties in TMC as the public enterprise,(i) single largest supplier of PNG logs,
  - (j) interest free credits/advance payments/loans-risk-undertakings,(k) strong and desperate promotional efforts on national causes.

### GAINS FROM TMC

- (a) TMC will be able to push up the price to an extent of 15-20%,
- (b) small producers will be organised, solvent and commercially stronger,
- (c) forestry sector will be able to contribute more to the national economy,
- (d) ensure rural and ragional development, increase employment, reduce rural crimes,
- (e) national log carriers will be developed
- (f) PNG timber marketing will be independent, wellorganised, efficient and regulated on national interests,
- (g) MEP system could be made more effective and worthwhile.

# FEASIBILITY STUDY ON THE TIMBER MARKETING CORPORATION

# Introduction

This brief study on the feasibility of setting up a Timber Marketing Corporation (TMC) in Papua New Guinea has been made in two Parts. Part 1 covered the discussions in general on the backgrounds, importance of the Forestry Sector, Present Status of the Log Marketing, National objectives, possible alternatives of Centralised Marketing Authority and the Facts and Considerations of Log Marketing in Papua New Guinea. Part 2 covered the discussions on the various aspects of Timber Marketing Corporation. Attempts were made to present the matters in short and simple.

The study was made primarily on the basis of statistical data and other relevent informations received through market reports and research. A Questionnaire form was circulated to the Provincial Forest Officers as well as Small Timber Enterprises. Personalised discussions were also made with some of the Independent timber companies, business elites and the Provincial Forest Officers. Some of the government departments (relevent officers/sections) were also consulted. All efforts were made to assess the independent opinions and incorporate the suggestions received from different sources.

The study was carried out in the months of September, October and November, 1983.

### Terms of Reference

This brief study on the feasibility of setting up a Timber Marketing Corporation has been done as a part of my job assignments with the Commonwealth Fund for Technical Co-operation (CFTC), following a formal request from the Government of Papua New Guinea through the Office of Forests and the Foreign Affairs & Trade.

The terms of reference required the preparation of a workable feasibility study and recommendations on the availability of resources for the proposed Timber Marketing Corporation (TMC), extent of underpricing (transfer pricing) practised in the PNG timber exports, problems of small timber enterprises, functions/role of TMC, operational status and other essential aspects of the Timber Marketing Corporation.

M N AMIN

#### PART ONE

#### 1. BACKGROUNDS

## 1.1 Revised Forest Policy

The White Paper, Revised National Forest Policy of 1979 suggested the establishment of a Centralised Marketing Authority (CMA) 'in order to ensure that both the short-term revenue benefits and the long term benefit of establishing a market base for the sale of processed wood products are obtained from the log export programme.' (Section 4.5, page 42). The Paper said that the objectives of promoting lesser known species and diversifying markets, and the longer time objective of forming a market base 'will not be met unless there is some direct selling of logs by a 'Central Marketing Authority' acting in the longer term interest of Papua New Guinea and its timber industry (P-43).

## 1.2 A commitment

Since the inception of the provincialisation programme as from 1st January 1978, marketing service has remained as a deligated National Government function to provincial governments. The National Government has commitments and a role to play in making essential marketing service available to its rural people and mainly to small enterprises. This commitment of the government has been put to action in many other areas while the timber sector is a long awaited areas calling for the urgent attention of the National Government.

4

# 2. IMPORTANCE OF FORESTRY SECTOR

## 2.1 Foreign Exchange

Forestry is the third largest foreign exchange earner after copper and coffee in Papua New Guinea. It earned K63 million, 12% of total national foreign exchange in 1982. Its a growing export sector which has maintained its annual growth rate of 26% on average over the last five years. This growth rate will continue and may be accelerated further with the increase in log export and the decrease in market recessions. (Table 7).

# 2.2 Local Revenue

Forestry is also an important source of revenue (local component) for the government. An amount of K2.0 million was collected as royalty and K4.95 million as export duty in 1982. In addition to all above, there are company taxes, import duties, various service charges and income taxes which made up a significant share of the public revenue. (Table 7).

# 2.3 <u>Employment and Regional Development</u>

Forestry is one of the major sources of employment and regional development in Papua New Guinea. There were as many as 10,000 peoples working in the different areas of Forest and Forest Industries in 1982. The timber industry is also facilitating the pace of rural and regional development through the establishment of basic infrastructure like roads, power, health centres, schools, churches, etc.

## 3. PRESENT STATUS OF MARKETING

## 3.1 Overseas ownership and control

The major timber companies in PNG are the subsidiary companies of the overseas parent companies who own more than 90% of the PNG timber industries and control the market. The logs are shipped to the parent companies who hold the key and turn it to their favour. The White Paper, Revised Forest Policy emphasised the need for increasing the national ownership and control. It is also understood, certain efforts were made towards these ends, but met with little success particularly in the areas of marketing.

## 3.2 Low prices

PNG Log prices are unreasonably lower than those of the other South Sea Logs. Let us have a look at the following price differences - (FOB in US dollars/ $m^3$ ).

		1982 MAY	1983 JAN	1983 JUN	1983 JUL	1983 AUG.
Sabah	*SQB	114.0	90,5	96.0	96.5	103.5
	* QB	111,0	86.0	94.0	94.0	100.5
	*LQB	104,0	81,5	88,0	88,5	92,0
Sarawak	SQB	111,5	82.0	84,5	86.0	91.0
	QB	105,0	76,5	79,0	80.5	84.0
Indonesia	SQB	122.5	92.0	101.5	102.5	107.5
	QB	115.0	86,5	96.0	97.0	102.5
	LQB	107,5	81.5	89,5	90.5	100.0
Philippines	SQB	165.0	119.0	124.5	122.5	122.5
	QB	155.0	101,5	108.0	106.0	111.5
Papua New Guinea	MIXED	**62.0	56.1	52.6	46.8	46.8

(Source - J.L.J, August 31, 1983, P-9).

\* Notes SQB - Super Quality Brand QB - Quality Brand

LQB - Low Quality Brand

\*\* Conversion Rate K1.00 = US\$ 1.32 (May/82)K1.00 = US\$ 1.17 (1983)

Shipping freight: Sabah-Japan - US\$  $21.0/m^3$  Indonesia-Japan - US\$  $26.0/m^3$  PNG - Japan - US\$  $28.0/m^3$ 

Assuming that PNG logs are all <u>Low Quality Brand</u>, let us compare PNG prices with the <u>lowest prices</u> of others Low Quality Brands. The C&F Japan Prices should be roughly calculated as below:-

	May/82	Jan/83	June/83	July/83	Aug/83
Sabah	125,0	102.5	109.0	109.0	113.0
Indonesia	133,5	107,5	115.5	116.5	126.0
PNG	90.0	84,1	80,6	74.8	74.8

From the price differences stated above it appears that all PNG logs are nearly good for nothing. thats not the real story. PNG logs are reasonably good, and definitely not inferior to others' low quality brands. There seems to be no acceptable reasons why all PNG logs should remain unknown or lesser known in the markets which are consuming these products over a long period. Many of the PNG species are fairly known and widely used for making .plywoods and furniture, Some of the PNGspecies like Walnut, Rosewood, Black Bean, Pencil Cedar, Taun, Kwila Calophyllum, Burckella, Basswood, Mersawa, Nothofagus, Terminalia, Erima, Celtis, Hopea, Dellenia, Amboroi, etc. which together from more than 75% of the shiploads, are fairly known and highly utility timbers. Some of them are

sometimes called world's best hardwood species.

PNG logs are not also so small in diameter as is often descriped. More than 60% of the exported logs were 60cm and larger, 25% were 50cm and larger and the balance 15% were below 50cm. It is notable that minimum acdeptable diameters under SLGR (South Sea Log Grading Rules) are 50cm for Prime Peeler Grade, 40cm for Standard Saw Log Grades and 30cm for Low Sawlog Grade. The shapes/forms and quality of PNG logs are, in general, reasonably good and fairly acceptable. There is no reason, therefore, why the prices should be so low, even so below the prices of other's Low Quality Brands.

What is the amount lost through the above underprices? It is really difficult to figure out the
actual amount, but a minimum amount can be
estimated assuming (a) all PNG logs are Low
Quality Brand, (b) maximum freight difference
of \$7.00 and (c) lowest FOB prices of other's
L.Q.B. (Sabah).

	May/82	Jan/82	June/83.	July/83	Aug/83
Lowest LQB	104.0	81.5	88,0	88.5	92.0
Freight Diff	- 7.0	7,0	<b>- 7.0</b>	- 7.0	- 7.0
us\$/m³	97,0	74.5	81.0	° 81.5	85
PNG actual FOB	-62.0	<b>-56,1</b>	-52.1	46,8	46.8
Lost $\$/M^3 =$	35.0	18.4	28.4	34.7	38.2
Volume (000/M3	x61,5	x89.8	x74.3	x67,2	x86.7
Million U.S. Dollar =	`2 <b>.</b> 15	1.65	2.11	2.33	3.31
Total Lost of K =	1.62m	111 1.41	1.80	1.99	2.82

Exchange rate K1.00 = US\$ 1.32 (May/82)K1.00 = US\$ 1.17 (19.83)

From the above study of 5 months, the lowest amount of the lost export value was K1.41 x 12 = 16.92 million a year and net loss of revenue from export levy (10%) was K1.69 million per year in addition to the loss of company taxes and other benefits. This the minimum but a lot more than enough to warrant the government of the grave situation.

# 3.3 <u>Lesser-Known Species</u>

All PNG timber species are intentionally called as 'Lesser Known Species' (L.K.S.) in the export markets. There were about 60-70 timber species exported during the last two years. Of these there are some species, namely Walnut, Rosewood, Pencil Cedar, Calophyllum, Taun, Kwila, Burchella, etc are not really lesser known in all export markets and there is good demand for such species at consumers level. But these species are all mixed up to call them lesser known species only to reduce the price at FOB level. L.K.S. is more a term than a fact for many of the PNG species.

## 3.4 <u>Limited Markets</u>

PNG log markets are limited to a few markets, mainly Japan and Korea. These two countries received more than 92% of PNG log exports during the past three years. Again, only a few buyers from Japan and Korea are controlling the PNG log markets. There were only 8-10 Japanese buyers in PNG compared to 130 in Sabah/Sarawak.

Volume of log exports was increased by an average rate of 25% over the past 5 years, but the exploration of new markets or new buyers was almost nil.

### 3.5 <u>Less Effective MEP</u>

The MEP system is less effective due to non-availability of factual market information and alternative buyers. Changes in log prices are frequent, and it is vertually impossible to know the actual market prices unless involved in the practical buying and selling. Time factor in processing MEP is also unfavourable.

MEP is the 'minimum' price, but most of the companies take it as the 'maximum' price and ship logs at MEP deliberately avoiding competitive prices. MEP system has become practically detrimental to the free competition and competitive prices.

# 3.6 Problems of Small Enterprises

There are as many as 22 small timber companies (whose annual production is less than 30,000 M3) operating in PNG whose problems are different from these of the big ones. These small enterprises, unlike the big ones, do have · money or the necessary expertise or any parent comapny abroad to assist them in marketing their products. They are placed at the mercy of the middleman agents both for money and markets. They have no alternative but to accept the monopsony prices which are often below the MEP. Most of these small companies are owned by the PNG nationals.

### 3.7 Ungraded Exports

PNG logs are exported as mixed species and mixed qualities, which is bound to attract no offers from the end users and lowest offers from the middleman agents. This sort of situation has allowed the overseas parent companies an extra advantage to exploit PNG resources at reduced prices.

It is notable that the Government has decided to implement South Sea Log Grading Rules (SLGR) from 1st January 1984. But there is doubts in the willingness of some big companies to sincerely co-operate with the government in doing it really.

### 3.8 Export of FDC Logs

Two Forest Development Corporations (FDC) were established and few others are in the pipelines. These FDCs will be wholly owned and managed by the national peoples in few years. Who will market the products of those FDCs when the present management companies leave? It does not appear sensible or economic to develope separate marketing expertise/units for every FDC. Centralised Market unit will be essential. economical and efficient to market the products of all the FDCs. Even at present, the marketing of FDC logs needs increased care and attention. Many a time, these FDCs are also selling through the middleman agents and the prices they receive do not appear to be 'the best'.

### 4. OBJECTIVES

## 4.1 National ownership and Control

It has already been said that PNG timber industry is overwhelmingly owned, managed and controlled by the overseas firms for their own interest. How long should this situation be allowed to continue? Resources belong to Papua New Guinea and hence these must be managed for the better interest of the country and the people. It is now a buyers market which got to be turned into a competitive market. But it is never an easy job. In a country like PNG, there is none to do this except the government who must play an active role to ensure minimum Control to turn the key of benefits to its favour.

# 4.2 <u>Increase of Revenue</u>

The Government of PNG requires increased revenue to fund the development projects. It is highly desirable to increase the revenue from the exploitation of their forest resources.

# 4.3 Diversify markets

PNG timber markets got to be diversified to ensure competitive prices over longer period. It is unlikely that the offshore companies will like to diversify markets for the interest of PNG. They must and first work for themselves for maximising their own interests. The government got to have an active role in this regard.

### 4.4 Promotion of L.K.S.

It has been said that all PNG logs are intentionally called Lesser Known Species. It is always expensive and least expected for an overseas private company to undertake desperate attempts to promote lesser known species unless and untill the government takes the lead and play a significant role in this matter.

# 4.5 Effective MEP

True Market information is a basic requirement for effective MEP system. And such a market information can be made available only through the active participation in the actual business.

# 4.6 Assistance to Small Producers

A Centralised Marketing Authority is all the more required to assist the small producers in marketing their products at fair prices. This is required not only to fulfil the commitment of the Central Government but also to ensure the survival of the small national producers for the better and long term interest of Papua New Guinea.

# 5. CENTRALISED MARKETING AUTHORITY

# 5.1 Appointment of Agent

The Government may select one multinational timber company and appoint them to export PNG logs. The interested companies having satisfactory competency may be asked to offer their terms and conditions to the Government. The government then select one company and negotiate the terms to sign an agreement for a period of 5-10 years.

### Merits:-

- (a) Ready market contacts will be available
- (b) Marketing expertise will also be readily available
- (c) No financial involvement by the government
   no risk of loss, no botheration for staff engagement.

#### Demerits: -

- (a) There will be serious conflicts of interests.

  Aims and objectives of the overseas

  companies will be in sharp contrast to those

  of the Government.
- (b) This may proof patronising one more overseas company to exploit unnecessary profits from PNG logs, and deepen the drain of foreign exchange leakage.
- (c) Once agreement is signed, the responsibility of log marketing will be left to the twist of the authorised agents. Having no real control on it the government will have no

way to retrack the company or modify their policy and practices, whenever necessary.

- there is the least possibility of acheiving the target objectives, because, the company is most likely to behave normally like every other expatriate company with their own man, money and overseas interests. Transfer pricing may in fact be widened and authorised.
- (e) It may join hands and form no-competition alliance with other overseas enterprises. Or, on the other extreme, it may not receive necessary confidence and co-operation from other timber companies.
- (f) No risk no gain. It may proof just a leap service and mere waste of years.

### 5.2 National Timber Marketing Corporation: -

A Marketing Corporation wholly owned by the Government may be set up in line with the present 'Fish Marketing Corporation'. might be working as a small timber company authorised by and responsible to the government for assisting the small and independent timber companies in marketing their logs. It might also arrange temporary commerical loans from the banks wherever necessary. It may operate purely on commerical basis with minimum profit in order to maximising producers interest. will compete with other buyers and offer It may buy competitive terms to the producers. directly from the producers and sell to the reputable importers/end users in the export markets; or it may assist in finding the suitable buyers, negotiate prices and arrange shipments on commission basis. It may undertake the pioneering tasks of timber exports to new markets, implementation of grading rules and promotion of Lesser Known Species. It may also supply reliable market intelligence to the government to make MEP system more effective and worthwhile.

#### Merits:-

(a) T.M.C. may be a strong arm of the government to (a) implement governments policy for the best interest of the country. (b) export at arms length prices, (c) reduce underpricing, (d) ensure promotion of Lesser Known Species, (e) diversify markets, and finally (f) ensure an active assistance to the small producers acting as their strong Centralised Trading house.

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- (b) It may assist exporting all F.D.C.'s products and develop a strong and efficient system to provide guarantee of profitable marketing in future when the managements of FDCs are partly or fully localised.
- (c) It may supply actual market information to the Government and assist activating MEP system most effectively.
- (d) It may increase the revenue of the government.

#### Demerits:-

TMC appears to have no serious demerits but minor difficulties. The success of the Corporation will depend largely on the efficient performance of the General Manager. It may appear to be a difficult job to find a suitable General Manager. But it is not an impossible task. There are hundreds of timber companies being managed profitably by the hired General Managers all over the world. The crux of the matter depends on how attractive the terms are offered and how the policy guidelines are set for TMC.

Initial funding of TMC may be a matter of hesitation but not a difficulty. The Government will have to spend a very small part of the money it receives from timber. Kina 150,000 is a too small amount compared to the objectives TMC aims at. The government is losing hundreds of thousands every year. There is no justification to allow this big losses to continue. It appears to be a little matter when the total

overseas control. It is more than essential to assist and patronise the small national timber companies to become organised, efficient and significant. Vigorous efforts are required to promote the lesser known species, diversify markets and ensure right prices. But these are not very easy tasks and there is no possibility that any other overseas company will truely do these jobs for the interest of Papua New Guinea. These got to be done by the government through its own strong business arms.

Nothing but the following measures will be able to increase the PNG log prices -

- (a) Shipment of graded and end-use lots
- (b) Regular supply and reasonable volume of every species.
- (c) Reduction of middleman stages
- (d) Real willingness, determination and desperate efforts to raise the prices supported by the above capabilities.

There is no chance for any other organisation but TMC in Papua New Guinea to qualify in the above requirements. These will only be possible for a Centralised Marketing organisation having desperate efforts on national sentiments to raise the prices not to maximise company profits but to achieve the national objectives.

There is of course a risk of loss, but all gainable ventures are risky. More the gains, higher is the risks. Moreover, national gains are boosted when the national losses are reduced. More attention should be given to the reduction of the loss of K16.0 million as export value and 1.6 million as government revenue every year.

Finally, TMC appears necessary for a short period to ensure a big push to establish a gainable marketing system and organise the small producers. While the major objectives are achieved, the ownership of the TMC should be transferred gradually to the small producers through the sale of shares. There should be no justification for the government to remain in the active business under the normal circumstances.

# OPERATION OF THE TIMBER MARKETING CORPORATION

# 1. ESTABLISHMENT OF TMC

The establishment of the Timber Marketing Corporation (TMC) should follow the same procedures of the present Fish Marketing Corporation although the objectives and the operational aspects of TMC will be different. A brief submission should be made to the National Executive Council through the Minister for Forests. On the approval of the submission a Board of Directors should be formed with the following public servants:-

- (1) Director of Forests Chairman
- (2) Assistant Secretary Trade Promotion, FA&T, Member
- (3) Assistant Secretary (Projects) Finance.
  Member.

The Board of Directors should meet promptly to work out the Service Conditions and other immediate aspects in accordance with the policy outlined in the approved NEC Submission. Soon after, efforts should be made to find out a suitable General Manager and other staff.

Advertisements should be made in the Far Eastern Economic Review (Hong Kong), Timber Trades Journal and Wood Processing (London), The Economist (London) and Asian Timbers (Singapore) for the General Manager, and Post Courier, New Guinea Nius and the PNG Times for other staff. On selection of a suitable candidate, the General Manager should be appointed first by the Board of Director. All other appointments should be made by the General Manager which should later be confirmed by the Chairman of the Board of Directors.

The General Manage. (G.M) and the Assistant General Manager (AGM) shoul be other two Members of the Board of Directors by virtue of their appointments. The General Manager of the TMC should be acting as the Member Secretary of the Board.

The regular meeting of the Board of Directors should be held once in every six months to review the situation. All expenses of the meeting, including hotel accommodation, airfare, local transport, etc. should be provided by the company as per present practice.

The Board of Directors should be responsible to run the TMC and TMC should be responsible to run the business. The TMC will operate as a limited company which will enjoy absolute autonomy in running the business in accordance with the policy set by the Board of Directors.

### 1.1 Staff Strength

TMC should run the business operations with the minimum staff strength shown below:-

- (1) General Manager (Expatriate for 3 years)
- (2) Assistant General Manager National understudy
- (3) Accounts Officer (National)
- (4) Log Grader (National)
- (5) Secretary Senior (National)
- (6) Secretary/Typist (National)

All positions, except the General Manager's should be strictly restricted to the PNG nationals. The position of General Manager should be opened to the expatriate for a period of three years. All appointments should be made on three years term with provision for extension. Provisions should be kept for necessary additions/

Alterations not only in the structural set up but also in the periodical limitations in order to meet the needs of the circumstances.

### 1.2 Project Period

The TMC should ideally be a seven years' project extendable up to 10 years during which its major objectives are most likely to be achieved. Depending on the scale of achievements the Board of Directors should be ready, ideally from the 4th working year, to withdraw the capital through the sale of shares to the small national producers. By the year 7. all shares should be sold out and the TMC should be owned by the national producers. case of unusual circumstances justifying the continuation of the presence of the Government, 50% of the shares must be sold to the small producers by the year 7. The maximum number of shares for any single producer should be restricted to a certain limit. Total number of the members of the Board of Directors should be increased to seven through the co-option of two representatives of the small producers. All the above conditions should be kept sufficiently flexible to meet the needs of the circumstances.

### 2. OPERATIONS OF TMC

2.1 Resources: - TMC should aim at making 3-4; shipments of 5-6,000 m³ a month on average, although it would require about 85,000 m³ a year with a nominal charge/commission of K2/m³ for its breakeven operations. There are as many as 22 small and independent enterprises (Ann are 5) producing more to

on three years

300,000 m<sup>3</sup> a year which will form the target resource for TMC. These resources will be available at competitive terms. TMC must develop a close and commercial relation with these small and independent producers and aim at working as their centralised trading house. It might come to an agreement with some of the small producers and draw up a regular supply schedule in addition to lot purchases.

There are two F.D.Cs at present producing more than 120,000 m<sup>3</sup> of logs a year. Few more F.D.Cs are in the pipelines (Annexure 6). The logs produced by the F.D.Cs may also be available to the TMC for exports.

In all cases, TMC will have to offer competitive terms of sale. It will have to compete freely with other agents and demonstrate commercial efficiency in every deals. The legal option of 25% by the company in their agreement with the Government, won't be dependable in practical business. Availability of resources will be directly related to the commercial competency only.

## 2.2 Base Camp

Most of the small producers are located in New Ireland, East and West New Britain, Solomon Islands, etc. TMC will, therefore, set up its main camp in Rabaul and operate from there like other trading agents. Rabaul has already been established a major trading centre providing all facilities for transport and communications. Most of the timber companies also established their marketing base in Rabaul.

T.M.C. should develop and maintain strong liaison with the Trade Assistance Branch of the Foreign Affairs & Trade, Office of Forests and the Forest Industries Council of Papua New Guinea.

# 2.3 Manpower

# General Manager

The total staff strength should be six including the General Manager who would be hired for a definite period of 36 months.

Since the success of the TMC will depend on the proficiency of the General Manager, he must be highly qualified and efficient with a proven career in the tropical timber trades. He must have thorough knowledge and ready market contacts.

General Manager of the TMC should be hired through advertisements in the major Economic & Timber Jourals published from HongKong, London and Singapore. It is very much desirable that an attrative package of benefits will be offered to attract the most efficient candidate.

Package of benefits - The package of benefits should include an annual salary of K35,000 plus a free furnished house and a company car. He should also receive a certain percentage of the after-tax profit as an additional incentive for successful operation.

Assistant General Manager: A.G.M. will be the national understudy officer to the General Manager. He must be a University Graduate preferably in Economics/Commerce/Forestry. He must have certain amount of commercial experience in public or private organisation. The package of benefit for A.G.M. should also be competitive. Provisions should be made for two packages - one for the understudy period and another for the after-take over period. The initial package should include a salary of K12,000 per year with a free furnished house and a fraction of after tax profit. The after-take over package should include an annual salary of K18,000 plus a company car and other benefits.

## Other Staff

There should be four other staff - one Accountant, one Log Grader, one Secretary and another Keyboard operator. Attractive remunerations should also be given to them with provisions for additional incentives:

# 2.4 <u>Incentives</u>

There should not be any hestiation to allow additional incentives to all the staff of TMC on its annual performance. It would be fairly reasonable to allow 10% of the after tax profit of the Corporation to the Staff members. The amount should be distributed in accordance with the proportion of their respective salaries.

## 2.5 Operational Constraints

2.5.1

Competition from other acents: establishment of TMC will be treated by other agents as a serious blow to their established monopoly business. They all will be united and leave no stone unturned to undo the operations of TMC. They might reduce their profit ratio uptenil, make full advance payments, offer interest free loans, accept more of the bad/ rejectable logs, ensure better dealings and offer higher prices to the producers and like to see the TMC die out of business. They might also be active in the selling market trying to create problems for the TMC in finding suitable buyer in Japan in particular. They might also protest vehemently thorugh FIC. However, these are all likely to continue over a short period. If they really offer better terms to the producers following the setting up of the TMC, then the major objectives should be considered attained. But the agents won't maintain these better terms for longer period due to their ultimate profit motivation. None of the agents would finally be able to compete with the TMC because of its (TMC's) lowest profit margin and highest FOB offer. TMC would be able to offer higher FOB prices due to (a) lowest profit margin, (b) reduced selling stages, and (c) sorted shipments.

2.5.2 Initial difficulties: Other operational difficulties might be associated with the initial establishments of TMC. Some of them would be (a) transport and communication, (b) information net-work (c) up-to-date statistics of production, (d) specified shipment, (e) reduction of middleman stages, (f) arrangement of shipment from different ports, etc. However, these tasks are neither impossible nor uncommon to TMC - these are very usual and equally applicable to all the existing shippers/agents. Once the system is established, things would become just a regular matter to follow up and continue.

Because of the above difficulties, TMC might have had its most difficult time in the first operation year. But the situations should be improved gradually and everything should be set aside by second and third operational years.

### 3. MAJOR FUNCTIONS AND RESPONSIBILITIES

- 3.1 To organise the national small producers into a one supply block and arrange improved shipment of the logs as their Centralised Trading house.
- 3.2 To assist the small producers in receiving loans/ credits, if required, from the banks providing necessary guarantee of re-payments.
- 3.3 To establish direct deals with the overseas endusers and reduce middleman stages for log exports.
- 3.4 To keep an up to date account of production of logs by volume and species and chalk out suitable programme for 'best shipment'.
- 3.5 To arrange log carriers, negotiate freight rates and undertake all other responsibilities of C&F/CIF shipment.
- 3.6 To assist the small companies in grading the logs and sorting the species for better presentation and end-use lot shipments.
- 3.7 To supply up to date and factual market information to the Government and assist in making MEP system more effective and worthwhile.
- 3.8 To assist all F.D.C.s, if required, in marketing their logs before and after the localisation of their managements.
- 3.9 Undertake necessary promotional ventures in co-operation with the Government and the timber industry at large.

3.10 To assist the government in framing and implementing the timber marketing Policy for the better interest of the producers and the government of Papua New Guinea:

### 4. MARKETING

- Policy TMC should endeavour to make improved shipments which mean a shipment to a new market or to a new buyer in the same country, or a shipment of selected species or a shipment of graded logs, or a shipment at higher prices for the small producers, or a shipment on C&F basis, or a shipment for market innovation, or a shipment for any other gainful targets.

  Presentation of logs must be improved to create better notions of PNG logs. It must aim at organising the small producers and maximising their benefits.
- channels TMC should aim at establishing direct channels of exports to the end users. It may not be possible initially for TMC to open direct channels to the end users, but must reduce the middleman stages to a minimum. It will buy directly from the producers and sell to the end users or to their immediate trading houses in the country of consumption. It may also act as a negotiator/broker between producers and the buyers or it may arrange and co-ordinate shipments on a certain commission basis.

Prices - TMC must offer a competitive price to get resources for export. It should benefit the small producers offering better prices by three ways - (1) Graded and sorted (end use lots) shipments (2) reducing middleman stages and (3) cutting down profit margins.

Presentation of logs is very important. At present, all PNG logs are exported in mixed species, mixed sizes and mixed qualities. the same logs are properly presented and the shipments are made with particular end use speices mix, prices are expected to increase by around 10%. The costs of presentation may be about 3% resulting in a net gain of 7%. Secondly, it has been observed that PNG log shipment involves serveral middleman stages for example, Channel Timbers Co. sells to Shin (Stage 1), Shin exports to the importers (Stage 2), the importers sell to wholesellers (Stage 3), wholesellers sell to the retailers (Stage 4) and retailers sell to the Mills, (Stage 5). Assuming that every stage of middleman earns a minimum profit of 3%, total amount of profit is 15%. Any reduction in any of the above stages should increase producers ' price by 3%,

If TMC can reduce even two stages, it should be able to increase 6% of the prices at producers level. Finally, the present rate of profits for the agents like SHIN or GAISHO is roughly 15% of the FOB value. TMC's profit rate will be limited to 5% so that it may pass rest of the profit on to the actual producers. The total net increase in the gains of the producers should therefore, be = 7% (from presentation) + 6% (from reduction

of two middleman stages) + 10% (from the reduced profit rate) = 23% in the present depressed market situation. This should enable the Government to increase the present FOB Level  $(42/m^3)$  by 15% at least. Assuming the present level of export  $(83,000 \text{ m}^3)$  per month) the total export value should increase from K3.48 million to 4.00 million, raising an export duty (10%) by  $(400,000-348,000)=\text{K52,000}\times 12=\text{K624,000}$  per year in addition to the increased company taxes. This is the smallest expected gains of revenue for the Government under the conditions of present depressed markets.

- 4.4 <u>Profits</u> TMC should be run on a minimum profit basis. It needs profits mainly for three reasons:-
  - (a) to keep standing on its own earnings,
  - (b) to carryout promotional activities and
  - (c) to create a loanable fund for the small producers.

Profit is not the ultimate goals for TMC; it is one of the means to the goals. Profit would be required only to carry out the jobs properly. It must work for increasing the profits of the producers and raise the total export value through the increased MEP. The charge/commission for TMC should be fixed at K2 only per cubic metre on FOB/CIF prices. It would increase its profits by increasing the volume of exports. (See cash flow statement on page 43).

#### 5. CASH FLOW (C/F)

The monthly Cash Flow of the TMC has been shown in the Table and yearly Cash Flow in Table-2. It shows the increasing Rate of Internal Returns which is the real test of the financial viability of the corporation. The following assumptions were made:-

- No shipment in first two months, one shipment each in the 3rd, 4th and 5th months, two shipments each in the 6th, 7th and 8th months and three shipments each in 9th, 10th, 11th and 12th months. Every shipment should be of 6,000 m<sup>3</sup>.
- A fixed amount of K2/m³ has been proposed to charge from the producers either as sales commission for the whole deal or as the gross charge from the FOB/CIF price. This fixed amount of K2/m³ for 21 shipments in the first operational year should make up an annual profit of K82,000. Any additional shipments should enable the TMC to increase the volume of total profit or to decrease the rate of gross charge/commission from the producers.
- Distribution of several cost items were shown 'equal' in every month; but practically this will not be the case. For example, transport costs will be higher in one month and lower in another. This might change the Cash Flow position by month, but it should not change the annual C/F position, because, the total mount of costs for one particular year should be fixed in the budget and the amount could be spent anytime during the year in accordance with the requirements.

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- House rents were shown to be paid quarterly. It is understood that there is a possibility of finding public houses for residential/office accommodation at Rabaul. In the favourable event, there would be less expenditure and more of the savings. However, in the eventof unavailability the estimated amount of expenditure should be enough to meet the hired costs. It won't affect the annual balance sheet of the corporation, should the amount is paid monthly, quarterly, six monthly or annually.
- 5.5 Most of the Office overhead costs would be required to be incurred in the starting month. So, costs for those items were shown made in the first month. An amount of K4,200 for power, telex, telephone and fuel costs were shown equally spent in every month. In assessing the costs for telex and telephone, it was expected that the TMC would make more use of talex than overseas telephone calls.
- 5.6 A provision was kept for K8,000 to be available on miscellaneous items to meet any shortage or to spent against an unspecified expenses.
- 5.7 All expenditures were estimated on constant costs basis.
- The paid up capital of K150,000 was assumed to come from the Department of Finance directly as the costs for Trade Promotion allocation, as was the case with the Fish Marketing Corporation.

  The amount should be regarded as the allocation for Trade promotion and be free from an interest or repayment untill the ownership of the

corporation is sold to the small timber producers by shares. Hence, the paid up capital has been shown non-refundable and non-interest bearing. However, the government would receive an estimated average amount of K85,866 per year from TMC as corporation tax which should well off set any amount of interest accrued from K150,000.

The paid up capital would be refunded through the selling of shares. It is suggested that 25% of the total shares be sold every year commencing from the 4th operational year to transfer 100% ownership to the small producers by the 7th project year. This must be kept flexible to the decision of the Board of Directors depending on the degree of achievement by the TMC to attain the objectives.

Loanable Funds: - TMC might require a certain amount of loanable fund for advance payment to the small producers. Some of the small producers are sometimes tied with the overseas agents for such loans or advance payment. TMC may not be able to break off such ties without certain amount of loanable funds.

The Cash Flow statement (Table 2) shows a minimum amount of K232,000, which increases over the years to K1,914,320. A lion share of this amount might be used as interest free loanable fund or advance payment. In case of bigger amount for any small producer, TMC would have to arrange with a bank acting as the guarantor for repayment from L/C received on account of log shipment by that particular producer. There should be an agreement between the producers and the TMC on the repayment of such bank loans with interests by the receiving

producer. TMC will not be required to pay any costs for such loans.

The Cash Flow position of the TMC would be much better in the coming years when there should be no need to go for bank loans. TMC should be able to provide interest free short loans to the producers from its own earnings. The loans/advance payments made by the TMC to the producers must be temporary and free of any interest charges. This is in part with the basic objectives of the establishment of the TMC to assist and patronise the small producers to become solvent and self-dependent.

#### SUCCESS OF THE TMC

The success of the TMC appears certain due to following reasons.

By organising the national small producers TMC 6.1 will have a control over 25,000 m<sup>3</sup> of logs for marketing a month. It was found from the record of the species summary that there were as many as 30-60 species of timber in one shipment. Considering the maximum number of species, volume of each species should be  $25,000 \div 60 = 416,666 \text{ m}^3$ of each species on average. Practically, there will not be an even distribution; some species should have bigger volume and some smaller volume. In any case this will enable the TMC to make sorted shipment of few high volume speices destinated to either Ply Mills or Saw Mills or Furniture and Packaging Mills. There should not be ar" difficulty to find an end-user buyer wit minimum volume of 100 m<sup>3</sup>. TMC will play and role of a Centralised Trading House and perform exactly the same roles as the wholesellers in Japan do

This will require TMC to establish direct dealings with the end users or the retailers and arrange CIF shipments. Following reduced log exports by Indonesia, lots of log carriers are looking for business on long term arrangement for carrying logs from PNG. Moreover, it is learnt that, few, PNG national log carriers are also available. A long term (yearly basis) arrangement with any shipping lines is likely to reduce freight costs and demurrage claims. The ships will take part loads from few different ports as is being done at present. TMC will also be able to ensure full loading of the vessels from the minimum number of the nearest loading ports due to its control over 25,000 m<sup>3</sup> of logs every month.

- TMC, being a public enterprise, will enjoy more faith and confidence from the producers, bankers and the buyers. This faith and confidence will facilitate TMC's business operations over any other company.
- By organising the small national producers, TMC will become the single largest supplier of PNG logs. This will enable TMC to influence the market and carryout the desperate promotional activities through practical operations.
- for raising PNG log prices. These are (i) better presentation and sorted shipments, (ii) regular supply and minimum volume of every species and (iii) real willingness and desperate promotional efforts backed by supply capabilities. TMC looks to be qualified to meet all these essential requirements.

offerings the best terms of sales due to (a) its lowest profit margin (fixed charges of K2/m³ only), (b) Sorted and graded shipments, (c) interest free loanable funds or payment in advance, and (d) Bank guarantee services.

#### 7. GAINS FROM TMC

- 7.1 Revenue: TMC would be able to push up the FOB prices to an extent of 15-20% which should increase the export earning by a minimum of 6.24 million showing an increase of government revenue by at least K624,000 a year, in addition to company taxes and other associated incomes. This increase of the export earning and government revenue has been estimated on the basis of the present level of export depending on the present market conditions.
- 7.2 <u>Small Producers</u>: The small producers will be the highest beneficiaries. These small producers would find a competitive market and better prices for their products which should enable them to be more organised, financially solvent and commercially stronger.
- 7.3 The Forestry Sector would be able to increase its earnings and contribute more to the governments. This would make forestry activities more important and attractive to the people and the governments for further investments in the trees and the timber industries.

- 7.4 Regional development would be accelerated through the development of the rural small timber companies. More people would get jobs and find better way of living which would subsequently reduce rural crimes and ensure political stability.
- 7.5 The tree growers and the landowners would find their resources properly priced. This would increase their satisfaction, earnings and welfare.
- 7.6 The operation of TMC would assist the establishment of a PNG National Log carriers shipping lines which would mean an expansion of forestry benefits to other sectors of the economy.
- 7.7 PNG timber marketing would be more organised and fairly regulated for the benefits of PNG government and the people. It would break off the vicious ties of the present marketing system.
- 7.8 <u>MEP system</u> could be made more effective and worthwhile through the actual market information supplied by the TMC.

#### 8. COST CENTRES (1ST OPERATIONAL YEAR)

#### A. Salary & Houses

		Salary		House Rent Ceiling
(1)	General Manager	K35,000	-	к 6,000
(2)	A/General Manager	12,000	-	5,000
(3)	Log Grader	9,000	-	4,000
(4)	Secretary Sn.	6,000	-	2,400
(.5)	Secretary Jn.	5,000	-	2,400
(6)	Accountant	11,000	•	4,000
		K78 000		K23 800

# B. <u>Travelling Expenses</u> (Annual)

fre er ads

Overseas: ----- K17,100

Three trips to Japan, Korea, Taiwan, Round trip Air fares =  $K1,500 \times 3 = K4,500$ 10 days in each Country  $\times 3 = 30 \times 3 = 90$ 

Dom!

Total K28,000

Re fo Office n ld ) = '(

Di ce innitur

Di te: machi

Che hocopy i il

Two Trice riter --- 1,100 x = 2,200

One Office Jeep/Car 8,500

Fuel, Power, Telephone, Telex, etc 4,200

Two Air Cooler 2,000

\* Stationary Items 700
Total = 32,200

D. Miscelleneous Items ----- 8,000

### ABSTRACTS OF COSTS

1.	Salary	•	K 78,000
2.	Houses		23,800
3.	Travelling Expenses		28,000
4.	Office Expenses		32,200
5.	Miscelleneous		.8.,.000
		TOTAL =	K170,000

# 9. COST CENTRES (2ND OPERATION YEAR)

<b>A.</b>	Company tax (35%)	к 28,700
В.	Staff incentive Bonus (10% of after tax profit)	5,330
c.	Salary of the staff Housing accomodation	78,000 23,800 101,800
D.	<pre>Travelling Expenses:-  * Overseas * Domestic</pre>	20,000 20,000 40,000
E,	<pre></pre>	6,000 1,000 8,000 1,000 5,000

F. Miscelleneous Items K	8,000
--------------------------	-------

# COST ABSTRACT

		TOTAL =	K204,830
F.	Miscellenous		8,000
E.	ffice Overheads		21,000
D.	"ravelling expenses		40,000
C.	Salary & Houses		101,800
B.	Staff incentives	2	5,330
Α.	Company tax		K 20, 100

MONTHS	M-1	M-2	M-3	M-4	M-5	M-6	M-7	M- 8	M-9	M-10	M-11	M-12
BALANCE FORWARD		106,201	96,352	98,503	94,704	96,855	111,006	119 ::7	133,358	159,509	179,710	205, 561
INCOME Paid up Capital Sales Commi- ssion/profit. (K2/M3)	150,000	106,201	12,000	12,000	12,000	12,000			12,000 12,000 12,000	12,000	12,000	
TOTAL INCOME (A)	150,000	106,201	108,352	110,503	106,704	120,855	135,006	143 : 7	169,358	195, 509	215,710	241,861
EXPENDITURES Salary Houses Travels Office Overheads Miscelleous	6,500 5,900 2,333 28,350 666	6,500 - 2,333 350 666	2,333 350	5,950 2,333	6,500 - 2,333 350 666	6,500 - 2,333 350 666	6,500 5,950 2,333 350 665	6 E10 2 1.3 110 116	6,500 - 2,333 350 666	6,500 5,950 2 333 350 666	2,333 350	- 2,333 350
TOTAL EXPENDITURES (B)	43,799	9,849	9,849	15,799	9,849	9,849	15,799	9 :- 3	9.849	15.799	9,849	9,849
BALANCE (A-B) C/F.	106,201	96,352	98,503	94,704	96,855	111,006	119,20	133 ::=	159,509	1-9,710	205,861	232,C12

Year	1	2	3	4	. 5	6	7
INCOME B/F	150,000	232,000	459,170	749,095	1,036,977	1,330,707	1,622,010
Sales Commission/ Charge	252,000	432,000	576,000	576,000	576,000	576,000	576,000
Total - (A)	402,000	664,000	1,035,170	1,325,170	1,612,937	1,906,707	2,198,010
Expenditures (B)	170,000	204,830	286,075	288,118	282,270	284,697	283,€
Cash Flow (A-B) C/F	232,000	459,170	749,095	1,036,977	1,330,707	1,622,010	1,320

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	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Salary & Houses	101,800	101,800	118,800	84,800	84,800	84,000	84,000
Travelling	28,000	40,000	40,000	40,000	40,000	40,000	40,000
Office Overheads & Maintenance	32,200	21,000	25,000	35,000	30,000	30,000	30,000
Company Tax	-	28,700	79,509	101,473	100,758	102,805	101,956
Staff incentives		5,330	14,766	18,845	18,712	19,092	18,93
Miscelleneous Items	8,000	8,000	8,000	8,000	8,000	8,000	8,000
TOTAL K =	170,000	204,830	286,075	288,118	282,270	284,697	283,690

# PROFIT AND LOSS ACCOUNT

Table 4

Year	1	2	3	4	5	6	7
INCOME (A) Fixed Charge/ Commission of K2/M <sup>3</sup>	6000x21x2 =252,000	6000x36x2 =432,000	6000x48x2 =576,000	6000x48x2 =576,000	6000x49x2 =576,000	6000x48x2 =576,000	6001 <b>x48</b> x2 57€ 000
Extenditures (B)	170,000	204,830	286,075	288,118	282,270	284,697	283 690
Profit A-E	82,000	227,170	289,925	287,882	293,730	291,303	292 310

# SMALL & INDEPENDANT TIMBER PRODUCERS

Provinces/Companies	Level of export (1982) (cubic metres)	Export Agent/s	Remarks
E.N.B.			
Central Pomio Logging	42,600	Shin/Gaisho	
Austin & McCarthy	6,700	Gaisho	
Gaulim Logging	6,200	Shin	
Timbersales	12,600	Shin	
Richard Gault	3,500	Shin	
South Coast Logging	4,700	-	
Gazelle Timbers	6,500	-	:
Sub-Total	82,800		·
W.N.B.			
C.M. Ulamona	25,400	Shin	
Peninsular Logging	13,700	Shin	
Tilnya Lilnya	1,500	=	
Sub-Total	40,600		
New Ireland			
New Ireland Enterprise	4,100	Gaisho	
Matimba Dev. Co.	2,200	Shin	
Channel Timbers	35,100	Shin	
Danfu Logging	38,400	Gaisho	
Leytrac Pty Ltd	2,700	-	
Sub-Total	82,500		
North Solomons			
Buka Mobil Mill	9,000	Shin	
Sub-Total	9,000		

Milne Bay			
Woodlark Is. Dev. Corp.	50,100	Shin	
Ulabo Timber Company	48,900	Sumitomo, etc	F.D.C.
Sub-Total	99,000		
West Sepik_			
West Sepik Dev. Corporation	9,800	-	-
Vanimo Timber Company	14,400	-	
Sub-Total	24,200		
Other Provinces			,
Wewak Timbers (Madang)	26,100	-	
Kumusi Timber (Co. (Oro)	74,300	Sumitomo	F.D.C.
Wawoi Guavi Company (Western)	8.400	_	
Kuruti Dev. Corp. (Manus)	6,500	Shin	
Amazon Bay Sawmill (Central)	4,100	-	
Sub-Total	119,400		
GRAND TOTAL =	457,500 M <sup>3</sup>	and the summer	

# FORESTRY DEVELOPMENT CORPORATIONS (FDC) PROGRAMME.

Area	Province	Study	TRP	Start
. Manus	Manus	Complete	1983	1984
onolei	N.S.P	Complete	Complete	1984
nboi .	Morobe	Complete	Complete	1984
. Magarida	Central	1983	1983	1984
ilala	Gulf	1983	1983	1984
Gasmata	W.N.B.	1983	1984	1985
ngoram	E.S.P	1983	1984	1985

Source - Office of Forests (31/5/83)

Table 7

# Forestry Export Earnings & Direct Revenues

Year	Export Value (Million K)	Royalty Paid (Million K)	Export Duty (Million K)	Remark
1976	21.92	1.18	0.90	
1977	23.31	1.11	1.10	
1570	۵۰.54	1.18	1,20	
1979	36.73	1.11	2.10	`
1980	48.84	1,46	3,10	
1981	44.99	1.30	3.10	
1982	62.53	2.0	4.95	· ·

Source - Office of Forests

#### INDEPENDENT STATE OF PAPUA NEW GUINEA

#### "CONFIDENTIAL"

MINISTER FOR FORESTS FILE: 377-1-2/3-2-2

**DATE: 9 JULY 1984** 

POLICY SUBMISSION NO: ...../84

FOR MEMBERS OF THE NATIONAL EXECUTIVE COUNCIL

# APPOINTMENT OF A STATE MARKETING AGENT FOR EXPORT OF PAPUA NEW GUINEA LOGS

#### A. PURPOSE

To seek the approval of the National Executive Council for the appointment of a State Marketing Agent for export of Papua New Guinea logs.

#### B. FACTS AND CONSIDERATIONS

## 1. Backgrounds

Revised Forest Policy: The White Paper Revised National Forest Policy 1979 recommended the creation of a Central Marketing Authority to promote the use of Papua New Guinea's so called lesser known timber species, diversify markets and sell directly to end users rather than through intermediaries. During the last few years much discussions had taken place on this matter, particularly on the question as to what form the Central Marketing Authority should take. Several options such as the establishment of a Log Marketing Corporations or Join - Venture (State and Foreign Company), and appointing an agent including the Forest Industries Council have been considered. It was decided early this year that the option to appoint an Agent is appropriate at least as a start.

Present Status of Log Exports: Log is the main item of the exports of Forestry products and one of the significant sources of foreign exchange, national employment, economic infrastructure and regional developments. It has earned K44.05 million worth of foreign exchange in 1983 which

contributed 7% of the national foreign exchange earnings.

Total volume of logs exports was 1.01 million cubic metres in the same year showing an average annual growth of 23% over the past five years.

Papua New Guinea is currently one of the major exporters of South Sea Logs (SSL). But the export marketing of Papua New Guinea logs is not at all satisfactory. Average FOB prices of Papua New Guinea logs are far below those of other South Sea Logs produced by Indonesia, Malaysia and the Philippines. Papua New Guinea timber industry is largerly owned by the Subsidiaries of the Overseas principal Companies who dominate and control the export markets.

Local and National timber Companies are small and disorganised lacking necessary marketing expertise.

All PNG logs are exported through a chain of middleman agents and transfer pricing undeniably takes place resulting in a significant loss of foreign exchange, taxation revenue and export duties.

#### 2. Objectives

The ultimate objective of having a State Marketing Agent is to improve the export marketing and achieve higher prices for Papua New Guinea logs by improving the elements of competition in buying and selling through independent efforts and efficient performance. In order to achieve these goals, the following objectives are set for the appointment of a State Marketing Agent.

- (i) Selling directly to end user rather than through intermediaries.
- (ii) Assisting the Small and local producers in all aspects of log marketing (providing information, finding buyers, negotiating prices, co-ordinating shipments, etc).
- (iii) Exercising the State's right of first refusal of offer for export of 25% of log exports of timber Companies on behalf of the State.
- (iv) Assisting the Government in supplying market intelligence for efficatively maintaining the minimum guideline prices.
- (v) Diversify markets and promote the use of PNG lesser known species.

# 3. Policy Operations

- The State Marketing Agent will exercise the States right of first refusal of the export offer for 25% of log export volume of any company in accordance with the terms of agreement. While no legal claim will be applicable to other 75% of the logs, the State Marketing Agent will however be allowed to compete freely like any other buyers to purchase the logs at better/competitive/acceptable prices purely on free commercial principles.
- (ii) The State Marketing Agent will bear the entire responsibility of total investment fund. The state will not bear any financial responsibility in any form for any transactions. The financial account of the agent company be subject to normal audits and inspections similar to any other timber company operating in PNG. The loss and profit of the business operation will be an absolute right and responsibility of the agent company.

# 4. Appointment procedures to be followed

The project guidelines were prepared (annexes - 1) on the basis of the major objectives and policy operations as outlined in sections B-2 & 3 of this Submission. An international tender will be floated in the appropriate media inviting offers from the companies/organisations having practical experiences and present market contacts in the export of tropical hardwood logs. Copies of the tender will also be distributed to well-known timber companies and Papua New Guinea trade Missions abroad for wide circulation. All offers received will be scrutinised in the light of the project guidelines and the best offer (closest to the guidelines) will be selected for negotiation and agreement.

# 5. Anticipated Benefits

- (i) FOB prices of PNG logs are expected to be increased by an extent of 10-15% on current prices due to break off in export cartel, reduction in middlemen stages, and co-ordinated exports.
- (ii) Transfer pricing will be reduced to a reasonable extent through the vigilant performance of the State Marketing Agent in the major markets, notably Japan, Korea, Taiwan and Hong Kong.

  Independent and competitive offers will be made available in those markets with advantages of direct purchase and direct

shipments from PNG producers.

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- (iii) The State Marketing Agent will supply improved market information which will assist the MEP (Minimum Export Price) exercise to be more factual and effective.
- (iv) The Small and national producers will benefit from the State Marketing Agent in the areas of market intelligence, price negotiation and co-ordinated shipment.

# C. VIEWS OF OTHER MINISTERS

#### D. FINANCIAL IMPLICATIONS

There will be no financial involvement of the Government in the business operations of the State Marketing Agent. However, in the event of necessity for additional stimular for promotional purposes, the government may have to undertake certain expenditures through its Agent.

- E. STAFFING IMPLICATIONS
  Nil
- F. <u>LEGISLATIVE IMPLICATIONS</u>
  Nil
- G. CONSTITUTIONAL IMPLICATIONS
  Nil
- H. POLITICAL IMPLICATIONS
  Nil

# I. PLANNING IMPLICATIONS

State's right of first refusal of the offer for the export of 25% of log export volume of any company will have to be reviewed and amended to make the offer more suitable for practical execution.

# J. <u>DECENTRALISATION IMPLICATIONS</u> Nil

# K. PREVIOUS POLICY REFERENCE

The present Submission is made with reference to section 4.5 of the White Paper - Revised National Forest Policy, 1979 which recommended the Creation of a Central Marketing Authority for direct selling of logs, diversigying markets and promotion the use of so called lesser known species.

#### L. RECOMMENDATIONS

It is recommended that approval be given for the appointment of a State Marketing Agent through the following steps:-

- (i) Calling of International tender
- (ii) Selection of the offer by the Minister for Forests.
- (iii) Negotiation leading to draft agreement.
- (iv) Final approval by the NEC for signing of the agreement.

LUCAS J. WAKA Minister for Forests

#### PROJECT GUIDELINES

#### STATE MARKETING AGENCY

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ANNEXE - 1

#### 1.0 INTRODUCTION

Papua New Guinea is currently one of the growing exporters of South Sea Logs (SSL). But the export marketing of Papua New Guinea logs are not at all satisfactory. Average prices of Papua New Guinea logs are far below those of other South Sea Logs produced by Indonesia, Malaysia and the Philippines.

PNC Timber Industry is largely owned by the subsidiary companies of the off-shore parent companies who dominate and control the export markets. All PNG logs are exported through a chain of middle man agents; the small and national producers are disorganised, markets are tied to a fixed and limited buyers and there is lack of independent efforts in imporving the prices. Transfer pricing appears to be a common practice resulting in a substantial loss of foreign exchange, taxation revenue and export duties.

Market information is inadequate and the MEP system is not properly effective. There is need for desperate efforts for promoting the export markets and raising the prices to a competitive level.

In view of the above circumstances, the government of Papua New Cuinea, following a recommendation in the White Paper - Revised National Forest Policy 1979, intends to appoint a State Marketing Agent for the purposes of selling directly to end-users, diversifying markets, promoting the use of so called lesser known species, assisting the small and local producers in experting their logs and supplying market information to the government for effective execution of the minimum export price system.

Į b .

- 2.1 Buying of logs from the producers and exporting directly to the end users/best buyers in the consuming countries in open competition with all other log buyers in PNG.
- 2.2 Exercising of State's right of first refusal of offer for export of 25% of log export volume of the agreed companies on behalf of the State.
- 2.3 Assisting the State in receiving actual market information and improving the minimum export price (MEP) system.
- 2.4 The agent company may also operate as an export agent of any enterprise on the basis of a sales commission.
- 2.5 The State Markting Agent will assist the small producers by supplying market information, finding buyers, negotiation prices, and co-ordinating shipments as the centralised trading house.
- 2.6 The elect complay will not be allowed to export to a country via another country. All export deals should be made directly in the country of destination The letter of Credits (L.C.) should be processed directly from the consuming country to Papua New Guinea.

# 3.0 PERIOD OF CONTRACT

The initial period of Contract will be three years from the dated of signing the agreement.

The performance of the Agent Company will be reviewed and the period of contract may be extended for another term of years on mutual agreements.

#### 4.0 EQUITY OF THE GOVERNMENT

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The Government will not take any equity in the project in the intital period. However, government may consider taking equity in this agency in the future.

#### 5.0 SURMISSION OF OFFER

All submissions of offer should contain the following information about the Offerer:-

#### 5.1 General

- (a) Full name
- (b) Country of in Corporation
- (c) Type of business organisation e.g. sole trader, partnership, business group, proprietary Company, public company, statutory authority, association, informal group.
- (d) Postal address
- (e) Telephone number
- (f) Telex number
- (g) Cable address

# 5.2 Share Holding Structure

- (a) Authorised capital
- (b) Paid-up capital
- (c) List of major shareholders, with detail on their names, Nationality, Country of Residence, Classes of shares, Number of shares, precent of total and total value.
- (d) List of directors and principal officers with details of curriculum vitae/bio-data.

# 5.3 Financial Worth

(a) Provide the name(s), address(es) and telex number(s) of the Offerers banker(s).

(b) Provide audited financial statement for each of the past 5 year (or Annual Reports to shareholders). If the Offerer is part of a group, the Officer's consolidated accounts should be submitted as a seperate attachment.

### Proposed Activities

5.7

Details should be provided on the plan of activities to be undertaken should the Offerer be selected as the State Marketing Agent.

- (a) Plan of business establishment including staff arrangement
- (b) Flan of shipping arrangements and co-ordinatic
- (c) Plan of sales arrangements
- (d) Plan of market information collection and distribution
- (c) Plan of financial managements, projected capital investment, turnover and profits.
- (f) Any other activities relevant to the operation of the PNG State Marketing Agency.

# 5.5 Past Experience and Current Commitments in the South Sea Log (SSL) trade.

- (a) Dated of establishment of business organisatio
- (b) Detail of past experience and current commitments in SSL trade, both within PNG and overseas as these are relevant to its ability (Technical/Managerial/Marketing experience and expertise) to carry out the proposed activities detailed in Section 5.4.
- (c) Petail the relevant experience of associated persons who would be involved in the activitie detailed in Section 5.4
- (d) Detail the involvement in PNG log trading including commanies associated with.
- (e) Detail of market information net work
- (f) Detail of processing arrangements by the

(g) Detail involvement in the promotional activities for SSL.

#### 5.6 Affiliates

- (a) For each company which is a subsidiary or an affiliate of the Application provide information under the same headings (5.1 to 5.5) as that pertaining to the offerer.
- chart outlining the relationship between the Offerer and its affiliates. This may be contained in the Offerers annual report if a public company. This will be sufficient unless the subsidiaries are actually carrying on related activities.
- (c) Detail what role(s), if any, the affiliate(s) will play in the proposed activities detailed in Section 5.4.

# 6.0 SELECTION

Following examination of these informations by the State the Minister for Forests will select the most suitable offerer

# 7.0 CORRESPONDENCE

All correspondence should be addressed to:-

The Director
Office of Forests
P O Box 5035
PCROKO

Panue New Cuinea

Telephone: 25 4022 Telex : NE 22560 The Minister for Forests
Ministry of Forests
P O Box 5055
HOHOLA

GEG/DSA

Dear Minister,

#### STATE MARKETING OF LOGS

- I refer to my previous submission to you on this matter.
- I have circulated the enclosed memorandum to all members of the Council and the Chairman has directed that this matter will be discussed by the Council at its meeting on 26 July.
- I hope that this will be in good time to ensure input into the submission being prepared by the Office of Forests on the matter.
- Like the introduction of log grading, I am aware of resistence from certain parts of the industry to the introduction of this State Marketing, there is always an inbuilt opposition to any change from some sectors of the industry.
- If changes are designed to bring a better return to the company and to Papua New Guinea, and if they are practicable I would normally assume that protests are not in the best interests of PNG but are designed only to favour particular persons or companies making the protests!
- I am not sure that the Office of Forests realises the sensitivity of the log export market and how easy it is to disrupt trade and to upset buyers who want to see steady trading with guarantee of supply. It is essential that nothing is done to destroy buyer's confidence in the market.
- If it is intended to advertise internationally for an agent to market the government 25% log export rights I am convinced this would deeply upset the market because buyers would become uncertain as to continuity of supply and as to what company they would be forced to buy the logs from in the future. It would be unacceptable to many companies to buy from or through their competitors. I believe the system must rely on goodwill from the producers and goodwill from the buyers, it is essential that any state sales introduction be done quietly and without alienating

the buyers.

80.

These are my opinions only and following the debate by the Council at its meeting on 26 July I will inform you of the policy decision of the FIC in the matter.

Yours faithfully,



G E GRESHAM EXECUTIVE DIRECTOR

Encl



# FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

P.O. BOX 3498 PORT MORESBY
U.N.D.P. BUILDING ELA BEACH PORT MORESBY
PAPUA NEW GUINEA

Phone: 214553

214627

Telax NE 22226 CABLES: FORINCOU 100

Re: Government Policy Submission for:

APPOINTMENT OF A STATE MARKETING AGENT FOR EXPORT
OF PAPUA NEW GUINEA LOGS

Minister for Forests
File 377-1-2/3-2-2 of 9 July 1984

This document was passed by the Minister for Forests to the Forest Industries Council of Papua New Guinea for comments and suggestions.

For the sake of clarity it is proposed to comment briefly seriation on the policy submission document and then finally to recommend amendments and/or alternatives.

Page 1. No comments.

#### Page 2. Paragraph 2 Objectives:

(1) Almost all log (and most timber products) marketing worldwide, not just from PNG, is carried on through a marketing and distribution chain. Although there has been in recent years a tendency, especially for processed timber, to by-pass one or more links in the marketing chain, this has not had significant effect on South Sea log selling and has largely consisted of selling countries setting up their own distribution arrangments for processed timber within buying countries.

It is highly unlikely that state marketing arrangements for PNG logs will have any real effect on making direct log sales to end users.

There are several major factors:

a) Most parts of the marketing chain provide some essential service such as:

Provision of finance to the producer

Provision of finance to the buyer

Guarantee of supply continuity to the buyer

Protection of buyer on quality

Distribution of different species to different buyers

Guarantee to sellers of payment

Provision of finance is probably the most important aspect.

Most importers in most countries rely on credit provided by the agent or middleman. This is usually by way of Bills of Exchange which give 30-60-90 or even 120 days credit before the buyer has to settle up for the goods.

For PNG's mixed species distribution is also a major factor as the number of reliable end users willing and able to take whole shiploads of mixed logs is very limited. The normal distribution chain takes care of this by sorting and distributing logs in smaller lots to a larger number of wholesalers and end users.

In fact, for example, in Japan the distribution of foreign logs is simple:

Importers - Wholesalers - Sawmills (or Plymills)

The report of "Japan's Timber Consuming Industries 1983" says 94% of foreign logs go through this distribution format and 58% go to sawmills through wholesalers and 36% direct from importers to sawmills, though in this case the importer incorporates also the wholesale function. Also the number of timber importers into Japan has increased from 140 in 1970 to 330 in 1980 and the share of imports by the large companies, the so called Sogo-Shosa, has reduced to 44% from the previous 68%.

The real objective should be to stop transfer pricing.

A State Marketing Agency (SMA) will not stop others transfer pricing, which is carried out by producers or agents re-invoicing through their own or associate agencies, and has little or nothing to do with the distribution chain.

- Paragraph 2 (ii) See comment below in respect of (v).
  - (iii) No comment.
    - (iv) No comment.
    - Diversifying markets is another unlikely event. Presumably the SMA will have tendered competitively and will expect to make profits. Diversifying markets is very costly in promotional time, effort and expenses. It is questionable how much profit the SMA will forego in order to diversify. The same criteria apply to assisting small producers this is costly and often time-wasting and unproductive for an SMA wishing to make profits.

In addition, when introducing new products (species) to new outlets, buyers expect "introductory" prices - i.e. lower prices. Since the whole concept of state marketing appears to rest on the SMA being able always to obtain higher prices this objective appears incompatible with the proposal.

#### Page 3 para 3 Policy Operations

(i) It is understood the government has not yet devised the method for exercising the rights of first refusal for the 25% of log export volume (see page 4,I Planning Implications). This is likely to be the major problem area of the scheme and the viability of the whole system rests on this, eg if producers are not highly cooperative and the method (and the agent) considered acceptable and practicable there is no possibility of the state marketing being established.

It is just not sensible to go out to international tender without first determining how the log supply is to be arranged. No reputable tenderer could make a realistic appraisal or offer unless the supply factors are very clearly laid down.

(ii) No comment.

#### para 4 Appointment Procedure

See (i) above. Also: putting out the scheme to international tenders is certain to have a very serious negative and confusing effect on the market in PNG logs. Buyers will be uncertain as to continuity of supply and future sources of finance. Log importers and wholesalers are likely to move out of PNG logs for the same reasons. Above all it must be recognised that there are (sometimes severe) incompatibilities existing between different producers, agents, wholesalers, buyers and end users. Sometimes this is a matter of corporate policy, eg companies in group A will not deal with companies in group B. Subsidiaries of companies are required to utilise services of other subsidiaries and some, for nationalistic or personal reasons, will not trade with each other. This would seriously constrain the activities of any outside appointed agent.

para 4 - last Sentence. Gobbledygook! Since there are no guidelines on how the project is to obtain its supplies (see (i) above) there is no basis on which to select a project proposal "closest to the guidelines".

#### Page 3 para 5 Anticipated Benefits

- (1) If the system becomes viable and log supply is reasonably average and reliable, it may be the SMA sales themselves could bring a greater return to PNG through higher prices by cutting out any transfer pricing element, however there is no certainty this better pricing would extend beyond the SMA sales, to other exporters.
- (ii) The same can be said for transfer pricing the proposal gives no information on how SMA operations will be made to bring any transfer pricing operators into line. The setting of a 'good example' for instance will be unlikely to impress anyone intent on continuing transfer pricing practices.

There seems to be some impression that PNG exporters do not know the current or open market prices for PNG logs. This may be true of some of the very small independent loggers but it is certainly not true of the major exporters who are party to a vast and impressive marketing information network. They know very well the true value and market prices for their PNG production.

- (iii) No comment.
- (iv) No comment.
- 4 paras C D E F G H No comment.

para I See comment under Policy Operations para 3(1).

#### Page 5 para L Recommendations

As stated above, there are good reasons to question the viability of the proposal as it stands.

The recommendation to call for international tender has been made without consideration of the immediate adverse effects on the PNG log market and, Most importantly, there should be no action of any kind taken until the method of exercising the State's right of refusal for the 25% of log export volume has been fully discussed with the industry and a quite clearly laid down set of rules agreed and incorporated into any policy submission.

**Ref:** 160884/GEG/KES



# FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

P.O. BOX 3498 PORT MORESBY
U.N.D.P. BUILDING ELA BEACH PORT MORESBY
PAPUA NEW GUINEA

Phone: 214553 214627 Telex NE 22226 CABLES: FORINCOU

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Re: Government Policy Submission for:

APPOINTMENT OF A STATE MARKETING AGENT FOR EXPORT
OF PAPUA NEW GUINEA LOGS

#### FIC SUMMARY AND RECOMMENDATIONS

Many of the points made in the submission exhibit an \*oversimplistic view of the marketing and distribution of PNG (and other) logs, and a disregard for the realities of corporate activity in the commercial world.

The original intention of state marketing was to use the rights when needed. The appointment of an outside agent on presumably commercial terms means that the agent will exercise the rights all the time or, worse, only at times when the best profit can be made.

It would be the height of folly to commit the country to this type of proposal before working out exactly how, when and why the log supply under the State's rights is to be obtained.

This is a very complex matter involving market fluctuations, corporate and national sensitivities, the realities of currency and financing, shipping and distribution and of commodity trading. The proposal as it stands shows no regard for any of these vital factors.

The FIC view is that if the government wish to move swiftly to achieve the objectives - which the FIC consider to be desirable - the most direct, controlled and realistic method is to utilise the FIC as the 'agent' through which the government's 25% rights are exercised.

Appointment of FIC will ensure the objectives are achieved without delay and with minimum disruption to the orderly marketing of PNG logs.

members. If FIC is appointed the whole system, including the method of obtaining the state rights could be worked out quietly, in confidence by FIC and government in consultation with the log producers. There need be no disruption of markets, no upsetting of buyers and end users, just the PNG government insisting upon the exercise of its rights with the FIC ensuring these are in fact exercised to the benefit of Papua New Guinea.

- 2. FIC has excellent information and contacts with very many overseas and PNG timber producers, agents, wholesalers and end users, and, being independent and non-commercial has the goodwill from all sides essential for such an operation.
- 3. FIC could exercise the rights only when the government so wished, eg to check on suspected transfer pricing or to diversify to new buyers or to help smaller producers. Since FIC would not be trying to make profits for itself and would have almost no extra overhead costs these objectives would be free of the commercial considerations which would constrain an outside (overseas) agency.
- 4. Operation: If FIC is appointed it would be proposed to employ an additional staff member expert in log and lumber marketing and market evaluations. FIC has already suggested that a national officer from Office of Forests should be seconded to FIC to begin to learn commercial aspects of timber marketing. FIC has already resolved considerably to extend its statistical and market information services, collating and computerising price, quality and species data to update daily the export information on log markets.

This information will be, as now, freely available and discussed with government to assist in determining MEP levels and to check exporters pricing and, as now, will be available to PNG industry as market reports. It should be noted that FIC has been for several years regularly supplying marketing information to PNG timber exporters and to the government and has also over the past 8 years funded an extensive promotional effort, eg some 50 seminars in 9 different countries alone, as well as being consulted by every proposed investor.

When the government feels it necessary, the Office of Forests will instruct FIC to exercise the 25% rights in respect of particular production. FIC will then determine how best to place the production on the market. This may be through agents or directly to importers or directly to end users depending on the type of production and having due regard to markets at that time.

Being independent, FIC can be very flexible as to the method used.

FIC will be able to market effectively on behalf of small operators, many of whom are now in the hands of overseas affiliated agents. FIC is wholly PNG and is undoubtedly the best placed to help the smaller national loggers with advice on prices and production and to carry out their marketing.

As these smaller national companies improve their cash flows through FIC's good marketing practice they can be encouraged into sawmilling, again with help from FIC by way of on-the-job advice, through good grading and through continuing and extending FIC sponsorship to nationals on training courses.

All logical thought leads to FIC being the only suitable organisation having the goodwill, the facilities, the expertise and necessary control jointly by government and industry to carry out the state marketing functions for PNG logs.

FIC members are not unanimous in believing that state marketing is necessary or desirable. However, they are unanimous in believing that if the government insists on pursuing this concept, FIC should be the agency appointed.

Ref: 160884/GEG/KES

TO:

## A/H & SENIOR STAFF

107

Date 5th September 1984

## MINUTE

File No. 377-1-2

**SUBJECT** 

COMMENTS RECEIVED ON DRAFT NEC SUBMISSION ON THE APPOINTMENT OF A STATE MARKETING AGENT FOR EXPORT OF PNG LOGS.

## Introduction

The Draft NEC Submission on the appointment of a State Marketing Agent (SMA) for Export of PNG logs was circulated on 16/7/84 to relevant Government Departments and the Forest Industries Council (FIC) for their comments.

A brief of each Departments/FIC's comments is attached here while copies of original comments are also made available. Below is a summary of all comments received.

## Summary

Generally there is agreement and support for the objectives of the Submission. The ultimate goal of the submission; to achieve higher prices for PNG logs with the objectives of reducing transfer pricing, get better market intelligence, assist small/national producers, direct sales to end users, exercising the states right of first refusal of 25% of companies log export volume, have all been stated as serious causes. While it has been agreed that something should be done to improve on the unsatisfactory position of the PNG log trade, the option of appointing a State Marketing Agent (SMA) to export PNG log has been rejected and strongly criticized by all quarters concerned in the Industry i.e. Government Departments, FIC and by the recent FAO/UNDP Marketing Specialist Mr. Raina.

The main concern been expressed is whether the appointing of a SMA is the ideal set-up necessary to achieve our goals considering the nature of the objectives. Can a SMA break the marketing distribution chain and sell directly to end users, assist the small/local producers in not only marketing services but co-ordinate shipments and give financial assistance, successfully implement government rights of first refusal of 25% of log export volume when rules/guidelines of the scheme has not been clearly devised yet, undertake promotional activities and attempt to sell in new markets (if the Agent is foreign owned/profit motivated).

Operational difficulties were expressed and doubt placed on whether they have been carefally considered. The States right of first refusal of 25% of log export volume is thought as 'un-workable' at this present stage and will need further study as to how the scheme is to work. Co-ordinated shipment may not be viable for SMA if it is to pick small volume lots from say 3-4 ports for one shipment.

It has been felt that other alternatives should be thoroughly studied, considering advantage and disadvantages of each option in light of the objectives and anticipated benefits. Some suggestions were for a State owned Marketing Authority be considered (Dept Justice and Provincial Affairs, FAO/UNDP Marketing Consultant). Finance needed for the setting up of a State Authority has been a subject which the Department of Finance, Justice, DPI and others have used to off-set the idea (following failure of Fish Marketing Corporation and other state enterprises). The possibility of assistance could still be sought from sources like FAO/UNDP and other international organisation. Suggestions from DPI and NPO are that FIC a

statutory body be appointed the Agent. FIC is strongly bidding to be the Agent. Other Departments, Justice and Finance have stated their dissatisfaction over the submission and suggests on interdepartment meeting amongst all those concerned before any firm option is decided on.

Following the above it seems to me if we are to succedd in getting 'anything' off the ground it will be necessary to re-examine the matter and put forth a more sounding proposal with all necessary operational areas of the Marketing Agent clearly worked out (e.g. the right of first refusal of 25% of log export volume and its detail guidelines of how it is to be excersised) and the anticipated benefits clearly reasoned out (e.g. Finance wants verification on the 10-15% high price expectation stated in the submission). Without these it will be rather difficult to convince other department. A inter-departmental meeting may be necessary to discuss our case for NEC submission.

For your information

M WAISIME

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## DEPARTMENT OF PRIMARY INDUSTRY

The objectives of the NEC submission are agreeable however do not think that a State Marketing Agent will be the answer to achieve the objectives. State Marketing Authorities are not always successful as is usually anticipated in their inception. Will not be good to allow private enterprise operate with alot of freedom in marketing. Feels that other alternatives to the appointment of an agent be considered which could include imposing terms and conditions on companies involved in these undesirable practises. FIC could be considered to undertake the task of been the Agent.

## DEPARTMENT OF MINERALS AND ENERGY

No comments on the submission, however supports the objectives of improving price and export marketing of logs.

## PUBLIC SERVICES COMMISSION

No comments except supports the submission.

## DEPARTMENT OF JUSTICE

Requests to have an inter-departmental meeting with representatives from all Departments that needs to be involved in the formation of the State Marketing Agent concept. Whilst the general principals and objectives behind having a Central State Marketing Agent for export of PNG logs is supported the question of whether the concept of appointing an Agent is appropriate and the views of other departments, particularly Finance considered. Other alternatives should be discussed fully with all interested Departments.

The States rights of first refusal of 25% of log export volume of various Permit Holders does not seem to be workable as there is no imposition on the company to indicate the species, sizes, and grades of the logs. Furthermore, the operational difficulties and shipping cost involved in collecting 3-4 small volumes of logs from Local and National Timber Companies to make a full shipment may not be economical even with any price increase advantage.

#### DEPARTMENT OF FINANCE

Does not support the submission. Suggest Office of Forest study other alternatives of achieving the objectives with consultation from the Industry and study of Ashenden's Japan Marketing Study, before a option is recommended to NEC for approval.

## FOREST INDUSTRIES COUNCIL

FIC's comments are in two folds, the first part are comments on the policy submission document and the second recommends amendments/ alternatives.

## PART ONE:

FIC comments seriously on the policy submission as having alot operational difficulties and the objectives un-achievable. It is considered the States Marketing arrangement cannot be able to market logs directly to end uses or to the effect by-pass some middle man in the Marketing chain through which all logs pass as the marketing chain provides other essential services to its parties involved (e.g. provide finance, guarantee supply/payment re-distribute different species, etc). The objectives of reducing transfer pricing is not attainable due to the distribution chain having nothing or little to do with producers re-invoicing through their agents or affiliate companies.

Diversify markets will be a costly exercise for the Agent to undertake if it wishes to make profits.

Understands the Government has not yet fully outlined the right of first refusal of 25% of the log export volume scheme to make it viable bearing in mind the possibility of producers being uncooperative.

Putting out the proposal to international tenders will be deterimental on the market for PNG logs as buyers, importers and wholesales will be unsured of supply and the marketing chain closing up, making it difficult for the Agent.

.../4..

The submission has no guideline as to how the Agent will get its supplies. Assuming the project is successful and higher prices are achieved it is not certain that the smaller, national producers will benefit in from this high price and transfer pricing practices will not be stopped.

Following the critical comments by FIC it is suggested that the submission be reconsidered in light of the anticipated problem areas the Agent will have to face in the log trade.

## PART TWO:

Having enlightened on the problem areas of the PNG log trade and the difficulties expected to be encountered by a state appointed Agent (other than FIC it seems) FIC has gone to lengths to justify their claim that (FIC) is the most suitable organisation to act as the Government Agent. The reasons mainly been:-

- (a) Statutory body with representative from the Government and Industry. Can work out system of operation with minimal disruption to the market.
- (b) Has 'excellent information and contact's amongst producers and in market places.
  - (c) FIC can operate freely from any commercial consideration with no overhead cost and take up 25% right of first refusal with directives from the Government.
  - (c) FIC can expand its activities (if appointed the Agent) without difficulties and provide to the Government and the Small/National producers further benefits of market information, training, advice, grading, etc.

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The FIC State Marketing Proposals for operating the State Marketing Agency (SMA).

APPENDIX 9

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#### A Summary of FIC operational guidelines.

- 1. FIC will market logs:-
  - (a) As and when directed by government to exercise the first rights on 25% of export logs.
  - (b) At the request of producers.
- 2. FIC will act as an agent and may contract through other agencies or directly through the trade structure depending on market conditions.
- 3. FIC will inspect and check grade all logs before export and will advise producers on good preparation, species composition and good practice generally.
- 3.1 for smaller companies SMA will assist in documentation and financing through letters of credit, and may receive and disburse such funds on behalf of producers if so requested.
- 3.2 For smaller producers needing advance payments SMA will negotiate 'Red Clause' LC's and in such cases will guarantee to buyers the volume, grade and availability of the shipment.
- 3.3 Shipments will be 'grouped 'T' as necessary to assist prompt shipment for exporters not themselves able to produce full shiploads.
- 4. Advisory services will be extended, and through increased use of the FIC computer the intention is to price species individually and guide exporters production schedules to ensure optimum value for any species mix.
- 4.1 Results of the computer analysis will be utilised to assist in constant monitoring of the government Minimum Export Price for logs (MEP) so that this may be adjusted frequently to ensure all exporters receive current market prices.

This will minimise opportunities for transfer pricing.

5. Staffing and Facilities:- SMA will utilise existing FIC trached national and expatriate staff and will recruit further as need

5.1 The FIC computer is already programmed to produce export documentation, individually, for all PNG producers and can analyze price, volume and 6 grades for up to 76 different species for any past, present or future shipment. FIC national staff are already trained in use of the computer.

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- 5.2 The FIC act gives power to require registered producers to provide all necessary information to FIC.
- 6. Generally:- The Marketing of logs and timber products is complex:Markets are volatile and prices and demands can change up
  or down overnight. In the past PNG prices have responded
  either sluggishly or not at all, for a variety of reasons,
  mostly due to operations of buyers cartels, but partially because
  of poor grading, poor preparations and unreliability of some
  log producers. This unreliability adversely affects all PNG
  log and timber price levels.

it is believed that with the SMA active in the market prices will respond closely to open market conditions, both government and industry will be better advised and will receive correct and more appropriate value for the PNG timber resource.

\* \* \* \* \* \* \* \*



## FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

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Date: 3 October 1985

. .iOM:

G E Gresham EXECUTIVE DIRECTOR TO:

Chairman & All Members -

FIC

Subject:

State Marketing Agency SMA

Enclosed please find:-

- 1. Press statement from Niugini Nius 6/9/85.
- 2. Letter from Secretary/Forests with SMA Project guidelines.
- 3. My draft proposals outlining SMA procedures.

It will be noted the proposals differ in some aspects from the guidelines, particularly that FIC/SMA will not actually purchase logs (or other products) but will do what the title implies, act as agent.

It is obviously not practicable to give blow by blow, minute by minute detail as to how we will operate, and I have purposely left sufficient slack in the proposals to allow flexibility depending on market conditions.

e.g. It would be too mestrictive to accept constraints on trading such as para 2.8 of the guideline.

First moves will be to survey log exporters and producers and to identify those which would wish voluntarily to market through SPA, then to inspect facilities and production of these and other exporters. From them FIC can analyse with the computer the past output to determine the species grade mix and so on.

The chairman asks if you will kindly advice any comments and suggestions within the next few days to the Executive Director.

If there is need for actual discussion amongst members the Chairman may decide to call a much lasub-committee to meet to finalise the matters.

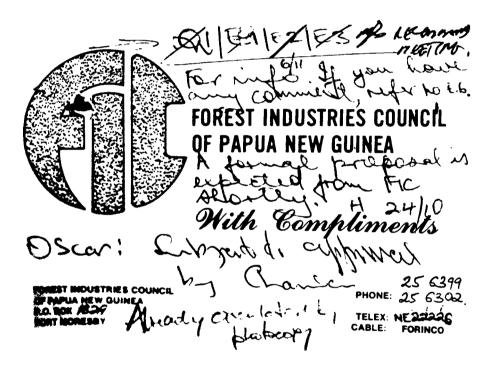
The government has asked for prompt proposals so that the NEC can approve procedures and the SER can begin operations.

Your early attention will be appreciated.

For information I exclose also a Summary Sheet Format which would accompany the main proposals so that NEC members need not read the whole paper, and a simple 'background' paper for those unaware of the complexities of PNG and international log trading.

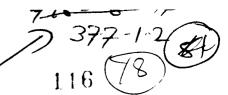
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#### PROJECT GUIDELINES





### 1.0 INTRODUCTION

Papua New Guinea is currently one of the growing exporters of South Sea Logs (SSL). But the exporting market of Papua New Guinea Logs are not properly competitive. Average prices of Papua New Guinea logs are far below those of other South Sea Logs produced by Indonesia, Malaysia and the Philippines.

PNG Timber Industry is largely owned by the subsidiary companies of the off-shore parent companies who dominate and control the export markets. All PNG logs are exported through a chalm of middleman agents, shipments are made of mixed species and mixed qualities, the small and the national producers are disorganised, markets are tied to a fixed and limited buyers and there is lack of independent efforts in improving the prices. Transfer pricing appears to be a common practice resulting in a substantial loss of foreign exchange, taxation revenue and export duties.

Market information is inadequate and the MEP system is not properly effective. There is need for desperate efforts for promoting the export markets and raising FOB prices to a competitive level.

In view of the above circumstances, the government of Papua New Guinea, following a recommendation in the White Paper - Revised National Forest Policy 1979, intends to appoint a State Marketing Agent for the purposes of selling directly to end-users, diversifying markets, promoting the use of lesser known species, assisting the small and local producers, co-ordinating shipments and supplying market information to the government for effective executive of the minimum export price system.



- 2.1 Buying of logs from the producers and exporting directly to the best buyers in the consuming countries in open competition with other log buyers in PNG.
- 2.2 Exercising of State's right of first refusal of offer for export of a minimum of 25% of log export volume of the agreed companies on behalf of the State.
- 2.3 Assisting the State in receiving actual market information and improving the minimum export price (MEP) system.
- 2.4 The State Marketing Agent may also operate as an export agent of any enterprise on the basis of a sales commission not exceeding 3% of the FOB value.
- 2.5 The State Marketing Agent will assist the small producers by supplying market information, finding buyers, negotiating prices and co-ordinating shipments as the centralised trading house.
- 2.6 Assisting the Forest Development Corporations (FDC) as and when necessary in the areas of marketing.
- 2.7 Any other operations most relevant to and mutually agreed by the Government and the agent organisation.
- 2.8 SMA will work through other agents and/or direct to importers, merchants or large consumers as market conditions permit.

#### 3.0 PERIOD OF CONTRACT

The initial period of Contract will be 3 years from the date of signing the agreement. The performance of the SMA will be carefully reviewed and the period of contract may be extended for another term of years on mutual agreements. In the event of unsatisfactory performance in the opinion of the State, the agreement may be terminated anytime by following up proper procedures to be incorporated in the agreement.

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## 4.0 EQUITY

The government will not take any equity in the project in the initial period of contract. However government may decide to take equity in some percentages in later years depending on the performance of the SMA.

## 5.0 STAFFING

Staffing of the SMA will be an absolute responsibility of the agent organisation (FIC). A forestry officer may later be seconded to FIC, should it be considered necessary by the government.

#### 6.0 INCENTIVES

Staff may be granted an incentive bonus based on performance.

- 6.1 Any surplus of income over expenditure from SMA will be placed in the FIC common fund.
- 6.2 SMA will exercise the right of first refusal for a minimum of 25% of the export volume of the timber companies. This will allow the SMA an absolute advantage over other agents in dealing in sufficiently large volume of resource for exports.
- 6.3 Operations may be varied from time to time in accordance with market conditions.

## 7.0 SMA OFFER

- 7.1 (a) The name of the organisation is:
  The State Marketing Agency (SMA)
  - (b) Telephone 25 6399 (extra new numbers are being acrange1)
  - (c) Telex NE 22226 FORINCO
  - (d) Cable addresses now ceased.

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## 7.2 Admin

(a) The Executive Committee of FIC will act in matters concerning SMA. However all members of FIC have the right of access to all financial and operational affairs of FIC.

#### (b) Executive Committee:

- 1) Chairman FIC (in absence the Deputy Chairman)
- 2) Secretary Forests (in absence 1st Assistant Secretary)
- 3) Mr A M D Yauieb, Secretary, Dept Prime Minister
- 4) Mr A Cameron, PNG Forest Products Pty Ltd
- 5) Mr Miskus Maraleu, Chairman Investment Corporation
  Other members FIC:
  - 6) Mr R Gault, R Gault Industries
  - 7) Mr Warren Ellis, Manager Ulabo Timber
  - 8) Mr Simon Hizata, Managing Director SBLC
  - 9) Mr Jack Baure, Secretary Dept Works
  - 10) Mr Eiji Takahashi, Managing Director Jant Pty Ltd
- (c) SMA Staff:
  - G E Gresham, Executive Director FIC see attached CV P Tay, Grading Officer FIC see attached CV
  - I Trawa, Assistant Executive Officer FIC BSc Forests

A Aopo, Assistant Executive Officer FIC - BSc Forests

New Executive Officer to be recruited.

### 7.3 Finance

(a) Bankers are Bank of South Pacific Waigani Branch Telephone 25 6788

Telex NE 22166

(b) FIG accounts as stated in the Auditor General's Report (copy attached).

NOTE: It is not intended SMA will itself fund purchases but will arrange finance and LC's on direct or back to back basis as appropriate. FIC has sufficient funds and reserves to finance the staffing and infrastructure needs of SMA during the start up period.

## 7.4 Operations

- (a) Operations will be established at FIC Building, Waigani Drive, Port Moresby. Later it may be necessary to open a liaison office in Rabaul or other centre in order to facilitate processing of documents. Staff will be recruited as necessary, however during the start up period FIC existing staff and facilities will be adequate.
- (b) Plan of shipping and coordination arrangements will be arranged in accordance with market conditions following a survey of producers. The first operations of SMA will be a complete survey of operators and exporters with checks on production volumes, species and grades. This data will be compared with data already available from the FIC computer in order to establish production and export potentials.

It is intended to identify producers wishing voluntarily to sell through SMA and to clearly establish their patterns of production in gcade, species and volumes.

From these investigations a sales plan will be established having regard to total volumes available voluntarily, the locations and thus shipping potentials from various areas and the likely species/grade/content.

From this basis the plan can assess the need to exercise the 25% rights in the interests of coordinating shipments according to market conditions.



(c) <u>Sales arrangements</u>. SMA will work through other agents and/or direct to importers, merchants or large consumers as market conditions permit.

SMA activities will recognise the structure of the timber trading in buying countries, however will sell more directly to cut out unnecessary middle-men.

SMA will negotiate directly with the producer(s) on composition of the proposed shipment(s); volume, shipment dates, species mix, grades, size. FIC will inspect and checkgrade all logs on offer, and will advise producers on optimum species, presentation and other market aspects.

The producer will then sign a binding offer for the parcel. This offer will not be exlusive. The producers will be free to offer the same parcel elsewhere but will be required to request clearance from SMA before closing a sale.

SMA will assist in raising finance where needed by smaller producers, and in these cases will receive and disburse the proceeds of sales through operation of a clients account system at the Bank.

SMA will in some cases directly take a sales contract, generally for smaller producers, in others will act strictly as agents, but in all cases on a back-to-back basis.

FIC is already in constant contact with producers, buyers and agents. Sales strategies will be constantly adjusted in accordance with market conditions (e.g. sales strategies on a falling market may be quite different from activities on a rising market).

(d) The present FIC market information collection and distribution system will continue and will be extended. FIC has the right to require PNG registered timber operators to provide all necessary information, and FIC has also very good contacts and relationships internationally with producers and buyers both individually and through membership of

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South East Asian Lumber Producers Association - SEALPA - which is now being reorganised. SEALPA will in future provide more comprehensive market data.

It is proposed FIC will operate the market information system since SMA may not by virtue of its position as a selling organisation have such free access to market information as does FIC.

(e) Finance Management: Present FIC accounting staff will operate the financial controls for SMA. Separate bookkeeping will be established so that SMA transactions are properly accounted and costs apportioned.

Costs of SMA will be invoiced internally between SMA and FIC, and all accounts will be consolidated for audit by the Auditor General in accordance with the provisions of the FIC Act 1979. This requires the accounts to be approved by the Minister for Forests, and to be tabled in the National Parliament, and to be published in the Auditor General's report.

No capital expenditure is envisaged at present.

Forecasts of probable turnover will be made following completion of the survey mentioned above.

Generally the purpose of SMA is to carry out the requirements noted in the introduction to the Guidelines and in the Guidelines paragraph 2 and is not established with the aim of making 'profits' or trading surpluses.

Every effort will be made to match income to expenditure by way of charging out expenses, commissions and costs to the individual transactions. Overhead costs will be charged as a percentage which will be adjusted regularly depending on volume handled over a set period.

As there are almost no initial costs for establishment of SMA, through use of FIC infrastructure, facilities and staff, the overhead costs and initial running expenses will be very low.

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#### (f) Other activities.

As SMA becomes fully operational it will take over the enquiry services now carried out by FIC in respect of sawn lumber, lumber products and furniture. Thus SMA will act as agent/co-ordinator for exports of these products as well as for logs.

In the future it is envisaged SMA will:

- 1. Advise government on competence of operators' production capabilities for export logs.
- 2. Advise government on further processing of selected species within Papua New Guinea, and in such cases will coordinate log supply for central processing and recommend ceasing exports of such species in log form.
- 3. Undertake activities in furtherance of the Guidelines.

**Ref: 221085/GEG/KES** 

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#### APPENDIX 12



P.O. BOX 1829 PORT MORESBY LOT 4 SECTION 405 WAIGANI DRIVE

Phone 25 6399 256302 Telex NE 22225 FOR INCO

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November 27, 1985

#### STATE MARKETING AGENCY (SMA)

Following discussions at the FIA Meeting on 21 November and the Forest Industries Council Meeting No 43 on 22 November FIC has agreed to circulate information in regard to the appointment of FIC as the State Marketing Agent.

The present situation is that NEC has agreed to appoint FIC as the SMA and the Government has issued guidelines for consideration by the FIC to be the basis for the legal and binding agreement for the establishment of the SMA.

FIC has now approved a set of guidelines, these are only slightly amended from the Government's proposals, and these are now submitted to the Department of Forests for consideration and approval by NEC. Following that the Justice Department will draw up the legal agreement.

The introduction to the project guidelines together with extracts from these guidelines are appended to this note. It should be noted that the introduction is in fact the Government's wording.

FIC and FIA have noted concern by producers and overseas buyers about the proposed operations of SMA.

As can be seen in the extract to the guidelines it is the intention to respect the structure of the timber market generally and there is no intention to disrupt matters by forcing the services of the SMA on unwilling producers and unwilling buyers.

As stated in the guidelines, the first task of SMA will be to assess producers who need assistance and who are willing to sell through SMA.

Presently the smaller producers are very fragmented and have little access to alternative buyers, and little access to market information on desirable species, prices and trends.

The guidelines propose that in all cases there will be consultation with producers whether this is to determine voluntary use of the services of SMA or when there may be considered grounds for the need to purchase under the Government's right of 25% of export production.

There has been much concern as to how and when this right may be exercised, however it is clear from the guidelines that any exercise of this right must be in line with the Government requirements for diversification of markets or other requirement as set down in the agreement and also must be in accordance with the operational procedures laid down in the guidelines.

#### 1.0 INTRODUCTION

Papua New Guinea is currently one of the growing exporters of South Sea Logs (SSL). But the exporting market of Papua New Guinea Logs are not properly competitive. Average prices of Papua New Guinea logs are far below those of other South Sea Logs produced by Indonesia, Malaysia and the Philippines.

PNG Timber Industry is largely owned by the subsidiary companies of the off-shore parent companies who dominate and control the export markets. All PNG logs are exported through a chain of middleman agents, shipments are made of mixed species and mixed qualities, the small and the national producers are disorganised, markets are tied to a fixed and limited buyers and there is lack of independent efforts in improving the prices. Transfer pricing appears to be a common practice resulting in a substantial loss of foreign exchange, taxation revenue and export duties.

Market information is inadequate and the MEP system is not properly effective. There is need for desperate efforts for promoting the export markets and raising FOB prices to a competitive level.

In view of the above circumstances, the government of Papua New Guinea, following a recommendation in the White Paper - Revised National Forest Policy 1979, intends to appoint a State Marketing Agent for the purposes of selling directly to end-users, diversifying markets, promoting the use of lesser known species, assisting the small and local producers, co-ordinating shipments and supplying market information to the government for effective executive of the minimum export price system.

#### 2.0 SCOPE OF OPERATIONS

2.1 Arranging purchases of logs from the producers and exporting directly to the best buyers in the consuming countries in open competition with other log buyers in PNG.

processing of documents. Staff will be recruited as necessary, however during the start up period FIC existing staff and facilities will be adequate.

(b) Plan of shipping and coordination arrangements will be arranged in accordance with market conditions following a survey of producers. The first operations of SMA will be a complete survey of operators and exporters with checks on production volumes, species and grades. This data will be compared with data already available from the FIC computer in order to establish production and export potentials.

It is intended to identify producers wishing voluntarily to sell through SMA and to clearly establish their patterns of production in grade, species and volumes.

From these investigations a sales plan will be established having regard to total volumes available voluntarily, the locations and thus shipping potentials from various areas and the likely species/grade/content.

From this basis the plan can assess the need to exercise the 25% rights in the interests of coordinating shipments according to market conditions.

(c) <u>Sales arrangements</u>. SMA will work through other agents and/or direct to importers, merchants or large consumers as market conditions permit.

SMA activities will recognise the structure of the timber trading in buying countries, however will sell more directly to cut out unnecessary middle-men.

SMA will negotiate directly with the producer(s) on composition of the proposed shipment(s); volume, shipment dates, species mix, grades, size. FIC will inspect and check-grade all logs on offer, and will advise producers on optimum species, presentation and other market aspects.

Costs of SMA will be invoiced internally between SMA and FIC, and all accounts will be consolidated for audit by the Auditor General in accordance with the provisions of the FIC Act 1979. This requires the accounts to be approved by the Minister for Forests, and to be tabled in the National Parliament, and to be published in the Auditor General's report.

No capital expenditure is envisaged at present.

Forecasts of probable turnover will be made following completion of the survey mentioned above.

Generally the purpose of SMA is to carry out the requirements noted in the introduction to the Guidelines and in the Guidelines paragraph 2 and is not established with the aim of making 'profits' or trading surpluses.

Every effort will be rade to match income to expenditure by way of charging our expenses, commissions and costs to the individual transactions. Overhead costs will be charged as a percentage which will be adjusted regularly depending on volume handled over a set period.

GEG/DSA/21285

FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

1986 14 August 128 FS61

#### APPENDIX 12A

not trying to undermine private sector, its a very important sector for growth, but nevertheless, we have individual Papua New Guinea villagers, public servants et cetera, to what exent should should the Government of the day be exposed to constant dialogue with one particular sector without similar exposure to the other sectors of the community. We have a wider interest, but neverthless, getting back to the private sector, it is an opinion maker, especially the banks. I personally can tell you there is no misconfidence in Papua New Guinea today, we have talked to the private sector, I have talked to the chamber of commerce, I have talked to the insurance companies, the bankers, in fact if I may tell you, they are quited reluctant for me to deregualate now. They welcome the regulation of the interest rates. There is tremendous confidence in Papua New Guinea Government, I believe so because we take a completely different position from the airy fairy position that you are taking on - the Opposition is not quite clear what it is going to do about the value of the kina. Listening to the contract the Leader of the Opposition said something but I do not know where he was going, I think it hinted probably reflecting to a possible devaluation of the kinh. We are not going to do that, we are not to react to the Australian devaluation, we are taking the total picture of the movement of the major currency and if I will tell you that as of today the kina is on balance. In the basket of currencies, we have appreciated against the Australian by about 16 per cent, but we have not devalued, we have qone down against the yen by about a very big 35 per cent, we have gone down almost all the European currencies and maintain the pack with the American currency.

### 09/03

So on kina it is very stable and let us just leave it that way. Do not panic. The Government knows what it is doing and the private sector should know that we know what we are doing. And I know that the private sector know that we know what we are doing, so they are very confident at the present time. In that regard I think that statement about the medium term strategy will be coming out, it is coming out and I do not think you should unduly be too worried about it. Just leave it to us.

Sir Pita Lus - Point of Order! I do not think the 20 minutes is up yet.

Mr SPEKAER - Honourable Member for Maprik, your point of order is out of order.

## OFFICE OF FOREST - EXPORT TIMBER PRICES AND RE-ORGANISATION STRUCTURE

Mr TED DIRO (Central - Minister for Forest) - Mr Speaker and honourable Members, I wish to inform this Honourable House on two matters of importance pertaining to my department.

The first is the export timber prices. In the present climate of economic downturn, persimissim and gloom and also cutting of the Australian budgetry aid, there is also some good news.

Mr Speaker, over the past five months average selling privces of logs exported by Papua New Guinea have risen by 12 per cent. Prices are currently \$US 56 per cubic meter or K57.00 per cubic meter, both FOB.

This price increase have been achieved through a joint effort by Forest Industries Council and my Department. Firstly, by effecting monthly adjustments of

prinimum export price for various species of logs and secondly extensive monitoring overses markets and diversification of market sources.

From present market information and indicators on hand, I enticipate that the nee to Papua New Guinea will still increase further from September 1986 wards. Through the present system of monitoring the export value of Papua New Buinea logs in the international markets, we have achieved a price increase on a ling market in direct competition to our main competitors, Saba and Sarawak hose prices have been coming down whilst Papua New Guinea prices have been poing up.

For the first time in history PNG log prices are running level with Sarawak for rany species while some other species have actually overtaken them in price. Until not recently, PNG log prices have not only been below those of Sarawak but have actually been the cheapest in the countries of the South Pacific region. I repeat that ow our prices have overtaken Sarawak's for the first time ever. Mr Speaker, facts are facts and I am determined that PNG log prices shall not be allowed to fall back.

As a joint effort the Forest Industries Council and my department are going to outside world to find markets and to knock on the doors of factory owners in an eigressive attempt to seek out new markets and cut out middle men. With this clear blicy before us, a major sales promotion was launched by the Forest Industries Council in India in May of this year. The direct result of this drive has been that approximately 50 000 cubic meters of log have been sold at prices approximately 20 or cent higher than current market figures.

Two ships have already been loaded and departed PNG in July and August and a urther two ships will sail at the end of August and September loaded with logs from producers operating in the New Guinea Islands. It is my intention to open up this market so as to sell approximately 100 000 cubic meters to India during the next 12 nonths.

Mr Speaker, as Minister of Forest I am proud to inform the honourable combers of this House that we have finally broken from dependence on a few raditional markets, and we have opened up a completely new customer market. In ontinuance of this aggressive marketing campaign my department together with Forest Industries Council will during October of this year endeavour to make log rates into Europe with a specific campaign already commenced into the timber adustry markets of Italy, West Germany and France.

Mr Speaker, another major break-through as part of our marketing strategy has been that in July of this year following a visit by Forest Industries Council and the Separtment of Forest, à delegation to Cairns in March, the Australian Government as agreed to have Cairns as a port of entry for our sawn timber. This means that amber coming from designated ports of Port Moresby, Lae, Rabaul and Wewak can after the port of Cairns for the North Queensland markets which we have been marketing for many, many years.

I am hopeful that Darwin will soon be declared a port of entry for our sawn tember and other forest products. It is my intention to involve Papua New Guinea's excreas diplomatic officers in the field of trade promotion and I note with pleasure appointment of Mr Andrew Yauieb, a former Director of Forest, as this country's abaseodor to West Germany.

A further significant step towards obtaining fairer prices for our country's sport sales will be taken in September 1986, with the holding of a conference at



Cabinet ministerial level, to be attended by the states of Indonesia, Saba and Sarawak and Papua New Guinea.

The purpose of this conference to be hosted by Indonesia will be an agreement to share timber production and export information for our countries common benefit. This will be the first time such a high level conference will have been held and I emphasise to honourable members its importance towards the goal of still further increasing this country's foreign exchange earnings.

The second matter of importance that I wish to inform this honourable House, relates to the departmental reorganisation. Following the upgrading in March of 1985 of the then Office of Forest to departmental status and in late 1985 by new government policy objectives, it became necessary for the Department of Forest to revise its organisational structure.

Operationally, there are now two divisions monitoring forestry development covering the two stages of development. The first division has the responsibility of resources survey, investment and planning. This deals with how much timber resource does Papua New Guina pocess, how much rights to this timber should Government purchase from traditional owners, wise planning of how to develope and manage these timber resource areas. Which investments strategies and which developers will maximise benefits to PNG, speeding up of processing of timber permits to select developers.

The second division is responsible for resource development. This deals with project supervision, including log exports and log grading, collection of distribution of royality payments, reafforestration or alterative land use and finally provision of technical services to national timber operators in the logging and timber processing fields.

In addition to these two operating divisions there are now two service divisions called Forestry Research and Support Services. These reorganisation, particularly in the operational area is expected to result in a much improved administrative efficiency within the department. The new structure came into operation on 1 July, 1986.

#### 10/03

This has not been so despite some bad press which have been totally unfounded. It is with some modest pride that this Government is making some inroads which are unparrell.

Mr JOSEPH AOAE (Kairuki-Hiri) - I move -That the Parliament take note of the paper.

I would like to compliment the Minister for Forest on the statement he has made and also good news that he has presented to this Parliament and also especially the good news that the prices of logs have increased in comparison with our main competitor Saba and Sarawak. Also perhaps what the Minister has indicated in the opening of further markets and further field in India, Europe, Mediterranean and so on. Perhaps the Minister could also address himself to other very pertaining questions. That is we have been told that we are exporting logs to various business houses throughfout the world.



The Minister should now address himself to the question of the volume of our ports. What is the volume of our export of logs? What is the extraction rate from Forest that we have. It is very important for a small country to keep careful etch of the depletion of tropical forest and forest products. Because we do not and cannot in any way compete with countries as large as Indonesia and we cannot empete with even small state like Saba and Sarawak. Mr Speaker, we are country which maybe big in size but when you look at the question of the fact that our entry is very mountainous then you will appreciate that what logs we have comes are those area which are not mountains. Therefore, we cannot touch our mountains we can only touch the modulating hills and the plains of our country. It is easier take logs from those areas.

When we take, we take it at such a volume that we are unable to replace it as an as possible. It takes perhaps sixty or seventy years for a tree to grow to a size an it is extracted for export purposes. It takes three minutes or less to cut it wn. How long is it going to take us to replement that three? We have an upfill job our country because from past experience that many of the companies that are tracting logs from our forests for exporting purposes are not putting back the same dume if not more. We are told that three forestation or reafforestation is going head. I appreciate that in the plantation situation, the volume is always there but it not there in the size that we need. Becasue it is going to take anything from 25 to years for a log to be of a size sufficient for extraction for sawing purposes or for nort purposes. This is why we have to be very careful and I would like the Minister of Forest to keep a special eye on this. I know that many of our companies have seen failing very badly, falling behind the agreements that they have entered into eith the state for the extraction of the logs or the reafforestation or our forestation in poses.

In some areas comparies have been allowed to adopt a cilvic culture to approach the regeneration of our forest. We should do more than that and we should accourage the cilvic culture so that we get the species that we want rather than ave nature to replenish itself. We should encourage and nudge nature into the type of species that we want in our forest. We have many many good species of timber in this country and we should encourage that.

I note also from past experience that a country like Indonesia has adopted a slicy where it does not export round logs. Will the Minister look into this question, ecause I feel also that we should start looking at this question because the more and logs we export, the easier for us to run short of forest. We do not have many mean available for tender, to allocate to companies for logging and so on. Perhaps no main areas still available would in the Morobe province and perhaps also in the Vest New Britain. Perhaps for other areas we are running short of forest areas and we are running out of timber fast and not putting it back quick enough, we as people attracting from the forest areas will have something for generation after wards. We have bound by the Constitution to do exactly that. As the Minister of a department that generates money should address himself to this question of replenish the trees so there is something for future generations to extract and not leave it to the companies to do as they please and how they please and when they please.

Debate on motion (by Mr Akoka Doi) adjourned.

18/8/86



FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA P.O. BOX 1829 PORT MORESS LOT 4 SECTION 405 WAIGANI DRIVE

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MJC/DSA

August 18, 1986

Hon Minister for Forests Mr T Diro, MP., Ministry of Forests PO Box 5055 POROKO N C D

Dear Minister

RE: MALPRACTICES IN THE TIMEER INDUSTRY - UNDER GRADING OF LOCS - UNDER SELLING MEP PRICES - PAYMENTS/COMMISSIONS TO MORE THAN ONE PERSON/ACENT WHO ARE NOT RESIDENT IN PNG (ON EACH AND EVERY SHIPMENT)

Our Chairman, Mr Miskus Maraleu has today Sunday 17th August 1986, asked the undersigned to officially write to your goodself on the above stated subject. The Chairman has asked that we remind you of the meeting held in your offices last Thursday evening 14th August, at which time a priority was given to preparing a brief with firm proposals which would put you in a position to make an immediate decision, (FIC has already offered a solution). It would appear that nothing has been done and our Chairman is concerned that the matter has been forgotten?

The Chairman has asked me, to again approach you with the proposal that FIC be given an authority by your Ministry in the form of a letter or consultancy agreement, (terms and conditions, will spell the authority), that will allow FIC to approach companies who pay more than one commission for any one sale and allows FIC to take immediate action with any company which exports logs below MEP prices, when the same buyer purchases the same species and grades from another shipper at higher prices, sometimes on the vessel. In addition down grading of logs loses to government, revenue of about USD5 million annually.

Finally the Chairman ask me to draw your attention to the leading article on the front page in the "Times" on Saturday 16th August. This article states that the government will have a revenue from "Liqued Cas" of USD3 million in the years 1989/1990, without indicating the capital required. Against this projected revenue FIC, given suitable authority, is able to commence, within 30/60 days, to increase revenue by about USD500,000 building up to USD10,000,000 over a period of 12 months. The Chairman asks is anyone interested? Mr Miskus Maraleu will be in Port Moresby on Friday 22nd August until 26th, during this period he requests an interview with you, at your convenience attached are two (2) telexes, concerning two (2) shipments made this month below MEP prices.

Yours faithfully

Michael J Cowan
EXECUTIVE DIRECTOR

c: Mr Miskus Maraleu, Chairman/FIC.

enc: 2 Telexes.



P.O. BOX 1829 PORT MORESBY LOT 4 SECTION 405 WAIGANI DRIVE

Phone 25 6399 256302

Telex: NE 22226 FORINCO



# FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

September 26, 1986

MINUTES OF FIC MEETING HELD AT KULAU LODGE, RABAUL, AT 14.30HRS ON WEDNESDAY 20TH AUGUST, 1986

## PRESENT

MR.MISKUS MARALEU	-	Chairman
MR.OSCAR MAMALAI	-	Member
MR.WEP KANAWI	_	Member
MR.ANDREW TEMU	-	Member
MR GRAHAM WARD	-	Member
FR.TIM O'NEILL	-	Member
MR.MARK GRACE	-	Member
MR.M.J.COWAN	-	Executive Director
HON.E.R.DIRO., MP., MINISTER FOR FOREST	-	Guest

The Chairman opened the meeting at 14.45hrs. Apologies on behalf of Mr.Garth Mcllwain, member and Mr Simon Hirata, member, were given by the Executive Director, both members were away on business outside PNG.

The Chairman thanked all members for attending and welcomed Mr.Mark Grace and Fr.Tim O'Neill to the Council. After a short welcoming speech the Chairman explained the reason of the Ministers presence and then called upon the Minister to address the Council.

The Minister for Forest addressed the Council for 35 minutes, out lining the Governments plans and objects and the position which FIC would play in these plans, the main points were:-

(a) The Government was committed, to increasing production and exports to give exployment to the people to create new jobs, at the rate of 10,000 per year. About 50,000 were at present on the job market. The Government was obligated to provide jobs. The timber industry would play a major part. The Minister wanted to see more capital come into the industry, new projects, and increased production, where possible for export. He went to say that PNG timber products needed markets and marketing.

He stated that FIC was doing an excellent job in monitoring the overseas markets, and marketing into new markets. He also stated his satisfaction in the daily activities of FIC in maintaining and increasing export log prices, which is at present were the highest in the history of industry. He went on to congratulate the FIC team which visited Australia for their efforts in opening the Port of Cairns to PNG Timbers.

The Minister stated that it was the intention of the Government to request FIC to work alongside and with the Department of Forests and to fill in on gaps which could not be done, quickly by the Department of Forest, for one reason or The Minister continued; he wished FIC to take on another. move active activities and play a major part in building up the timber industry over the next 5 to 10 years. FIC would enter into the international log markets and have the powers to negotiate sales and where necessary act as the shipper, this may include the charter of log loading véssels. Government planned to diversify from Round log exports, by finding ways and means to convert logs into sawn timber, thereby, giving opportunities for more nationals to enter into the timber industry. In the first stage semi portable sawing equipment would be made available to small operators who would obtain log supplied from logging companies. would be responsible for finding ways and means of obtaining milling equipment and putting it into operation within the timber industry on credit conditions. All negotiations and conditions of sales etc plus back-up support and sales where necessary will be arranged by FIC.

The Minister went on to say that it was the Governments intention to make regulations for the compulsory grading of logs for export and FIC would play a major part in this new policy. At this point he again repeated taht FIC was needed to obtain markets and ensure our timber was sold at the correct prices. The timber resources of PNG belonged to the people of PNG and the Government must be ready to help any development in the timber industry and FIC must also help the industry.

The Minister stated that he had formed a top level committee, in which FIC played a major part, to meet every two weeks to discuss various problems in the Trade and at Government level.

The Minister stated that he had also created another powerful committee, of which FIC was a major member. This committee discussed all forest resource problems, existing companies wishing to enlarge their activities and new projects. These were 'action' committees and FIC played a major part within their activities. The Minister concluded his speech by reminding members that the main functions of the FIC was to promote and develop the forest industry.

The Chairman thanked the Minister, and asked members if they had any questions:

Mr.Mark Grace asked who was on the "Top Level Committee", the Minister replied, Ministry of Forest, Department of Forest and FIC. Mr.Mark Grace replied that he would like to see a member of the industry on the committee. The Minister stated that this was not necessary as FIC represented the Industry. Mr.M.Cowan explained that meetings were called at very short notice and held at night, this made it difficult to call in members from areas outside Port Moresby. However, the Minister had agreed to invite various members of the industry where and when necessary.

With there being no other questions the Chairman again thanked the Minister for coming and addressing the Council members. He requested the Minister to remain as an observor. The Minister agreed.

## 1. Minutes of Meeting No.44 12/2/86 and 3/3/86

It was proposed by Mr.Oscar Mamalai and seconded by the Chairman that the minutes of meeting No.42 as circulated be hold as a true record.

Mr.Mark Grace and Fr.Tim O'Neill then accepted the minutes of the meeting of the 3/3/86 as a true record. However, both Mr.Mark Grace and Fr.Tim O'Neill drew to the attention of the Council that at the time of meeting, they were appointed but not gazetted. They both attended the meeting as observors.

## 2. Chairmans Report

The Chairman read a report on the activities of FIC over the last months. A copy of this report had been circulated to Members of Council. (A copy is attached to these minutes).

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## 3. Confirmation Of Chairmans Position

Mr Wep Kanawi proposed that the Chairmans position be confirmed and this was seconded by Mr.Oscar Mamalai.

## 4. Additional Items For Inclusion In The Agenda

Fr.Tim O'Neill presented the Chairman with a number of points to be discussed under No.4, they were:-

- 1: Election of Deputy Chairman.
- 2: Terms of employment of Executive Director
- 3: Appointment of Executive Director.
- 4: Appointment of Executive Committee.

The Chairman acknowledged receipt and replied that he would put these points into the agenda for discussion, during the current meeting.

## 5. FIC Further Promotional Activities

The Chairman explained the present activities of FIC under his Chairmanship. Various questions were asked by the new Council members, which were all replied to by the Chairman, main points raised were:-

- a: Fr.Tim O'Neill and Mr.Mark Grace asked for upto date news on Indian market. The Chairman gave a report on the Indian tour and informed the Council that contacts for about 120.000/M3 were closed or about to be finalized. Two vessels had already loaded from Vanimo Timbers and the third would load in the islands during late September.
- b: Fr.Tim O'Neill stated that some members were concerned that MEP Prices were increasing monthly. He believed it would be better to adjust prices quarterly. Mr.Oscar Mamalai replied that he thought the present system was a good one and should remain. So far he had not received any complaints and the f.o.b. value per M³ climbing. Mr.M.Cowan explained that the MEP had not moved for 3 months and prices were at present ranging between 5% and 15% above MEP. No shippers had complained, most seemed to be happy with the price increases.
- c: Mr.Mark Grace did not agree with FIC entering into the sawn timber trade wherein they supplied machineries to nationals on a credit condition.

After much discussion it was agreed that the matter be studied in more details. He did not believe that the equipment proposed by FIC was of the right type and was too complicated. Mr.Mark Grace then gave to members a paper on the method of operations being carried out by his Company, Beechwood. He believed this was a better method. Mr.M.Cowan agreed with Mr.Mark Grace on many points and informed him that machines as proposed by FIC were already in the country operating and could be visited. After further discussion it was agreed that this subject be kept pending.

## 6. MEP Monitoring/Market Reports

The Chairman explained the progress made by FIC in these activities during the past 6 months. FIC Market Reports were in demand from overseas agencies and upon request were made available against a payment. A discussion was held during which time most members took part. It was agreed that FIC's work in this sector was appreciated by all.

## 7. Election Of Deputy Chairman

The Chairman called for nominees for the post of D/Chairman. Mr.Mark Grace was proposed by Fr.Tim O'Neill and Mr Wep Kanawi seconded the proposal. The Chairman congratulated Mr.Mark Grace upon his appointment.

## 8. State Marketing Agency

The Chairman asked the Minister to explain the upto date position of the SMA. The Minister stated that the SMA agreement between the Government and FIC had been approved by the National Executive Council but for the moment had been "put on ice". However, the present activities of FIC were already taking over most of those included in the SMA agreement. He accepted the fact that FIC was now carrying out functions, which were to be done by SMA. He stated FIC had now become SMA.

## 9. FIC Direct Marketing Programme

Fr.Tim O'Neill and Mr.Mark Grace were in doubt as to whether FIC should be involved in direct marketing. Fr.Tim O'Neill considered that this should be done by FIA. He went on to say that 3 or 4 FIA members could come together and carry out a marketing programme.

The Chairman asked what facilities F.I.A. had to do this type of work. Fr.Tim O'Neill replied at the moment none but FIA could appoint a consultant to carry out marketing duties. A long discussion followed. Mr Wep Kanawi was of the opinion that the only body within PNG who had any idea of the market situation for timber was FIC and he proposed that FIC continue with their present activities and where necessary increase their activities in order to obtain more sales and fall in line with Government requirement. He went on to say that many overseas buyers and other organisation both private and government, would prefer to do business with FIC than a number of private businessman from FIA. Unfortunately PNG did not have a good name with overseas buyers. He sited the Australian trip as an example, he doubted that any government department would have dealt with FIA representatives in discussions to open the Port of Cairns. At this stage the Minister, stated that in his opinion FIC was the correct body to carry out these functions on behalf of the trade. Fr.Tim O'Neill in conclusion stated that he had brought up the subject as the FIC Act did not clearly set down if FIC could carry out these duties whereby the FIA could.

## 10. Budget Review

Accounting papers and budget details, by month, for the period of January/July 1986 had been made available to all members at the commence of the meeting, with the exception of Mr.Mark Grace who had obtained a copy of all papers earlier. Owing to the short time available to study the various papers presented all members with the exception of Mr.Mark Grace and Fr.Tim O'Neill requested time to study the papers. The Chairman agreed. However, Fr.Tim O'Neill did not agree and asked that some questions be Chairman agreed. Mr. Mark Grace then stated permissible. his disatisfaction on the over expenditure made against the January/June 1986 budget. He went on to say that if a paper had been given to him as a director of a company, he would consider that the company was bankrupt. Fr. Tim O'Neill supported Mr. Mark Grace and proposed that a special executed committee be appointed to look into the expenditure during January/June 1986 and to study the budget for that period and to prepare a new updated budget for the period July/December 1986. All members agreed. The Chairman stated that during the period under discussion he had been the Chairman for 4-5 months and was aware of the situation and stood responsible for all actions taken by the management of FIC.

The following members of the council were selected to be on the executed committee:-

MR.MISKUS MARELEU - Chairman
MR.MARK GRACE - D/Chairman
MR.GRAHAM WARD - Member
MR.OSCAR MAMALAI - Member
MR.SIMON HIRATA - Member

The duty of the special committee was to look into the "Budget versus Actual" expenditure for 1st half of 1986. Obtain information on how and where funds have been spent. Give detials as to who projected the original 1986 budget and what was used as a base for the budget. What budget working papers available. Previous budgets and actuals for last 3 years. Also copies of Mr.G.Gresham's and Mr.M. Cowan's employment contracts. Mr.G.Ward, being a public accountant was asked to carry out an investigation. However, all executive committee members were also free to make any checks, on any items that they thought necessary.

#### 11. Log Grading Submission

The Minister informed the council that government were going to make log grading a law and a submission was being prepared for presentation to cabinet. There is the possibility that the FIC together with Department of Forest be made responsible for enforcing the log grading law. These followed a general discussion on log grading, down grading by buyers and general malpractices in the trade. Fr. Tim O'Neill agreed that the government graders should back up the shippers to ensure that the buyers accept the correct log grades.

#### 12. Report FIC Indian Market Promotion

The Chairman gave a report on the promotion sales trip to Indian He concluded by saying that the trip was a major success. Indian timbermen were still talking about PNG's tour.

#### 13. Report FIC Japan/Korea/Taiwan Market Research

The Chairman asked the executive officer to give a report. Mr.M.Cowan informed the council that a report had been circulated to the trade. However, he gave a brief report of the tour, the main result was the upgrading of Malas and two other species from Group 3 to Group 2. Malas increased in price by about USD5/M3.

### 14. Report FIC Fact Funding Trip To Australia

The Chairman asked Mr.Mark Grace to give a short report. This Mr.M.Grace did. The net result of the tour was to have the Port of Cairns opened to PNG timbers.

#### 15. Report On SEALPA Meeting

The Chairman informed the Council that he and Mr.Oscar Mamalai attended the SEALPA meeting in Manila. He stated that he had made a report and it had been circulated to all members.

#### 16. Other Business

Mr.Mark Grace again referred to the contract of employment for Executive Officer and asked if a contract had been signed. The Chairman replied yes. Mr.Mark Grace then asked if the contract had FIC common seal on it. The Chairman replied yes. Mr.Mark Grace asked why a contract of employment had been given without the agreement of the Council. The Chairman replied that during the period that a full Council meeting could not be convinced that he took the responsibility as the Chairman. Mr.Mark Grace stated that the council would have to ratify the contract or not.

#### 17. Final Stage

Being no other business the Chairman thanked the Minister and members for their attendance. Before closing the Chairman confirmed that the special executive committee would report to the main council on or about the 3rd October 1986. The Chairman closed the meeting at 18.50hrs.

ENDS.

#### APPENDIX 15

RUNNING

P.O. BOX 1829 PORT MORES! LOT 4 SECTION 405 WAIGANI DRIVE

143

Phone: 25 6399 256302

Telex: NE 22226 FORINCY

## FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

$\boldsymbol{\alpha}$	FACSIMILE MESSAGE
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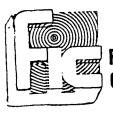
21 2911

As requested I attach various draft letters, which are to be reproduced on your letterheads, addressed to FIC, signed and forwarded to us by hand.

With this support FIC will move on to bigger and better programmes but in the meantime my executive staff expect to have results within the next 30/45 days which will show a major increase in revenue to the government and a lift in the log prices. We intend to put the average f.o.b. prices in the USD60/m3 plus bracket. This will represent an annual revenue increase of about USD3.5/USD4 million and we in FIC will call this stage one only.

To maintain supplies against our second contract to India we need a supply of Kwila logs, therefore, a draft letter to Vanimo also attached is very important. FIC also needs confirmation that Wewak Timbers can export Kwila logs, as the local PFO (Madang) states that Kwila and Rosewood logs are banned for export.

I did not have time to draft a letter on "Agents" but I will send down something by fax to Michael Cowan on Monday. My position remains unchanged, all agents, (in fact they are traders not agents) must register in PNG and maintain office facilities in PNG. All L/Credits and payments by any other means will have to come direct from the buyers to PNG and not via third country. After shipment and upon negotiating the letter of



## FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

144

Phone 25 6399 256302

Telex: NE 22226 CORRE

September 6, 1986

MJC/DSA

Hon Minister for Forests, Mr E T Diro, MP., Ministry of Forests PO Box 5055 BOROKO N C D

Dear Minister

Re: Malpractices in the Timber Industry

Further to my meeting with you, in your offices on Thursday 14th August and my follow up letter dated 18th August 1986, and my subsequent meeting with you last Thursday 4th September, all on the above subject.

As requested I attach various draft letters, which are to be reproduced on your letterheads, addressed to FIC, signed and forwarded to us by hand.

With this support FIC will move on to bigger and better programmes but in the meantime my executive staff expect to have results within the next 30/45 days which will show a major increase in revenue to the government and a lift in the log prices. We intend to put the average f.o.b. prices in the USD60/m3 plus bracket. This will represent an annual revenue increase of about USD3.5/USD4 million and we in FIC will call this stage one only.

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. . . . . '

credits, commissions will be drawable in the normal way and may then be remitted to any overseas destination as required by the agent. This will allow the government to sight documentss and L/Credits, if necessary plus locally registered company must pay "Company Tax".

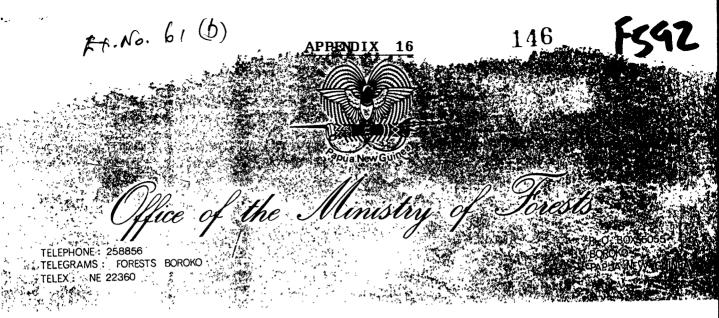
The Department of Forest and the FIC must come together to work as a team, under your leadership to make timber a major industry and revenue earner. This is the moment to act, give us your support and FIC will ensure the job gets done. We have confidence in your leadership.

I have asked Michael Cowan to sign this letter on my behalf and to follow it up.

With kindest regards.

Truly yours

Miskus Maraleu CHAIRMAN



OUR REF M3-1-8

11 September 1986

Mr. Miskus Maraleu LL LLB Chairman Forest Industries Council of PNG P O Box 1829 PORT MORESBY



Dear Chairman

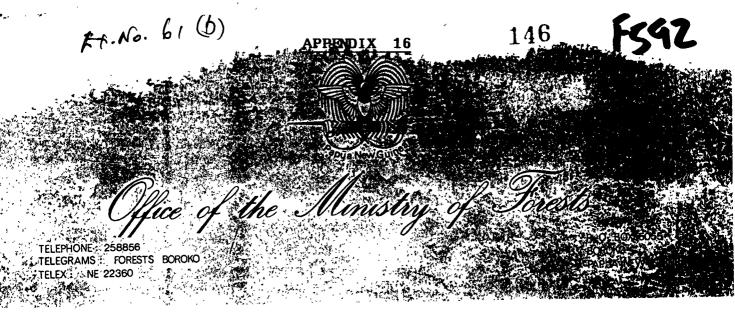
MALPRACTICES IN THE TIMBER INDUSTRY. UNDERGRADING OF OF LOGS - UNDER SELLING MEP PRICES - UNDER MEASUREMENT OF LOGS - TRANSFER PRICING - PAYMENTS/COMMISSIONS TO MIDDLEMEN - PAYMENT TO AGENTS, BASED OUTSIDE PNG, OPERATING AS TRADERS

FIC's immediate activities will be to check and maintain and control over the points set down below:-

#### Log Grading

- a. FIC now has the powers and authority to inspect, grade and check grade all logs which are to be exported from PNG, from any producer/exporter at any point in or between the operation area and the export loading point.
- b. All logs prepared for export will be graded in accordance with the Sealpa Log Grading Rules, (South East Asia Lumber Producers Association).
- c. FIC will co-ordinate grading activities of the Forest Department graders and graders employed by private companies.

<sup>&#</sup>x27;I, Edward Diro, Minister for Forest, by virtue of the 'powers conferred on me by the Head of State and the Forestry Act and the Forest Industries Act to herewith authorise the Forest Industries Council (FIC) to monitor all malpractices which are at present within the trade.



OUR REF M3-1-8

- 11 September 1986

Mr. Miskus Maraleu LL LLB Chairman Forest Industries Council of PNG P O Box 1829 PORT MORESBY



Dear Chairman

MALPRACTICES IN THE TIMBER INDUSTRY. UNDERGRADING OF OF LOGS - UNDER SELLING MEP PRICES - UNDER MEASUREMENT OF LOGS - TRANSFER PRICING - PAYMENTS/COMMISSIONS TO MIDDLEMEN - PAYMENT TO AGENTS, BASED OUTSIDE PNG, OPERATING AS TRADERS

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FIC's immediate activities will be to check and maintain and control over the points set down below:-

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- b. All logs prepared for export will be graded in accordance with the Sealpa Log Grading Rules, (South East Asia Lumber Producers Association).
- c. FIC will co-ordinate grading activities of the Forest Department graders and graders employed by private companies.

#### 2. Minimum Export Prices (MPEP) for logs

FIC in conjunction with Provincial Forest Officers (PFO), Forest Department graders and the Department of Trade and Industry, will ensure that no log is exported at a price per m3 f.o.b. below MEP, unless dispensation approval has been given by the Department of Trade and Industry. Failure to comply with MEP regulations will result in loaded vessels not obtaining clearance to sail.

#### 3. Undermeasurement of Logs

FIC in conjunction with Provincial Forest Officers (PFO) and Forest Department graders will carry out spot checks on the measurements on logs prepared and awaiting to be exported.

#### 4. Transfer Pricing

FIC now has the powers to request companies to make available information in respect of sales to overseas buyers. Producers/Exporters and Overseas Buyers, upon request, will make available to FIC all documentary information, contracts, telexes and letter of credit/payment arrangements etc.

#### 5. Commission Agents/Middlemen/Traders

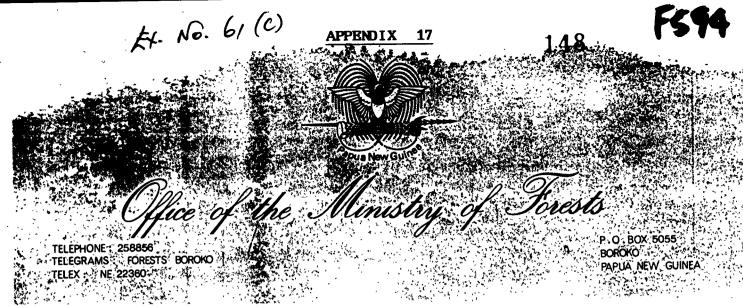
Conditions of sale as contained in the Department of Forest's letter, reference no..... dated ........... (copy attached) addressed to all log exporters/producers will be enforced.

It is the prime function of the Forest Industries Council to promote and develop the forest products industry, this includes ensuring that PNG timber logs are graded and measured in accordance with SEALPA requirements and that sales are carried out at the best market prices directly with an overseas buyer or via a reputable timber agent, if necessary. Middlement and Traders are not required.

Yours sincerely

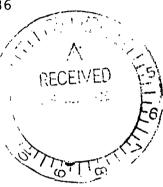
E.R. DIRO MP

Minister for Forests



.OUR REF M3-1-8

Mr. Miskus Maraleu LL LLB Chairman Forest Industries Council P O Box 1829 PORT MORESBY 12 September 1986



#### INTERNATIONAL MARKETING OF PNG LOGS AND SALES

Further to our recent discussions and your correspondence on the above subject, I write to inform you that my Ministry on behalf of the Government wishes the Forest Industries Council to continue in its present marketing promotion programme to find new markets and sales for our round log exports and to maintain its present market surveillance activities in order to have the best prices for our timbers.

I am aware of the difference of opinions that are being expressed by a minority of your Council members concerning the new image of the Forest Industries Council. However; my Ministry fully supports your programme of activities and no doubt all your Council members will realise and accept their true responsibility to the timber industry and forget private and personal gains and feelings. I had hoped the present members of your Council would work as a team, together with the Department of Forests to finally change the old image and methods of our Forest Industry and make our presence felt within the timber countries of South East Asia. I still have this hope. I was proud to see as "Head Lines" in the Japanese Timber News Magazine, "With Exception of PNG, All South Sea Logs Hit Bottom." For the first time in history PNG logs prices move up when all our competitors decline.

The activities of FIC have to be financed, to make money for PNG producers, someone has to spend money and with this in mind I intend to take up the State's Purchase Option, to purchase up to 25% of various company's



permitted annual log export volume and FIC will step up its marketing promotions and operate in direct competition with other Middlemen, Agents and Traders. I propose that a marketing/sale commission be paid to FIC on all sales made. This will provide additional revenue.

My Ministry anticipates that exports during 1987 will be in the region of 1.5 million m3. This increase has to be marketed.

In addition to log promotion and sales, I wish to see FIC commence promotion activities for sawn timber. Mr. Mark Grace of Beechwood Timbers recently proposed a marketing plan to channel all sawn timbers exports through FIC. Can this be followed up? I am also interested in the proposals of FIC to supply to nationals, sawing equipment to be set up within and alongside log producing companies, and arrange for export sales of logs cut through and through, into 4 inch to 6 inch thicknesses. Please follow this up and let me have your proposal.

In conclusion, I would congratulate you and your staff on a major success in obtaining a diversification of market outlet for PNG logs, kindly inform your staff accordingly.

Yours sincerely

E.R. DIRO MP

Minister for Forests



OUR REF MG-1-8

#### APPENDIX 17A

12 September 1986

The Managing Director
Vanimo Forest Products Pty Ltd
PO Box 41
VANIMO

Please recipiter IN I file.

Dear Sir

The government through the Forest Industries Council would like to purchase, on f.o.b. terms, about 2500/3000m3 of round export quality logs monthly, for a period of 10 months, October 1986 to July 1987. Forest Industries Council are prepared to purchase a percentage of all species and grades as produced, at competitive f.o.b. prices and specification. Payment will be made at sight upon receipt of shipping documents etc.

Your early reply would be appreciated.

Yours sincerely

E.R. DIRO MP

Minister for Forests

cc: FIC

151 (ett.) 182 23/09/86

APPENTIX 18



## FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

LOT 4 SECTION 405

Phone 25 6399 256302

Telex: NE 22226 FORING

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FACSIMILE MESSAGE

Telex NE 22216 F1 407.



## FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

MJC:mek

Photo: 25 6309 256300

15 September 1986

Mr S Hirata Managing Director Stettin Bay Lumber Co., Pty Ltd P O Box 162 KIMBE West New Britain Province

Dear Mr Hirata

#### RE: LOG VOLUME HARVEST & LOG EXPORT JULY/AUGUST 1986

a meeting held with the Minister of Forest on ursday 11th September 1986 it was agreed that the \_og volume to be exported by your company during the period July/August 1986 be increased by 30,000/M3.

During a later discussion between the Minister and FIC, on the same day, the Minister authorised a further export volume allocation of 18,000/M3. This increased was to allow your company to clear log stocks of 18,000/M3 before the end of this year. Therefore, the total additional volume allocation for the year 1986, is 48,000/M3. The Department of Forests will inform you officially in due course.

 $m{ extit{f}}$ th $m{ ext{fully}}$ 

Executive Director

Minister of Forests Secretary for Forests Dike Kari - Deputy Secretary

Hakisau Somba - Asst. Secretary

#### APPENDIX 19

153

P.O. BOX 1829 PORT MORESON LOT 4 SECTION 405 WAIGANLDRIVE

Phone 25 6399 256302 Telex: NE 22226 FCRP.



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DATE:15/10/198	6	REF NO: .209.	
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KNOW IMMEDIATELY. OUR FAX NO:- 21 2911

FOREST NE22360 OB364 OCT D6 1986 1343 GOOD AFTERNOON

6A 82758+ OCT 06 1344 GOGOL NE82758 (WEN AK)

ALL TIMBER COMPANIES

ATTN: MANAGING DIRECTOR/GENERAL MANAGER

RE: LOG EXPORT THRU AGENT

AS A WHOLE THE HONOURABLE MINISTER FOR FOREST HAS AUTHORISED FIC TO WORK AS THE STATEMARKETING AGENT FOR EXPORT OF PNG LOGS. ALL COMPANIES WERE ADVISED TO EXPORT DIRECTLY BY CUTTING OUT UNNECESSARY MIDDLEMAN AGENT. IN THE EVENT ANY COMPANY MAY NEED THE SERVICE OF ANY SALES AGENT. SERVICE OF FIC SHLD B USED.

I AM NOT SURE IF U R SELLING THRU ANY AGENT. IE SO, KINDLY ADUISE US OF THE FULL ADDRESS OF YR SALES AGENT, TYPES OF ARRANGEMENT MADE. ./. COMMISSION PAYABLE N SERVICES RECEIVED. I WUD APPREC A COPY OF THE AGREEMENT YR COMPANY MIGHT HAVE MADE WITH ANY AGENT FOR LOG EXPORT.

\* \*\* ...

RGDS.

O. MANALAI SECRETARY FOR FORESTS

6 GOGOL NEB2738 FOREST NE22345EMBBB TIME 002.9 HINS

#### APPENDIX 20

6 F. I. C. Fax 212911

ATTN MICHAEZ COWAN

FROM. G. WARD

FOLLOWING GORINENTS

VUBAL AND RAMINOU LETEING PROPERTY.

THVILO CASH FULL PROSECTION

44 AND 31 MOES

RESECTIVELY.

CAN YOU PLEASE PASS THESE TO THE Office of Folesis as our complexed ELEVISION IF NECESSARY REGARDS & THAMES

Braham

# VUDAL AND RAMANDU TIMBER RESOURCE LOGGING AND SAWMILLING PROPOSAL

**YUDAL TIMBERS PTY LTD** 

WECO PTY LTD
BAFOP PTY LTD
UFOP PTY LTD



## MEMORANDUM

701

## FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA



FROM:

MISKUS MARALEU

MICHAEL COWAN

## SUGGESTION AS FOLLOWS:

1. An amendment to add on Part III Section 17: Title: "FUNCTIONS AND POWERS OF THE COUNCIL".

17(3) shall read:

The Council shall buy logs from the Producers and export at the best price available on the open market.

#### 17(4) shall read:

\*.. The Council shall exercise the State's right of first refusal of offer for export of a minimum of 25% of log export volume of the agreed companies on behalf of the State.

Regards,

MISKUS MARALEU

#### APPENDIX 21

THE SECRETARY
OFFICE OF FORESTS
PORT MORESBY

DEAR SIR

RE : VIDAL TIMBER PERMIT

Marge of and put in Charemans file then file his happy copy in

PLEASE DO NOT FEEL THAT WE ARE TRYING TO PRESSURE YOU OR THAT WE ARE OVER REACTING, ESPECIALLY IN RESPONSE ONLY TO RUMOURS BUT THERE ARE VERY STRONG RUMOURS HERE IN RABAUL THAT THE DECISION ON THE VUDAL PERMIT HAS GONE AGAINST US.

WE WOULD BE EXTREMELY DISAPPOINTED IF THIS WERE THE CASE WITHOUT US BEING COUNSULTED ON ANY ASPECTS OF OUR APPLICATION CONSIDERED BY YOU TO BE UNSATISFACTORY, ESPECIALLY CONSIDERING AT THAT TIME.

WE WOULD BE GRATEFUL IF WE COULD DISCUSS WITH YOU ANY UNSATISFACTORY ASPECTS OF OUR APPLICATION AND ANSWER ANY QUERIES YOU MIGHT HAVE BEFORE YOUR FINAL DECISION IS MADE.

AS YOU KNOW OUR DISTANCE PERON PORT MORESB IS A PROBLEM ANY AS WE UNDERSTAND THAT THE CHAIRMAN OF THE FICE MR MARALEU, WILL BE HIM AND ACCEPT HIS ACTING ON OUR BEHALF.

SHOULD THERE BE ANY UNSATISFACTORY ELEMENTS, ANY QUERIES AS ALL ON OUR APPLICATION WE FEEL THAT WE CAN CLARIFY THEM ENTIRELY TO YOUR SATISFACTION.

ONCE AGAIN WE STRESS THAT WE DO NOT NORMALLY RESPOND TO RUMOURS BUT THIS MATTER IS SO VITAL TO OUR BUSINESS AND THE RUMOURS ARE SO STRONG THAT WE MUST ASK YOUR FORSEARANCE WITH US.

WITH REGARDS

GRAHAME R.WARD: SECRETARY



IN 377 27.11.86

159



#### DEPARTMENT OF FORESTS OFFICE OF THE SECRETARY

TELEGPANS FORESTS TELEX NEZZ360 TELEPHONE 254022

FRANGIPAÑI STREET

OUR REF 350-25-1

24 November 1986

Mr G Ward Vudual Timbers Pty Ltd P O Box 313 RABAUL East New Britain Province

Dear Sir

## SUBJECT: GAZELLE FORESTRY PROJECT PROPOSALS

This relates to your submission of October 1986 over the proposed Gazelle Forestry Project in East New Britain.

We have considered your proposal. Based on our evaluations, we regret to advise that such proposal is unsatisfactory. It is therefore rejected.

For your information this is the same case with the proposal from your competitors.

Due to the great length of time that has lapsed in deciding on the question of allocating the forest resources on the Gazelle Peninsula, a ministerial deliberation and decision on the matter had to be sought. Consequently, the Minister for Forests has made a decision, which is final, on the allocation of the forest resources in the Gazelle in the following manner:-

 The Weco Group of Companies has been allocated the Ramandu TRP and subject to TRP being acquired, the Toriu Headwaters. In addition, Mandres TRP will be transferred to this group of companies if they so desire.

- 2. Timbersales (PNG) Pty Ltd has been allocated the Vudal TRP and the Gaulim Extension TRP areas.
- 3. The Kerevat forest plantations will not be allocated to any one Company. Rather, the forest resources from the plantations would be made available by the State to any Company including Timbersales and the Weco Group as and when there is an order received. Details of arrangement will be worked out in due course. It is advised that preference will be given to local processing requirements in the distribution of raw materials from the plantations. It must also be advised that the manner in which the forest resources in the Gazelle have been allocated as per the Minister's decision reflects the strong desire of the government to see more local processing and fair competition in supplying the sawn timber requirements in the area concern:

In accordance with the Minister's decision, preparations for Timber Permits have commenced. You will be presented with a draft Permit for comments before a final one is prepared and presented to the Minister for execution.

Finally, you are requested to liaise with the Timbersales for the transfer of their Timber Permit over the Mandres area to your Company as soon as possible. We would like to see this done by 30 November 1986.

I feel there is room for both companies to operate in the Gazelle in a business-like manner. For this it may be advisable for both Companies to establish some understanding among themselves and to co-operate with the East New Britain and the National Governments in their endeavour.

Yours faithfully

SECRETARY

cc: Minister for Forests

cc: Secretary

Department of East New Britain

cc: Assistant Secretary
Forestry Division
Department of East New Britain

161

4 SHIN ASIGAWA NG

Confideration an M. Conon NECO FILE

YOU WERE ADVISED BY LETTER DATED 24TH NOVEMBER 1986 FROM THE SECRETARY OF FORESTS OF MY DECISION ON THE ALLOCATION OF RESOURCE TO YOUR COMPANY.

THAT DECISION HAS BEEN REVOKED.

THIS STEP IS SINCERELY REGRETTED HOWEVER IT IS MECESSARY AND HAS BEEN TAKEN IN THE SPIRIT OF MUTUAL CO-OPERATION THAT EXISTS BETWEEN THE NATIONAL GOVERNMENT AND THE FAST NEW BRITAIN PROVINCIAL GOVERNMENT IN WHICH THE NATIONAL BOVERNMENT SEEKS, CONSIDERS AND RESPECTS THE VIEWS OF THE PROVINCIAL GOVERNMENT IN REGARD TO MATTERS IN THAT PROVINCE.

UNFORTUNATELY AT THE TIME THAT THE DECISION WASMADE THE VIEWS OF THE PROVINCIAL GOVERNMENT HAD NOT BEEN PROPERLY CONVEYED TO ME BY THE OFFICE OF FORESTS.

IT IS MY OPINION THAT THOSE VIEWS MUST BE TAKEN INTO ACCOUNT IN THIS MATTER.

I KNOW THAT YOUR COMPANY HAVING OPERATED IN THIS COUNTRY FOR A CONSIDERABLE TIME NOW WILL APPRECIATE THAT THE PROVINCIAL GOVERN MENTS ARE AN INTEGRAL PART OF THE POLITICAL SYSTEM OF THE COUNTRY AND THAT THEIR VIEWS MUST BE RESPECTED. I FEEL ALSO THAT AS EXPERIENCED BUSINESSMEN YOU WOULD ACCEPT IN GOOD FAITH A DECISION IN THIS MATTER, TAKEN OBJECTIVELY, ENCOMPASSING AND TAKING INTO CONSIDERATION ALL PARTIES OPINIONS.

IN VIEW OF THIS AND IN VIEW OF THE ACRIMONY THAT OBVIOUSLY EXISTS BETWEEN THE PARTIES CONCERNED I FEEL THAT THE MATTER IS NOW BEST RESOLVED BY THE APPOINTMENT OF AN OBJECTIVE THIRD PARTY TO MAKE RECOMMENDATIONS ON THE ALLOCATION OF THE RESOURCE AREAS

ACCORDINGLY I HAVE APPOINTED THE FOREST INDUSTRIES COUNCIL AS THAT THIRD PARTY.

YOU WILL BE ADVISED OF A FINAL DECISION IN THIS MATTER BY THE 12TH DECEMBER, 1986.

#### APPENDIX 24

## FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA



Phone. 25 6399 256302

elex: NE 22226 FORINCO

FACSIMILE MESSAGE

DATE:04112156 REF NO352
NO. OF PAGES INCLUDING THIS ONE THREE (3)
TO: MR GRAHAN WARD
FROM: MICHAEL CELAN
SUBJECT: SEE ATTACHED!
MESSAGE: Please pass the affectived to
Us Graham Ward & Weco.
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IMPORTANT: IF YOU DO NOT RECEIVE ALL PAGES PLEASE LET US

21 2911

KNOW IMMEDIATELY. OUR FAX NO:-

PLIE NOTES OF THE MINISTRY OF JOVESTS

TELEPHONE: 258856
TELEGRAMS: FORESTS BORONO
TELEX: NE 22360

PLO BOX 5055
BORONO
BAPUA NEW GUINEA

OUR REF M3-1-1

Ol December 1986

Mr Graham Ward Weco Pty Ltd P O Box 313 RABAUL

Dear Mr Ward

You were advised by letter dated 24th November 1986 from the Secretary of Forests of my decision on the allocation of resource to your Company. That decision has now been revoked. This step is sincerely regretted, however it is necessary and has been taken in the spirit of mutual cooperation that exists between the National Government and the East New Britain Provincial Government in which the National Government seeks, considers and respects the views of the Provincial Government in regards to matter in that Province.

Unfortunately, at the time that the decision was made the view of the Provincial Government had not been properly conveyed to me by the Office of Forests. It is my opinion that those views must be taken into account in this matter.

I know that your Company having operated in this country for a considerable time now, will appreciate that the Provincial Government are an integral part of the political system of the country and that their views must be respected, I feel also that as experienced businessmen you would accept in good faith a decision in this matter, taken objectively, encompassing and taking into consideration all parties opinions.

...2...

In view of this and in view of the acrimony that obviously exists between the parties concerned I feel that the matter is now best resolved by the appointment of an objective third party to make recommendations on the allocation of the resource areas concerned.

Accordingly I have appointed the Forest Industries Council as the third party. You will be contacted on this matter by the Forest Industries Council before the 12th December, 1986.

Yours sincerely

E.R. DIRO MP

Minister for Forests

Liellling

CC: Hon.Premier

Mr Ronald Tovue CBE MPA

East New Britain Provincial Government

Secretary for Forests

Forest Industries Council



## FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

165 out 363 P.O. BOX 1829 PORT MORESBY LOT 4 SECTION 405 WAIGANI DRIVE

Phone 25 6399 256302

Telex: NE 22226 FORINCO

#### FACSIMILE MESSAGE

DATE:	411:2186	RE	EF NO.	353	
NO. OF PAGES	INCLUDING THIS	ONE THRE	e (3)		
TO:me	JOHN DIXON				
FROM: mic	MAEL COWAN				
SUBJECT: .SE	C ATTACHED				
MESSAGE:	SASE PASS TH	E ATTAC	MED 7	me:	50110
MXON- Th	uberènces (p	NC) PT/	CTD		
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1MPORTANT:	IF YOU DO NOT RECKNOW IMMEDIATELY	CEIVE ALL F . OUR FAX P	PAGES PL	EASE LET	US

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Office of the Ministry of Torests

TELEPHONE: 258856 TELEGRAMS: FORESTS BOPOKO

TELEX: NE 22360

OUR REF M3-1-1

Ol December 1986

P!O:BOT 5055

Mr J Dixon General Manager Timbersales (PNG) Pty Ltd P O Box 338 RABAUL

Dear Mr Dixon

You were advised by letter dated 24th November 1986 from the Secretary of Forests of my decision on that allocation of resource to your Company. That decision has now been revoked. This step is sincerely regretted, however it is necessary and has been taken in the spirit of mutual cooperation that exists between the National-Government and the East New Britain Provincial Government in which the National Government seeks, considers and respects the views of the Provincial Government in regards to matter in that Province.

Unfortunately, at the time that the decision was made the view of the Provincial Government had not been properly conveyed to me by the Office of Forests. It is my opinion that those views must be taken into account in this matter.

I know that your Company having operated in this country for a considerable time now, will appreciate that the Provincial Government are an integral part of the political system of the country and that their views must be respected, I feel also that as experienced businessmen you would accept in good faith a decision in this matter, taken objectively, encompassing and taking into consideration all parties opinons.

In view of this and in view of the acrimony that obviously exists between the parties concerned I feel that matter is now best resolved by the appointment of objective third party to make recommendations on allocation of the resource areas concerned.

Accordingly I have appointed the Forest Industries Council as the third party.

You will be contacted on this matter by the Forest Industries Council before the 12th December, 1986.

Yours sincerely

B.R.DIRO MP

Minister for Forests

CC: Hon.Premier

Mr Ronald Tovue CBE MPA

East New Britain Provincial Government

Secretary of Forests

Forest Industries Council

212911 OUR FAX NO: IMMEDIATELY.

P.O. BOX 1829 PORT MUNICH -LOT 4 SECTION 405 WAIGANI DRIVE



**APPENDIX** 24A

## FOREST INDUSTRIES COUNCIL

Phone 25 6399 256302 Telex: NE 22226 FORING



16 425

168

DATE: 13/12/1986

REF.NO: 420

NO. OF PAGES INCLUDING THIS ONE: ONE

OF PAPUA NEW GUINEA

GRAHAM WARD, MANAGING DIRECTOR, WECO PTY LTD TO:

MISKUS MARALEU/CHAIRMAN/FIC FROM:

SUBJECT: RE: VUDAL RESOURCE

ON THE 01.12.1986 I WAS DIRECTED BY THE MINISTER FOR FOREST TO ASSIST IN FINDING A WAY TO FINALLY DECIDE ON THE RESOURCE IN THE BEST INTEREST OF YR COMPANYS INTEREST, TAKING INTO ACCOUNTS THE SUBMISSION FRM YR PREMIER, MR RONALD TOVUE. TO POSITION IN THOROUGHLY NOW I'M YR FILES STUDIED PROPOSED TO В DISCUSS WITH U N LISTEN TAHW U TO BEST WAY TO ADV THE GOVERNMENT TO ALLOCATE THE RESOURCE. IN JANUARY PERHAPS WITH U ON A DT PROPOSED TO MEET PLSE NOMINATE THE DT N CNFRM WITH SECOND WK. HE SO THAT I CN MAKE ARRANGEMENTS TO MEET U.

KIND REGARDS MISKUS MARALEU **CHAIRMAN** FOREST INDUSTRIES COUNCIL

#### APPENDIX 25

The State Solicitor State Solicitors Office Department of Justice P O Wards Strip WAIGABI National Capital District 27 January 1987 375-2-1 Amin/mai

#### ATTENTION: MR. M. JALINA

#### BE: CHA ACREEMENT

This refers to our previous letters and telexes concerning the above subject.

and the FIC for your perusal and secassary corrections. The draft agreement has been prepared by FIC under advice of the Minister for Massets Mr. Paul Torato. The Minister has sepressed has desire to get the draft agreement finalized as soon as possible so that it can be signed by the State and the Forest Industries Council in accordance with NEC decision No. 220/85, Meeting No. 33/85.

I would appreciate your kind co-operation in checking through the draft agreement at your earliest convenience.

O. MAMALAI

Secretary for Porests

... Encl....



170

Phone. 25 6399 256302

MJC:mg

Telex: NE 22226 FORINCO

FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

30 January 1987

The Secretary Department of Forest P.O. Box 5055 BOROKO National Capital District

Dear Secretary,

MARKETING AGENCY AGREEMENT BETWEEN THE STATE AND THE FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

We have received a copy of your Marketing Agency Agreement the terms and condition therein are acceptable to us.

Yours Sincerely,

Executive Director

Mr J. Moses  $\infty$ :

Senior State Solicitor Department of Justic.





171

#### STATE SOLICITOR'S OFFICE

TELEPHONE:

271 230

The Secretary

P 0 Box 5055 BOROKO NCD

Department of Forests

DEPARTMENT OF JUSTICE, P.O. WARDS STRIP, WAIGANI, N.C.D.

Date:

2 February 1987

Our Reference:

GA86/9

Action Officer: Designation:

N J J JALINA/1p A/State Solicitor

Your Reference:

Date:

Dear Sir

MARKETING AGENCY AGREEMENT BETWEEN THE STATE AND THE FOREST INDUSTRIES COUNCIL

I refer to the above Agreement which was prepared by your Department in consultation with the writer and the Forest Industries Council.

The terms Agreement has in fact, been accepted by the Council through its letter dated 30 January, 1987 and copies to me. Subject to it being left unchanged prior to consideration by the National Executive Council, it is in order for execution by His Excellency on behalf of the State.

If I can be of any further assistance, please do not hesitate to contact me.

Yours faithfully

M J J JALINA A/State Solicitor



H

#### 2 February 1987

#### SMA AGREEMENT

- 1. Draft agreement was checked and approved by the Department of Justice. A certificate of legal order has been received and attached with the draft.
- 2. As advaied by the State Solicitor, another NEC Submission is necessary for advising the Head of the State to sign the agreement. The Minister for Forests was advised and accordingly he asked me to prepare a submission urgently.

The Submission was prepared and attached for the signature of the Minister.

Matter is urgent

PNAMIN AMIN

M1

MNA/mb



#### APPENDIX 29

#### MARKETING AGENCY AGREEMENT

#### BETWEEN

## THE INDEPENDENT STATE OF PAPUA NEW GUINEA

AND

THE FOREST INDUSTRIES COUNCIL OF PNG

This Marketing Agency Agreement is made the ..... day of .......... 1987.



<u>The Independent State of Papua New Guinea;</u>
(hereinafter called the "State");

AND:

The Forest Industries Council, (hereinafter called the "FIC").

#### WHEREAS

- The State is desirous of appointing a marketing agent for marketing and promotion of PNG logs and other forest products.
- 2. The Forest Industries Council of Papua New Guinea is a statutory body responsible for the promotion of the PNG timber industry and has developed all necessary contacts and appropriate expertise in the marketing of timber and timber products.
- 3. The National Executive Council of Papua New Guinea approved the proposal of appointing the Forest Industries Council of Papua New Guinea as the State Marketing Agent vide its Decision No.220/85 of the N.E.C. Meeting No. 33/85.
- 4. The State has approached the Forest Industries Council to carryout the function and obligations of a Marketing Agent and the FIC has also agreed to carryout the functions and obligations of the Marketing Agent upon and subject to the terms and conditions specified hereunder the parties hereto hereby agree as follows:



#### NOW THEREFORE the parties hereto hereby agree as follows:

#### 1. APPOINTMENT

The State hereby appoints the FIC to be its marketing agent and the FIC hereby accepts the appoinment.

#### 2. TERM OF CONTRACT

- (a) FIC shall be the State marketing agent for a period of three (3) years and such period shall be deemed to have commenced on 1st November, 1986.
- (b) The period of appointment referred to in Clause 2(a) may be extended provided the State is satisfied with the performance of the FIC in carrying out its obligations under this Agreement.

#### 3. OBLIGATIONS OF FIC

In carrying out its obligations under this Agreement, the FIC shall:-

- (i) procure the best markets available to sell Papua New Guinea logs to countries trading with and buying timber from Papua New Guinea.
- (ii) assist the small and local producers in all aspects of marketing including market intelligence and promotions.
- (iii) assist the State by supplying true and timely market information to enable the State to effectively maintaining the Minimum Export Price (MEP) of logs and other forest products.

- (2/8
- (iv) take appropriate measures to diversify markets for Papua New Guinea timber and other forest products.
- (v) promote the use and procure markets for the Papua New Guinea's lesser known species (LKS) of timber.
- (vi) assist the Forest Development Corporations and the landowners companies as and when necessary in the areas of marketing, grading and shipment of logs and other forest products.
- (vii) carry out any other promotional activities or operations in the timber industry most relevant to and mutually agreed between the State and the FIC.
- (viii) not receive in excess of 3% of FOB value as Sales commission for any shipment made on behalf of any other exporter of logs and other forest products.

# 4. RIGHTS OF FIC

Subject to clauses 9, 10 and 11 of the Agreement, the rights of the FIC are:-

- (a) to buy logs from producers in Papua New Guinea.
- (b) export ogs directly to buyers outside Papua New Guinea.
- (c) to compete with other log buyers in Papua New Guinea and sell to overseas consumers at the best price available on the world market.
- (d) to exercise on behalf of the State, the State's right of first refusal of offer for export of a minimum of twenty-five (25%) percents of log export volume of the timber companies as the case maybe.



#### 5. OPERATIONAL EMBARGO

In carrying out its duties and obligations hereunder, the FIC shall not:-

- (i) work through the locally (PNG) registered agents and log buyers operating in Papua New Guinea.
- (ii) export log to a country via another country unless:
  - (a) exceptional market situations prevails such as sales to People's Republic of China (PRC) through Hong Kong; and
  - (b) prior permission for such sales is obtained from the Minister for Forests.
- (iii) buy or sell any log below MEP unless:
  - (a) logs are more than three (3) months old.
  - (b) logs are rotten or otherwise defective or unsuitable for sales at normal prices the same duly certified by Provincial Forest Officer to be such.
  - (c) MEP dispensation is obtained from appropriate authority.

#### 6. STAFF

- (i) FIC will provide all management personnels to carry out its duties at its expense and will determine the conditions of employment of the such employees.
- (ii) where it is considered appropriate the State in consultation with the FIC may, on secondment, make available one or more of its officers to work with the FIC and such employees will be deemed to be the employees of the FIC and for whose actions the FIC shall be responsible.

#### 7. REMUNERATION

Subject to clause 9, FIC shall be remunerated at the rate of three percent of FOB value of each shipment of logs and other forest products.

# 8. REVIEW AND AMENDMENTS

- (i) It is agreed between the State and the FIC that the Department of Forests shall annually review the performance of the FIC under this Agreement.
- (ii) It is agreed between the parties that for effective performance, appropriate amendments may be made to this Agreement provided approval is obtained from the Minister for Forests or any other legally appropriate authority.

### 9. EXPORT QUOTA

Subject to annual review pursuant to clause 9, there shall be no fixed export quota for the FIC.

# 10. OBLIGATIONS OF THE STATE

Subject to the FIC performing its obligations hereunder to the satisfaction of the State, the State hereby agrees that:-

- (i) the FIC shall receive the 3% sales commission based on FOB value per shipment payable to the State where it exercises the right of first refusal on behalf of the State and actually effects such sales.
- (ii) it will ensure that all timber companies operating in Papua New Guinea will be requested to first offer a minimum of twenty-five percent (25%) of their annual permitted export volume to the State or its Agent prior to shipment.

# (qs)

#### 11. FINANCE

It is agreed between the State and FIC that:

- (i) all fundings for carrying out the obligations hereunder will be the sole responsibility of FIC.
- (ii) any profit and loss arising out of or in relation to the operation of SMA will be borne by FIC.
- (iii) the Bank of South Pacific, Waigani Branch will be the official bank for the FIC to operate all its operations and transactions relating to this Agreement.

### 12. ADMINISTRATION

- (i) All matters concerning the operation of FIC regarding this Agreement will be the sole responsibility of the Executive Committee of the FIC.
- (ii) All members of the FIC shall have the right of access to all financial and operational affairs of the FIC in respect of this Agreement.
- (iii) The FIC shall appoint and determine the conditions of employment of its staff relating to this Agreement.

## 13. LOCATION OF OPERATIONAL OFFICE OF FIC

It is agreed between the State and FIC that:

- (i) all operations of the FIC will be located and established at the FIC Building, Waigani Drive, Port Moresby.
- (ii) to enable the FIC, to perform its obligations hereunder, it may open other offices at Rahaul or any other towns in Papua New Guinea.
- (iii) for the time being, FIC will utilize its existing staff and facilities.

# 94

#### 14. TERMINATION OF AGREEMENT

- (i) If in the opinion of the State the FIC is unable to perform satisfactorily its obligations hereunder, the State may give three (3) months prior notice in writing of its intention to terminate this Agreement.
- (ii) On receipt of the said notice under 15(i) the FIC has the right to provide a written explanation to the State as to its performance of its obligation and if the State is not satisfied with the same the State reserves the right to terminate the Agreement.
- (iii) In the event that the State decides to terminate the Agreement pursuant to clause 15 (i) and (ii), the FIC is entitled to an extra three (3) months as from the date of notice of signing the termination notice before the FIC relinquishes its obligations under this Agreement.
- (iv) The State shall not be liable to the FIC or any other persons for any loss or expenses incurred by the FIC in carrying out its obligations under this Agreement.

#### 15. ARBITRATION

If at any time there is any dispute, question or difference of opinion between the parties hereto concerning or arising out of this Agreement or its construction, meaning, operation or effect of concerning the rights, duties or liabilities of either of the parties hereto which cannot be settled within 3 months of the dispute, question or difference of opinions arising, the same shall be referred to arbitration in accordance with this clause.



Any dispute, question or difference of opinion as aforementioned shall (unless the parties concur in the appointment of a single arbitator) be referred to two (2) arbitrators (one to be appointed by each party to the dispute or difference) who shall be instrument in writing appoint an umpire immediately after they are themselves The parties shall be deemed to have failed to concur in appointing a single arbitrator if such arbitrator shall not have been appointed within twenty-eight (28) clear days after service by either party on the other of a notice requesting it to concur in the appointment of such an arbitrator. If either party shall refuse or neglect to appoint an arbitrator within twenty-eight (28) clear days after the other party, having appointed its arbitrator, has served the party making default with notice to make the appointment, the part who has appointed the arbitrator shall be entitled to appoint such arbitrator to act as the only arbitrator in the reference. In the event of the arbitrators in the reference advising the parties in writing that they are unable to agree, the umpire shall forthwith enter the reference in liew of the said arbitrators.

Any reference to arbitration shall be deemed to be a submission within the meaning of the Arbitration Act, Chapter No.....

Any reference to arbitration shall be deemed to be a submission within the meaning of the Arbitration Act, Chapter No.....

Any arbitration under this Clause shall be held at such place in Papua New Guinea as sole arbitrator or the arbitrators the umpire determine.

If any party to any arbitration under this Clause so requests the sole arbitrator, the arbitrators or the umpire (where appropriate) shall State in the form of a special case for the opinion of the National Court of Justice of Papua New Guinea any question of law arising in the course of the reference and any opinion given shall be subject to the normal right of appeal.

The sole arbitrator, the arbitrators and the umpire shall have the power to order specific performance of any obligation to be performed under this agreement (other than one relating to land or any interest in land) and may, if they think fit, make an interim order.

#### 16. FORCE MAJEURE

Except as otherwise expressly provided herein, any failure on the part of a party hereto to comply with any of the terms, conditions and provisions of this Agreement which is caused by force majeure shall not give any other paty hereto any right to terminate this Agreement or to any claim for damages insofar as such failure arises from force majeure, if the first-mentioned party:-

- (a) has taken all appropriate precautions, due care and reasonable alernative measures with the objective of avoiding such failure and of carrying out its obligations hereunder; and
- (b) has given notice to the other party hereto of the occurance of force majeure.

In such circumstances, this Agreement shall, to the extent of the failure thus arising from force majeure, be deemed to be suspended and shall so far as possible forthwith come into full force and effect again when the force majeure means war, insurrections, civil disturbances, blockades, riots, embargoes, land disputes, epidemics, volcanic eruptions, earthquakes, storms, cyclones, floods, tidal waves, or explosions, fires, lightning, but shall not include any event caused by failure to observe good management practice or to make appropriate plans or by the negligence of the party concerned, its employees, servants, agents or subordinates.



#### 17. NOTICES

A notice given or documents signed and served on behalf of any party hereto by its lawyers shall be deemed to be have been given or served by that party personally. Any notice served on the lawyer for a party hereto shall be deemed to have been served on that party personally.

#### 18. LAW AND JURISDICTION

This Agreement is subject to, and shall be interpreted in accordance with, the law in force from time to time in PNG and the parties hereto submit to the non-exclusive jursidiction of The National Court of Justice of PNG.

The parties hereto shall comply with and observe the law from time to time in force in PNG.

ac

IN WITNESS WHEREOF the parties hereto have caused this Agreement to be executed on the day and year hereinbefore written.

SIGNED BY: KINGSFORD DIBELA	)
G C M G, Governor-General,	)
acting with and in accordance with	)
the advice of the National Executive	)
Council for and on behalf of the	)
INDEPENDENT STATE OF PAPUA NEW GUINE	<b>A</b> )
in the presence of	.)
	.)
	.)
SIGNED BY: MR MICHAEL COWAN	1
	\ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \
Executive Director,	1
a duly authorized officer	)
for and on behalf of FORESTS	)
INDUSTRIES COUNCIL in the presence	)
of:	)
	)
	<b>\</b>

"CONFIDENTIAL"

APPENDIX 30

MINISTER FOR FORESTS

FILE: 3-2-2/377-1-2

DATE: 2 February 1987

POLICY SUBMISSION NO. ...../87
FOR MEMBERS OF THE NATIONAL EXECUTIVE COUNCIL

APPOINTMENT OF THE FOREST INDUSTRIES COUNCIL AS THE STATE MARKETING AGENT FOR EXPORT OF LOGS AND OTHER FOREST PRODUCTS

#### A. PURPOSE

To seek advice of the National Executive Council for signing of the marketing agency agreement by the Head of the State.

# B. FACTS AND CONSIDERATIONS

Revenue generation, employment and regional developments are some of our major objectives and the export of forest products is one of the most significant sources for achieving such national objectives. Papua New Guinea is a growing supplier and a significant source of South Sea Logs. Our annual earning for foreign exchange from the export of forest products is about K80.00 million. I have set a target of earning K200.00 million in 1987, which will be achieved by increasing the volume of exports and selling the produce at the most competitive prices in the diversified markets.

The marketing status of Papua New Guinea logs and other forest products was, until recently, far from satisfactory. The prices were low, markets were limited and the timber species were unknown/lesser known in the export markets. timber subsidiaries the companies, being overseas parent companies, were entirely the dependent parent companies for marketing their products and understandably they were reluctant in selling higher FOB prices. The few and small nationally owned companies did not possess the necessary marketing expertise their products at to export the competitive prices. Α overseas middleman agents were firmly engaged timber value by taking away the lion share of our forming a strong cartel and practicing extensive transfer The loss of revenue in foreign exchange from pricing. log export alone has been estimated to be over K20.00 million a year.

now a proven fact that PNG Timbers have a place Ιt for above those International Markets at prices received in the In addition species past. which had for years informed the us were and unsalable are now being marketed and exported under their own specie name at prices up to 60 percent above prices of 6 months ago.

In order to stop such an unnecessary losses and to increase more revenue through market promotions, an NEC decision was made for the appointment of the Forest Industries Council (FIC) of Papua New Guinea as the state marketing agent through the following steps:

- ( i ) Calling of offer from FIC
- ( ii) Negotiation leading to a draft agreement
- (iii) Approval of the draft agreement by the Minister for Forests
- (iv) Appointment of the FIC as the state marketing by signing the final agreement by the State.

In persuation of the above decision, an offer was received from the Forest Industries Council and a draft agreement was negotiated. The draft agreement was checked and found in order by the Department of Justice.

However, the draft agreement has not yet been formally Forest Industries The Council was asked signed. authorised by the Minister for Forests to work as the state marketing agent on experimental basis from November, 1986 and the results were found remarkable. of logs were pushed up significantly. The small local producers have started receiving the fair prices which they have not everheard. The new markets and a significant volume were explored oflogs shipped, for the first time, directly to Korea, and Taiwan. The Forest Industries Council has received full support and cooperation of all the independent producers and PNG's locally owned timber companies though few offshore middleman agents who have 80 far been easy and unfair business were hard-hit by enjoying an Industries competition from the Forest Council. The marketing agency arrangement has been found highly beneficial to the country and I am convinced that suchf arrangement should be regularised by signing the draft agreement as soon as possible.

The draft marketing agency agreement, enclosed herewith, has been checked and modified by the State Solicitor of the Department of Justice and finally approved by me. It is now in order for signing by the Head of the State under advice of the NEC.

### C. VIEWS OF OTHER MINISTERS

To be sought in the Cabinet.

#### D. FINANCIAL IMPLICATIONS

Nil. No amount will be spent by the government. The agency arrangement will assist the government in raising the revenue significantly.

#### E. STAFFING IMPLICATIONS

Nil.

#### F. LEGISLATIVE IMPLICATIONS

Nil.

#### G. CONSTITUTIONAL IMPLICATIONS

Nil.

#### H. POLITICAL IMPLICATIONS

Nil.

### I. PLANNING IMPLICATIONS

Nil.

### J. DECENTRALISATION IMPLICATIONS

Nil.

#### K. PREVIOUS POLICY REFERENCE

NEC Decision No. 220/85, Meeting no. 33/85, which approved the appointment of the Forest Industries Council as the state marketing agent through the following steps:

189

- ( i ) Calling of offer from FIC
- ( ii) Negotiation leading to a draft agreement
- (iii) Approval of the draft agreement by the Minister for Forests
- ( iv) Appointment of the FIC as the state marketing agent by signing the final agreement by the State.

# L. RECOMMENDATIONS

It is recommended that NEC advises the Head of the State to sign the Marketing Agency Agreement.

PAUL TORATO MP
Minister for Forests



# FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA



P.O. BOX 1829 PORT MORESS LOT 4 SECTION 405 WAIGANI DRIVE

Phone 25 6399 256302

Telex: NE 22226 FORINCO

FACSIMILE MESSAGE

JATE:	3rd FEBRUAR	4.,1987	REF NO.	603
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FROM:	M. J. COURT	1		
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21 2911

C. MUNAGUN

TO: FAS - RESOURCES

2 February 1987

# MINUTE

Ple No. 151-15-0

UBJECT

DRAFT TIMBER PERMIT NO. 15-33, WECO P/L

The draft Timber Permit No. 15-33, which the Minister pupported to issue to Weco P/L as of 30th January, 1987 and to date we had only 8 hours to have it finalized. Please be advised that the draft Timber Permit 15-33 is not ready to be executed by the Minister due to the following reasons:

- The following department has not checked and approved clearance of the said Permit.
  - (a) The State Solicitor's Office, Department of Justice.
  - (b) The Department of Lands and Physical Planning.
  - (c) The Bureau of Water Resources.

For your information.

C. MUNAGUN

#### INDEPENDENT STATE OF PAPUA NEW GUINEA

Reg., Sec.6.

Form 2

Forestry Act, Chapter 216

#### PERMIT No. 15-33

I, Paul Torato, Minister for Forests, by virtue of the powers conferred by Section 10 of the Forestry Act, Chapter 216 and all other powers me enabling, hereby grant to WECO PTY LTD whose postal address is P.O. Box 84, RABAUL, East New Britain (he. inafter referred to as "the Permit Holder") the exclusive right to take and remove from the area of land described in Schedule 1 to this Permit (hereinafter referred to as 'the Permit Area') which is delineated and edged in red on the plan in Schedule 2 to this Permit, the timber, other forest produce and roadmaking materials specified in Schedule 3 to this Permit and otherwise to exercise the rights conferred by Section 12 of the Act for the period of five (5) years (hereinafter referred to as "the Permit Period") from the Date of this Permit (hereinafter referred to as "the Permit Date") subject to the Forestry Act, Chapter 216, the written authority of the land leaseholder (if any) and to the following additional covenants, terms and conditions:-

# APPENDIX 30(B) 193



# FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

P.O. BOX 1829 PORT MOHESS LOT 4 SECTION 405 VAIGANI DRIVE

Phone 25 6399 256302

Telex: NE 22226 FORINCO

3/2/87

FACSIMILE MESSAGE
PACSIMILE MESSAGE  REF NO. 664
NI. OF PAGES INCLUDING THIS ONE(49)
MR G WARD
FROM: M COWAN - FIC.
GUBJECT:
MESSAGF: Please kindly bass on to
MR G WARD
IMPORTANT: IF YOU DO NOT RECEIVE ALL PAGES PLEANOW IMMEDIATELY. OUR FAX NO:-

21 2911

C. MUNAGUN

TO: FAS - RESOURCES

ebruary 1987

# MINUTE

Pho No. 151-15-0

DRAFT TIMBER PERMIT NO. 15-33, WECO P/L

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For your information.

C. MUNAGUN

#### INDEPENDENT STATE OF PAPUA NEW GUINEA

Reg., Sec.6.

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# GRAHAME R. WARD REGISTERED PUBLIC ACCOUNTANT RABAUL

580 3/2/87

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#### INDEPENDENT STATE OF PAPUA NEW GUINEA

Reg., Sec.6.

Form 2

#### Forestry Act, Chapter 216

#### PERMIT No. 15-33

I, Paul Torato, Minister for Forests, by virtue of the powers conferred by Section 10 of the Forestry Act, Chapter 216 and all other powers me enabling, hereby grant to UPAL TIMBERS WHEN PTY LID whose postal address is P.O. Box 84, RABAUL, East New Britain (hereinafter referred to as "the Permit Holder") the exclusive right to take and remove from the area of land described in Schedule 1 to this Permit (hereinafter referred to as 'the Permit Area') which is delineated and edged in red on the plan in Schedule 2 to this Permit, the timber, other forest produce and roadmaking materials specified in Schedule 3 to this Permit and otherwise to exercise the rights conferred by Section 12 of the Act for the period of five (5) years (hereinafter referred to as "the Permit Period") from the Date of this Permit (hereinafter referred to as "the Permit Date") subject to the Forestry Act, Chapter 216, the written authority of the land leaseholder (if any) and to the following additional covenants, terms and conditions:-

"Secretary" means the person from time to time occupying the position of Secretary, Department of Forests, or any duly appointed person or body performing the functions, duties and responsibilities of that office:

"Secretary, Department of Works" means the person from time to-time occupying the position of Secretary, Department of Works, or any duly appointed person or body performing the functions, duties and responsibilities of that office;

"Secretary, Department of East New Britain Province"
means the person from time to time being occupying the
position of Secretary, Department of East New Britain
Province, or any duly appointed person or body
performing the functions, duties and responsibilities
of that office:

"Selective Logging" means the taking and removal of only selected trees of a fifty (50) centimetres or greater breast height diameter overbark;

"State" means the Independent State of Papua New Guinea:

Agreements dated 18th September, 1979 and respectively, networn the State and cortain landowners in the Permit Area pursuant to which the State acquired certain timber harvesting rights, and any agreements extending or renewing the said Timber Rights Purchase Agreements;

",Undersized Tree" means a tree having a breast height diameter of less than fifty (50) centimetres overbark; and

"Valuer Weneral" means the person from time to time appointed to the position of Valuer General pursuant to the provisions of Part II of the Valuation Act, Chapter 327 as amended from time to time.

14:06 EOREST IND CNCL TIMBER PERMIT No. 15-33

# 3. DISCLAIMER

- 3.1 Nothing in this Permit is to be construed as a guarantee or a warranty that the Permit Area contains any specific quentity or species of forest produce and the Permit Holder shall accept all risks in respect of quantity, quality, size, accessibility or other like matters relating to the forest produce specified in this Permit.
- 3.2 The risk of diminution or loss of the timber resources of the Permit Area caused by fire, flood, insect or fungal attack or by any other natural cause lies solely with the Permit Holder.

# 4. THE PROJECT

# 4.1 Log Harvesting

4.1.1 The Permit Holder shall in each Permit Year harvest not more than the miximum and not less than the minimum volume of logs specified in the following table:-

Permit Year	Maximum (M3)	Minimum (M3)
	30	
1	1701 000	8,000
2	201111 900	10,000
3 and each	20 1000	10,000
subsequent Permit Year		ı

- 4.1.2 The Permit Holder shall take and remove all forest produce specified in Schedule (3) which the Secretary deems marchantable.
- 4.1.3 If the Termit Holder fails to take and remove any forcet produce learned merchantable by the Secretary, the secretary ray by notice in writing require the Permit Holder either:-

- (1) to cut such produce and sell it to an end-user nominated by, and on such terms and conditions as are determined in writing by, the Secretary; or
- (ii) to allow a person nominated by the Secretary to take, remove and sell such produce for its own benefit absolutely.

# 4.2 Log Exporting

The Permit Holder shall in each Permit Year export not more than the volume of logs specified in the following table:-

Permit Year	Max imum	Export	Volume
	'	(N3)	•
1	17#	, 000	
. 2	15	000	
3 and each subsequen		000	
Permit Year		•	

# 4.3 Sawmilling

Permit Year

Permit Year

The Permit Holder shall at its own cost establish a sawmill no later than the end of Permit Year One (1).

The Permit Holder shall thereafter process through the said sawmill not less than the volume of logs specified in the following table:-

Minimum Log Input Volume

(M3)

	2007
1	8,000
2	10,000
3 and each	10,000
subsequent	

# '67 14:07 EUREST INDUNCT 6-33

## 4.4 Roads and Bridges

# 4.4.1 General

The Permit Holder shall construct, upgrade, and maintain all roads, bridges, culverts and crossings required for its purposes wholly at its own cost.

## 4.4.2 Roads

The Permit Holder shall construct 5 kilometres of new road and upgrade 6 kilometres main distance of the Lassul Bay Highway to the Rural Class 2 design specified in the Department of Works Manual. The Permit Holder shall construct the Lassul Bay Highway Boad within the Timber Permit Area and the Permit Holder shall complete the road no later than Permit Year 3.

## 4.4.3 Bridges

The Permit Holder shall construct bridges/a bridge over Ramandu River at its own cost.

# (a) Ramandu River

the Permit Holder shall construct a permanent bridge over Ramandu River within Year One (1) of the the permit of the Permit. The design of the bridge to be approved by the Secretary, Department of East New Britain.

# 4.4.4 Maintenance

The Permit Holder shall during the continuance of the Permit, at its own cost, maintain to the standard of construction specified, in a safe and trafficable condition, all roads, bridges and crossings constructed and usek by it, unless the Secretary, Department of Works/Secretary, Department of East New Britain Province upon the request of the Permit Holder (which request shall be in writing) approves otherwise.

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#### SCHEOULE 1

# PARTA. VUONE

#### DESCRIPTION

An area of approximately 9,770 hectares known as VUDAL Timber Rights Purchase Area situated in the Willinches of PONDO and KOKOPO Fourmil of RABAUL and RABAUL District of the FAST NEW BRITAIN Province commending at the junction of the ARAREPEKI and VIDAL Rivers thence bounded by the Unregistered Administration Land boundary generally southerly and northeasterly for approximately 5,500 metres to the right side of the KERAVAT - CORRECTIVE INSTITUTION road thence bounded by the said road generally southerly by survey lines bearing 164 degrees 25 minutes for 57.61 metres 203 degrees 50 minutes for 127.18 metres 188 degrees 49 minutes for 91.81 metres 130 degrees 14 minutes for 167.01 metres 105 degrees 14 minutes for 196.52 metres 111 degrees 26 minutes for 236.03 metres 143 degrees 06 minutes for 128.69 metres 129 degrees 27 minutes for 73.83 metres 159 degrees 48 minutes for 251.62 metres 173 degrees 43 minutes for 194.31 metres 188 degrees 54 minutes for 119.35 metres 226 degrees 51 minutes for 175.86 metres 211 degrees 16 minutes for 107.87 metres 161 degrees for 153.85 metres 129 degrees 02 minutes for 132,01 metres 174 degrees 57 minutes for 115.28 metres 182 degrees 35 minutes for 394.45 metres and 142 degrees 34 minutes for 110.13 metres to the northeastern moet corner of Portion 830 thence by survey lines bearing 236 dagrees for about 71 metres 184 degrees for about 212 metres 150 degrees for about 93 metres 249 degrees 44 minutes for about 129 metres 186 degrees 20 minutes for 101.77 metres 147 degrees 47 minutes 74.77 metres 193 degrees 35 minutes for 58.52 metres 178 degrees 28 minutes for 40.17 metres 140 degrees 47 minutes for 62.02 metres 184 degrees 47 minutes for 184.51 metres 117 degrees 17 minutes for 49.08 metres 156 degrees 41 minutes for 27.18 metres 183 degrees 41 minutes for 62.40 metres 207 degrees 41 minutes for 77.11 metres 230 degrees 44 minutes for 51.04 metres 255 degrees 53 minutes for 88.39 metres 211 degrees 18 minutes for 18,95 metres 157 degrees for 130.70 metres 152 degrees of minares for 467.82 metres 177 degrees 57 minutes for 789.78 metres

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(CONT.)

SCHROULE 1

# DESCRIPT ION

200 degrees 52 minutes or 769.04 metres 114 degrees 59 minutes for 732.11 metres and 123 degrees 48 minutes for 298.93 metres to a point on the left bank of the KERAVAT River being the southern most corner of Portion 779 thence bounded on the east by part western boundary of the said KERAVAT CORRECTIVE INSTITUTION generally southerly and southwesterly and southeasterly for approximately 2,500 metres to the southeastern most corner of the said Institution thence bounded by the Unregistered Administration land boundary as aforesaid generally southwesterly and northwesterly and southerly and northerly and northwesterly and westerly for approximately 20,800 metres to MAINEM Village thence by the headwaters of the VALILIE River downstream generally northerly for approximately 7,500 metres to the southermost corner of the RANGULIT Native Reserve thence on the northwest by the boundary of the said Reserve to its southeastern most corner thence on the north east by the ILU - DOTIWARA divide for approximately 1,800 metres to the KERAVAT - MALASAIT road thence generally mortheasterly by the centre line of the said road for approximately 2,000 metres to OFFICE OF FORESTS survey peg thence on the north by a straight line bearing 90 degrees for approximately 3,800 metres to the ARAREPKI River thence by the said ARAREPKI River downstream generally northeasterly along the right bank for approximately 3.150 metres to its jusction with the VUDAL River being the point of commencement and all distances being a little more or a little less and all bearings magnetic.

PARTA RAMANON

Mailed instrum

discontinue



# FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

206

PO BOX 1829 PORT MORESBY LOT 4 SECTION 405 WAIGANI DRIVE

Phone: 256399/256302

256216/256728

Telex: NE22226 FM

Fax: 21291

MINUTE NO.47 OF THE MEETING OF

FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA

HELD AT THE FOREST INDUSTRIES COUNCIL, PORT MORESBY

AT 0930 HRS - MONDAY\_9TH FEBRUARY 1987

#### Present:

Mr Miskus Maraleu

Mr Mark Grace

Mr Oscar Mamalai

Mr Wep Kanawi

Mr Garth McIllwain

Mr Grahame Ward

. Mr Tim O'Neill

Mr Simon Hirata

Mr Frank Lennard

Mr Michael J Cowan

- Chairman

- Deputy Chairman

- Member

rember

- Executive Director

Mr Jack Nouairi

- In Attendance

The Chairman opened the meeting at 0930hrs.

Chairman stated that the Minutes of the No.46 meeting of the Council held on the 09.10.86 were well prepared and correct.

Mr Grahame Ward read out the Minute of the Council decision during meeting No.46 regarding the service contract for the Executive Director. Mr Grahame Ward stated that the Chairman and himself had been authorised by the Council to discuss with the Executive Director a number of changes required to be made in the term

and conditions of his contract. The Chairman requested that Mr Grahame Ward's Minute be included with the Minutes of Council Meeting No.46 and asked if there were any queries or comments on the Minutes, there being none the Chairman asked for the Minutes to be accepted. Mr Simon Hirata moved and Mr Garth McIllwain. seconded that the Minutes be accepted and the meeting agreed.

Under business arising from the Minutes of Council Meeting Minutes No.46, G. Ward informed the Council that the Chairman and himself had discussed the various changes in contract conditions with Mr M J Cowan, who had accepted and agreed. The service contract terms and conditions had been read to Mr M J Cowan in full. He had accepted the contract. Deputy Chairman stated that the old contract would now be 'null and void' and should be cancelled. This was proposed by Mr Mark Grace and seconded by Mr Occar Mamalai Members asked to see the new contract for the Executive Director. This Chairman replied that it was at present being typed and would be available during the meeting. Members asked for this item to be deferred until the contract was available.

The Chairman asked Mr Simon Hirata and Fr Tim O'Neill to present their report on "Operating Guidelines for PIC Executive Management". Mr Simon Hirata presented a report to all members and read the report to all members. The Chairman asked for comments on the report. Deputy Chairman stated that Forest mills had a role to play in the timber industry but asked other members to comment on points to (f) of the report. Mr Grahame Ward replied that if FIC was to be involved then FIC should be involved in the finance. Mr Garth McIllwain said that commercial decisions could only be discussed upon the commercial presentation of a proposal, at which time a decision could be made.

Fr Tim O'Neill was of the opinion that the subject was complicated and far reaching. FIC would have to tread very carefully and should only involve themselves in an advisory capacity. He went on to say that the project was without doubt a good one for the Nationals but not the immediate responsibility of FIC. He proposed that a special committee be formed to study the subject Mr Simon Hirata pointed out that the FIC Act clearly stated that all possible must be done to promote the timber industry, and help nationals. FIC: could give consultancy services, project studies, sales projections and financial project requirements etc in order to help interested nationals in obtaining bank loans. Mr Wep Kanawi thought it would be difficult for FIC to offer promotional and consultancy services, as in his opinion FIC did not have expertise required. He said that this would put the FIC in the position of playing two roles, one of promoting a project and the other, day to day management assistance plus sales. This he said was impossible and he cited NIDA as an example. He went on to say that members should ask themselves, what is FIC required to do by status. Mr Oscar Mamalai in principle agreed with the proposals as set down in the Report and wondered what were the priorities of FIC. Mr Jack Novairi thought that there were Frany difficulties in the industry and FIC should help those already operating before taking new projects. Fr T O'Neill said that the original plan for forest mills was that they produce for export. He' then asked what happens when the export market was not available? The Deputy Chairman again stated that the forest mill type of operation was good for PNG and suggested that FIC had a role to play by compiling data on how to set-up and run a forest mill. However, there were consultancy firms in PNG and it was not the job of FIC to enter into this business in competition with consultants. The Executive Director explained to

members that FIC could not become involved in new forest mill projects with persons or companies which did not have a suitable background knowledge of the trade and/or finance. He went on to say that it was alright to purchase a forest mill and set it up and forward sales but where were the owners going to obtain logs and with what equipment? In his opinion forest mill projects, in the first instant had to be set up within the existing structure of a logging and/or sawmilling company. As an example there SBLC and Beechwood. He went on to say that Beechwood was the leading company in PNG using the forest mill concept and with the approval of Beechwood any persons company interested in purchasing a forest should visit Beechwood to have an on the ground idea of the day to day problems. FIC should put together some facts and figures based upon Beechwood operations and make them available to any interested parties. Mr. Wep Kanawi agreed with the Executive Directors comments but stressed caution in any dealings. His opinion and advice was based on many past experiences. Deputy Chairman moved that a further study be made and presented to the Council at the next -meeting 3 months time. Ar Grahame Ward seconded.

At this point the Executive Director's contract arrived and the Chairman passed a copy to each member to read. Chairman asks for comments. Fr Tim O'Neill raised a point of long service leave. Mr Frank Lennard replied that this was standard clause. Mr Jack Nouairi suggested that the contract be referred to State Committee. Mr Frank Lennard stated that the contract had already been agreed to and proposed by a special committee Mr Grahame Ward explained that the contract had been accepted during Council Meeting No.46 and this Council Meeting upon the confirmation of the special committee was to execute the contract. Mr Garth McIllwain asked what salary the Executive Director was now receiving. Mr Mr Cowan replied that he was on the same salary

and conditions as his predecessor with the exception of air travel class, which was not 'first Chairman asked if any more comments. Mr Jack Nouairi asked who the Executive Director was responsible to. Mr Grahame Ward replied the Chairman and this was have immediate action on any urgent matter done to and was the line of executive management which had always been in place. Mr Mark Grace proposed that the Executive Director be responsible to the 'Council' and not to the Chairman. Mr Wep Kanawi agreed. was then agreed that the word 'Council' be replaced with the word 'Chairman'. The contract was then approved by all present, with a commencing date of 9th February 1987. The Chairman was authorised to sign and affix the Councils seal. The contract and use of the Council's seal was proposed by Mr Grahame Ward and seconded by Mr Simon Hirata. Deputy Chairman made that the 'Council's Seal' can not be used without the approval of the Council. Deputy Chairman Mr Oscar Mamalai stated that the Executive Directors present contract, although not with the Council should returned. Mr M Cowan confirmed that this would be done.

The Chairman included into matters arising the position the Accountant. Mr Grahame Ward informed members that the accounts were in order but the present Assistant Accountant needed some help. He stated that the Asst Accountant was very courages and hardworking. was still a little new but would be OK in a few months. Mr Grahame Ward went om to explain that Mr Maurice Pratley, a private public accountant had been retained to keep a monthly check on the accounts. Mr Marice Pratley was at present in the final stages of finalising the balance sheet for 1986. Deputy Chairman stated that the appointment of Mr Maurice Pratley was news him and he asked what were the costs under the present system. Mr Grahame Ward replied by half of the previous costs. The Executive Director explained that

almost impossible to obtain the services of an acceptable Accountant. Advertisements had been placed in the local papers, the services of a local 'Head hunting firm', PNG Management Services Pty Ltd had been engaged. 60% of applicants were only accounts clerks, 30% were interested but did not return to take up FIC offer, remaining 10% was 2 accountants, both unable to accept position without accommodation being provided. Fr Tim O'Neill asked about present position. Mr Grahame Ward explained that after the last accounts checkup, the accounts were in order. Deputy Chairman asl. the current position of the IBD and value of O/Draft. The Executive Director replied that the IBD remained unchanged and had been 'rolled over', there was no O/Draft, the account was always in credit.

The Deputy Chairman stated that all overseas promotional travel/trips would first have to be approved by the The Deputy Chairman then recalled that this was discussed at the Council Meeting No.46 and should have been included in those minutes. He asked that they now be included. This was agreed. The Executive Director apologised for this error. Mr Garth McIllwain and Mr Wep Kanawi complained about the late receipt of 'Minutes' and requested that 'minutes' must available to members of the Council about 10-14 days before a Council meeting. Mr Wep Kanawi stated that for all the meetings he had attended the 'Minutes' were not presented in time, he wondered if this was because of, overload of work or was it by design. The Chairman replied that it was not by design explained that all the staff especially the Executive Director were very much under a daily pressure load and worked long hours.

Chairman asked the Executive Director to give the up to date position on marketing. This was done. The main points being (a) price increases (b) sales of all species (c) individual species being moved up in grades and (d) production up. He was concerned

over the availability of markets for the increased production projected during 1987. FIC's participation in the market was about 4% of the overall volume which had to be marketed at prices above average, in a free market the exporter sold to the highest buyer. had been made only to two markets, Korea and Japan. Mr Oscar Mamalai informed the members that the former Minister for Forests had authorised FIC to market logs for two purposes - (a) to allow the government the possibility to take up 25% of producers production as allowed for in their Timber Agreements and (b) to obtain information in the international markets of the true value of PNG logs. FIC have achieved what they were asked to do. He went on to say that during the past four months there had been a marked improvement in production and prices FIC had achieved good results and his department was well satisfied. The trade has become alive. PNG is now known and referred to international trade circles. The Chairman asked y comments. Mr Wep Kanawi stated that he had if come for this sole reason of expressing his views and opinions on FIC activities in marketing. Mr Wep Kanawi spoke for about 15/20 minutes, the main points being:

- (a) Members of the timber trade are complaining to the Ministry of Trade over the marketing activities of FIC.
- (b) Members of the timber trade are saying that FIC is playing a role that they may not be officially allowed to play.
- (c) Has the NEC made a decision to give powers to FIC or SMA ... market? He stated that they have not.
- (d) The State must give approval for F1C to market and act as SMA.
- (e) The present system of approving export licences on a 'Ship to Ship' basis was not in order.

Export licences must be issued on a 6 months basis and the Ministry of Trade had given such instructions:

- (f) FIC had no right to demand information from the trade.
- (g) MEP (Minimum Export Prices) are used for other purposes. Forest Department use it to obtain payment of back royalties.
- (h) Members of the trade asked who is forest department, and who runs it. Is FIC in control of Forest. FIC is to be involved with Forest Department who runs who?
- (1) FIC was set up to operate at arms length from Government.
- (j) FIC has a role to play and Forest Department has a role to play but not together. They must be apart.
- (k) There is no legal basis for FIC to be involved in marketing. We must be careful.
- (1) Members of the trade and politicians have asked my department for information.
- (m) The roles of FIC and the Forest Department must be separated and be at a distance.
- (n) Telexes were being sent in the name of the Forest Department on FIC telex.

Mr Wep Kanawi stated that on numerous occasions members of the trade contacted him in connection to export licences, and that he was very confused. He compared the SMA with the meat factory and did not want a similar situation to occur.

Fr.Tim O'Neill stated that he had also received complaints from members of the trade who had asked a number of questions similar to those put by Wep Mr Kanawi. He produced a list and read it to the members. Chairman asked Fr Tim O'Neill who were the members, could he supply names and companies etc. Mr Oscar Mamalai replied to Mr Wep Kanawi disagreeing points which had been raised. Mr Oscar Mamalai Mr Wep Kanawi that he (Oscar Mamalai) the Forest Department. On occasions when the was not working he Department telex had requested FIC to despatch Forest Department telexes on the FIC behalf of the Forest Department. on not agree that the Forest Department and the FIC roles He was happy to say that at were mixed together. long last Forest Department and FIC were working together betterment of the trade. He was fully for the FIC's present markeding activities and support ofnever had the timber industry been in a litter position. doing a good job. He stated that was was not using the MEP to obtain department payment royalties and could not understand how it could He belived that FIC had the powers to market timber within the .. FIC Act. He went on to say that the Minister for Forests had also authorised FIC writing to start to market PNG logs. He continued on to explain to all members the role of SMA and its background. He said that it had been around years and in 1985 had been accepted by NEC. It to NEC for signature authorisation again put 5th February but owing to a number of technical questions had been requested to be represented at the next meeting during the latter part of February/early held Deputy Chairman stated that members were concerned over the 3% commission deduction made by F1C and members complained over the ship to ship licence and wanted a licence to be for 6 months. Mr Oscar Mamalai replied that the SMA allowed for commissions upto 3.5% on the FOB value. This was as per other companies

doing the same job as FIC. He knew of companies having 6% commission. Why would a shipper to prepared to pay to an overseas agent 3% sales commission and complain about the payment of the same commission rate to SMA or FIC when in addition FIC price was higher He could see reason why licences should be issued for 6 months The Chairman made a long reply to Mr Wep Kanawi, Deputy Chairman and Mr Tim O'Neill. He dealt with most of the points raised. He told Fr Tim O'Neill that he would reply to his written points one by one. stated that not one member of the industry had contacted him or FIC complaining in the manner referred asked if he could have names in order he could reply directly. These were not forthcoming. He stated that FIC did not have dealings with the approval or issuing of export licences, this was dealt with by the Forest Department and Trade. The instructions issue 'ship to ship' export licences had been given by the Department of . ade and Industries, under the signature of Mr Wep Kanawi at which time FIC had not been consulted. He did not agree with comments made by Mr Wep Kanawi, Deputy Chairman and Fr Tim O'Neill. believed that some persons associated with the He industries but not landowners or producers were involved in trying to stop the new activities of FIC for reasons known best to themselves. He supported the remarks Mr Oscar Mamalai. He made many references to the landowners and to the people of PNG, particularly those connected or involved with the timber industry. It was time that these people had a fair deal. Chairman went on to say that he was at a loss to understand why some members were against the marketing activities of FIC when it was proven beyond doubt that FIC had the market prices up and for the first time the landowner companies were making money. He realised that some millions of additional kinas had been retained in PNG and this of course hurt some companies and people. However, he knew what was going on and he

intended to continue to bring money to PNG and its people, he did not want to see the people of PNG cheated. He asked the members what were they doing, what was the Council doing, were all the Council members here to help the timber industry, the producers, the exporters, and the landowners or were the members here to help the middlemen and buyers. Is it the intention to export prices, who are we representing? finalized by saying that he as Chairman - was doing his best to help the trade and if necessary was prepared to leave the Council rather than do what he did not believe in and was not in the interest of the people of PNG. He was a PNG national and he worked for the good of his people and not others. He could not support a policy which allowed a few buyers, agents and middlemen to dictate to the trade in general.

The Executive Director replied to Mr Wep Kanawi, explaining the reason why some Forest Department telexes were sent on the FIC machine. He explained that the approval and issue of an export licence was done by the Forest Department and Trade. FIC was not involved. change from 6 month licences to ship by ship was done by Trade and not FIC. He did not accept that SMA had any comparison with the meat factory problems. Neither SMA or FIC sales activities had any "sole rights", any sale by SMA or FIC was not dictatorial. FIC had not asked any one exporter to sell FIC in the first instant. He was also under the impression that some companies, who it seemed did not want namedd were complaining about the activities of FIC in marketing. No transaction had ever taken place between these companies and FIC. In some cases not even one telex. \*\* Wer Kanawi stated that he wanted logs. He proposed that FIC the best prices far PNG stop marketing until a legal opinion had been obtained. Mr Oscar Mamalai #id not agree, stating that if FIC now stopped all that had been gained during the last

4 months would be lost. Mr Frank Lennard thought it would be me practical for FIC to continue and at the same time obtain a legal opinion. Mr Simon Hirata supported FIC and proposed that they continue with marketing, stating that his company had provided perhaps the most volume to FIC for sale to Korea and India. The Deputy Chairman stated that he had already obtained legal opinion and he produced a letter from legal firm of Gadens and read to the members part letter. The Chairman asked if he may have a copy of this letter. Deputy Chairman replied, at this moment, No, as the fees for this opinion had been paid by his company and therefore the letter was the property of his company. The Chairman called a vote to decide whether FIC should continue to The vote was carried 6 to 4. The Chairman stated that FIC would continue to market. "In meantime, a legal opinion would be obtained. Executive Director informed all members that the FIA meeting held in Lae, the FIC had already ceased to market with exception of two shipments that were in the pipeline. The Deputy Chairman asked who FIC was selling logs to in Korea and if they had an agent. He asked who was Mr Park. The Executive Director replied that Mr Park was the president of Daihwa Co and that Company was not an official agent for FIC. Deputy Chairman stated that during a recent trip to Korea by the Chairman and Mr Oscar Mamalai, Mr Park had been made the agent for FIC. The Chairman replied that this was not correct.

Deputy Chairman stated that the Executive Director had told the members earlier that the FIC did not have any pending claims, brought about through marketing activities. The Deputy Chairman then produced documents relating to a recent shipment of logs from Laki Sawmills which indicated that FIC were due to pay about USD50,000 in claims (about USD33,000 on demurrage and about USD16,000 on export duty. The Executive Director stated that this was not correct. FIC acted as an

He agreed that there was demurrage on the "Bootless Bay" but this vessel which loaded at was between the shipper and the buyer. A normal contract of sale had been accepted and signed by the which clearly indicated loading rates etc, and despatchd and demurrage payments. Mr Simon Hirata agreed that standard practice. this was The Executive Director that no claim was made by the explained customs export of logs. Deputy Chairman asked if Mr Park authorised to sign on behalf of FIC. The Executive Director replied no but studying the documents produced by the Deputy Chairman he did note that a charter party had been signed by Mr Park on behalf of This was not done with FIC's consent and was without The Executive Director stated FIC approval. he would deal with this matter immediately. No company or persons within or outside PNG had been given authorisation to sign any documents on behalf of FIC. Tim O'Neill stated that he had been informed t at Fr Mr Park was fired from a company in PNG and had later borrowed funds to operate a company that had down and closed. His reputation in general was The Chairman replied good. that these statements were not correct and he requested names of persons who had made these statements. The Chairman on to say that he knew Mr Park in Korea and knew of his activities in the Korea Timber Trade and had personal information concerning him from major Korean buyers and manufacturers. His reputation was first class. The Executive Director stated that Mr Park had years ago been employed by Halla Industries of Korea as the marketing Manager for Nam Yang PNG. The director responsible for Nam Yang operations in PNG had given an excellent personal and work reference for Mr Park and had stated that he was prepared to re-engage him in Halla Industries at any tim . The Chairman stated that without the names of persons making-allegations then we were dealing with rumours and this matter need not be discussed further.

Mr Oscar Mamalai explained to the members the Forest Departments position in regards to the States option to purchase 25% of a producers production. This requirement is part of the Timber Agreement and will be in all new Agreements.

The Executive Director brought up the matter of staff housing and explained the position with the national staff. executive After some debate it was agreed the FIC was not in a position to provide any staff. housing for Council members re-discussed number of points raised during earlier discussions in an official manner. It was agreed that FIC would keep FIA members informed on FIC's general activities. The FIC market report would be re-instated and a monthly or quarterly general bulletin would Ъe prepared sent to all members. FIC budget would be prepared and sent to Council members two weeks before a Council The Executive Director meeting. asked for precise instructions to as his terms and reference for operations of FIC. Deputy Chairman replied asking for a job description. Fr Tim O'Neill stated it was impossible to set down a detailed owing description to the very wide activities and requirements of the Executive Director's day day The Executive Director would responsibilities. cover all activities 28 arising. The Chairman repeated that he was running FIC to the best of his ability and doing all in his power to help the industry if his and the FIC efforts were not and appreciated. to the recommend then Minister for Forest to Simon Hirata asked about FIC participation Mr in IHPA in 1987. After some discussion it was agreed that FIC would not participate. Maybe in 1988.

There being no other business, the Chairman thanked all for attending and the meeting closed at 1530hrs.

Kenneky AL 220

# CONTRACT OF EMPLOYMENT

BETWEEN FOREST INDUSTRIES COUNCIL OF PAPUA NEW GUINEA a body corporate incoporated pursuant to the Papua New Guinea Forest Industries Council Act of 1973 (as amended) Act 1979, of Post Office Box 1829, Port Moresby, Papua New Guinea, (hereinafter called "the Council") of the one part AND

#### MICHAEL JOHN COWAN

(hareinafter called "Employee") on the other part.

#### WHEREAS

It is agreed that this agreeme... shall commence on 9 February 1987 and shall be for a period of three (3) years, with an option to renew for a further period of three (3) years plus other temunerations, terms and conditions as are hereinafter contained.

- WHEREAS IT IS AGREED by and between the parties as follows;

  1. The "Council" shall employ "MICHAEL JOHN COWAN" who shall serve the Council at Port Moresby for a Period of three (3) years from 9th February 1987 unless and until employment is terminated as hereinafter provided.
  - Remuneration shall be FIFTY THOUSAND KINA (K50,000) per amnum or such greater amount as may be from time determined by the Council. Such remuneration shall be payable in the manner agreed from time to time between the Council and the Employee. Any other Remunerations, Terms and Monditions are in Sections 6 (a) 6 (1).

#### 3. DUTIES

The "employed" shall devote full business time and attention exclusively to the affairs of the "Council" and or any of its subsidiaries and is responsible to the "Council" or any other person designated by the "Council. The job specification as attached to the Council for position No. DIR I details the duties of the "Employed".

- If at any time during employment by the Council the "Employee" shall be guilty of any grave misconduct or shall willfully reglect to give his whole business time and personal attention to the business and affairs of the "Council" or shall be absent therefrom without leave or proper cause except in the case of illness or accident, or shall full to carry out any of the duties or responsibilities imposed hereunder or wilfully neglect or dispute any lawfulorders or directions of the "Council" which have been decided by the "Council" to be implemented then in such case the "Council" may terminate the employment by giving three (3) months notice in writing, or payment in lieu of notice. Provided however that the Council will not require the "employee" to perform any function not commensurate with the duties as outlined in the attached job specification PROVIDED THAT the "employee" shall immediately upon the termination for/any reason of his employment deliver up to Council all correspondence documents, specifications, reports, memorandum and other property belonging to the "Council" which may be in the possession or under the control of the "Employee" may terminate this contract by giving three (3) months notice in writing failing which the contract is binding for three (3) years.
- of his employment hereunder except in the proper course of his duties or thereafter divulge to any person whomsoever and shall use his best endeavours to prevent the duplication or disclosure of any information concerning the business or finance of the "Council" or any of its dealings, transactions or affairs.

# 6. OTHER CONDITIONS

(a) The "Employee" shall be entitled to paid holidays of 7 weeks per annum to be taken a time mutually agreed upon, as six weeks annual leave and one week local leave. Remuneration will be paid faring vac ion periods and may be drawn prior to depend.

- (b) On commencement and after each year of service, the "Employee" will be entitled to sick leave on full pay as necessary.
- (c) Gratuity at the rate of 25% of gross salary shall be paid to the employee at six monthly in arrears.
- (d) The "Employee" shall be entitled to long service leave.
- (e) The "Employee" shall be entitled to return business class fares (Port Moresby Country of Recuritment Port Moresby) for self, wife and family each and every year.
- (f) The "Employee" and family, when in Papua New Guinea, shall be covered by accident and medical insurance.
- (g) The "Council" will provide properly furnished housing in keeping with the "Employee" position and will pay for electricity gas, garbage, water charges and house servant.
- (h) The "Employee" will be provided with a Council car for officia and personal use.
- (i) The "Council" w\_\_il be responsible for the repatriation to the country of recuritment at completion or termination of Contract for the Employee" and family and household goods.
- (j) The "Employee" shall be entitled to education expenses of up to K4500 per son, payable on submission of accounts, up to the completion of secondary education.
- (k) The "Employee" shall be entitled to an annual contribution of K2000 to FIC (non contributory)

  Superannuation Fund to be nominated or the "Employee" and have the option to contribute up to K5000 per annual.
- (1) After each year's service the "Employee's" remuneration will be reviewed.

- The "Employee" hereby undertakes that this agreement 7. will be held as confidential and will not disclose any of its contents to any unauthorised person.
- IN WITNESS WHEREOF the "arties here to have here unto 8. set their hand and seals the day and year first herein before written.

# THE COMMON SEAL OF FOREST INDUSTRIES )

# COUNCIL OF PAPUA NEW was

hereunto affixed by authority of the

Council in the presenc of"

AST: ACCOUNTANT

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EXECUTIVE OF LER FIC MISKIS MARALEU

CHAIRMAN

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FOREST INDUSTRIES COUNCIL

#### SPECIAL REPORT ON FIC/DOF

This special report is prepared to give the latest developments concerning Forest Industries Council since its appointment as the log marketing and providing advice to the Timber Industry and I wish to discuss these two aspects in detail.

#### STATE MARKETING AGENCY

The concept of a State Marketing Agency was mooted in the 1979

Revised National Forest Policy. The objectives of such marketing agency were:-

- (a) To obtain an arms length price for our timber/logs.
- (b) To sell directly to the endusers thus cutting out the middlemen agents.
- (c) To eliminate transfer price in the log export sector of the industry.
- (d) Assisting the small and local producers in all aspects of log marketing (providing information, finding buyers, negotiating prices, grading qualities, co-ordinating shipments, etc.)
- (e) Exercising the State's rights of first refusal of offer for export of a minimum of 25% of log exports of timber companies on behalf of the State.
- (f) Assisting the Government by supplying true and timely market information for effectively maintaining the minimum export prices.
- (g) Diversify markets and promote the use of PNG's lesser known species.

There was no suggestion as to who was to carry out this function.

The alternatives were:-

(a) A separate corporation like the fish marketing Corporation.

- (b) A Private timber Company to be appointed as the State's Agent.
- (c) The Forest Industries Council as a nominee of the State to carry out log Marketing.
- (d) A Joint Venture.

The FIC was finally chosen because it would get the co-operation of the Industry and the Government being a semi-Industry/Government body and its council comprising of both Industry and Government. The government through the Minister for Forest would be able to obtain Marketing information for determining the Minimum Export Prices (MEP) and that the Minister would control FIC's activities.

The FIC Act clearly provides the responsibilities of FIC. Section 19 of that Act implies that Timber Marketing is consistent with the provision of the Act. Even it were not so the objectives of establishing a Marketing Agent are worth pursuing and therefore Amendments need to be made to permit FIC carry out Marketing activities. The only contentious issue would be the payment of a Marketing Commission and what should FIC do with the Commission. My suggestion is that FIC retains 50% of the Commission and pays the other 50% to the Government. The need for the Marketing Agent was felt many years ago but due to lack of political direction/decision it was shelved. Only recently a few months ago that the former Minister for Forests Mr Ted Diro decided to push through the idea and eventually allowed FIC to operate as a marketing agent. Despite what may seem as irregularities the prices of logs have risen from K55/m3 FOR average to K65/m3.

Companies which have been consistently getting low prices for logs have suddenly offered high prices when FIC started offering high and competitive prices. This has created suspecion in one's mind that some log experters were deliberately suprising PNG log prices

and may have been involved in transfer pricing. The Government will be wary of those who are opposing the establishment of the State Marketing Agent and the involvement of FIC in buying. Of course if FIC and its executives and those in authority abuse this then the Government needs to investigate and sort the matter out once and for all.

The Council comprises of Industry and Government. Why have they not made any statement on the SMA. The only time the matter has been brought out is by FIA in the "Times of PNG" on 12 February 1987. Does the Council endorse the SMA or the involvement of its Staff in such activity?

# FIC INTERFERENCE IN DEPT. OF FORESTS FUNCTIONS

The next question is the FIC medelling in DOF matters. Several cases have clearly reflected FIC interfering in DOF affairs

(a) Wawoi-Guavi Timber Permit.

FIC prepared the TP 1-5 over Block 2 and was signed on

1st December 1986 by the former Minister for Forests, Mr Ted
Diro. As far as I know the Dept. was not involved because
I was the only officer handling the project. I realised
that the FIC had prepared the Permit only after it was signed
and I was given a copy. As far as the Company is concerned
it got what it asked for. There was no normal negotiation
and the Team which I was chairing was not advised.
FIC and most likely Wawoi-Guavi timber company prepared the
Permit. This is most irregular and a matter of concern to
the Dept. of Forests and the State. It is up to the Secretary
for Forests and the former Minister to explain their side of the
story.

# (b) GAZELLE TIMBER PROJECT

There were two companies submitting proposals for the vudal, Ramandu, Gaulim and Toriu Timber resources in the Gazelle area. The two companies are WECO with its associates and Timbersales (PNG) Pty Ltd. The WECO group's proposal came via FIC and was vetted by FIC while Timbersales submitted their proposal following correct channels. FIC was also lobbying support for WECO to be given the cream of the resource which is Vudal. While Timbersales with the assistance of their consultants also lobbied For Vudal to be given to Timbersales.

A decision was made on 24/11/86 to divide the resource and allocate accordingly:

WECO: Ramandu, Toriu and transfer of Mandres resource from Timbersales to WECO.

Timbersales: Vudal and Gaulim.

With FIC and a certain member of FIC lobbying for WECO the former Minister - Ted Diro reversed his decision only a few days after the decision was conveyed to the Companies. A letter and a telex were drafted by FIC and were signed by the Minister which also appointed FIC to be the arbiter between the Companies and the DOF.

If FIC helped WECO why couldn't they help Timbersales which is a levy paying member and a company which has a large investment at stake and has a track record. FIC is only doing it because of a particular member of FIC who is known for levelling all kinds of allegation to the Dept. of Forests.

FIC should not be used by selfish individuals to promote their own ends. I would recommend that such individuals should be removed immediately from FIC so that they don't further strain the relationship between FIC, Timber Industry and Government.

(c) FIC involvement in SBLC Log export.

In a meeting between Minister for Forests Ted Diro, FIC and DOF it was agreed that Stettin Bay Lumber Company (SBLC) should be given 30,000 m3 for 3 months ending October 1986. After FIC lobbying with Minsiter without the knowledge of DOF a further 18,000 m3 was granted. The Minister did not bother to correct this irregular activity of FIC. What was happening was FIC assuming the responsibility of DOF.

There could be several examples of FIC interference in DOF/
Minister for Forests responsibility but that could be discovered
in a detailed investigation.

The fact is that FIC appear to be meddling in the affairs of the Dept. of Forests. Any Minister who is responsible for Forests & FIC shold be able to keep FIC and DOF apart unless he sees some personal benefit for not doing so.

Finally, I wish to comment on the issue of log export licenses.

The Dept. of Trade and Industry appear to be concerned about the recent change to ordinary licences for shipment by shipment instead of special licences covering 6 months or more. It has been the practice to issue special licenses to log exporters. This gave the exporters sufficient leeway to manipulate prices. The Government could not control the prices and see how the negotiations

for sales were done. The buyer and producers could agree with each other on whatever price was acceptable to them. Although the producers/exporters endeavoured to obtain prices above the MEP we were not sure what the Market price was for PNG Logs.

With the recent change in issuing Ordinary licences on a shipment by shipment the Government can check what prices are obtained for that shipment, species, grades and volumes.

Instead of applying for a licence which will cover many shipments and quoting an average price, we can now get down to the price per cubic metre of two or three species.

The second important fact is that exporters are forced to get a better deal for the logs and convince the government that they are endeavouring to secure fair market prices. The issuing of ordinary licence should not disrupt normal marketing arrangement. The exporters are still allowed to sell to their buyers (agents). The only thing that has been introduced is FIC under the disguise of SMA. However if SMA is offering prices less than the usual buyers (Agents) the producers/exporters are not forced to sell through FIC/SMA.

The Department of Trade and Industry should not complain about the change in the licencing method. DOF is only trying to use whatever means: legal, administrative or policy decisions to ensure better prices for PNG logs. If its too cumbersome for Trade & Industry the licensing of log exports should be delegated to the Secretary for Forests.

Every government agency should be working together to get fair market prices for PNG logs.

DIKE KARI

19 February 1987

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#### APPENDIX 33

we could not purchase anymore, we can have the rest placed on the Stock Market and earn money through that.

Mr Deputy Speaker, I believe that we must allow the National Government to acquire 30 per cent equity and foreigners to get 70 per cent in mining projects in the country. But with the Progers case, the National Government must buy 10 per cent and leave 20 per cent for the people. I think the people of Enga must get 20 per cent.

Sir, I believe that the people of Papus New Guines must have equity participation in mining, like the people of Lihir and Misima should have local companies formed to participate in the project including the Oil drilling in the Southern Highlands. The people should also be able to do their own research and not offer it to the foreigners to look after that part of the project.

Motion (by Mr Warren Dutton) agreed to -That the question be now put.

Motion - That the Parliament take note of the paper - agreed to.

#### **FOREST INDUSTRY**

Mr PAUL TORATO (Enga - Minister for Forest) - Mr Deputy Speaker, I consider it necessary that the people of Papua New Guinea who essentially are owners of this country's forestry resources are kept informed of major developments taking place in the forest and forest industry sector.

It is equally important that our people are advised of future governments' plan regarding the management and utilisation of Papua New Guinea's forest resources.

There is not doubt the forest and forest industry sector has great potential in assisting the government and the people of this country to achieve their economic, social and political aspirations. It is the stated objectives of this Government that economic growth, revenue generation, employment creation and infrastructure development be pursued as its essential goals. The forest and forest industry sector can contribute positively towards the achievement of these goals.

The existing industry currently employs over 10 000 people, the majority of which are Papua New Guineans. In addition the industry generate around K10 million per year for the government and landowners through log export tax and timber royalties. The present foreign export earnings is between K75-80 million per year. Apart from the financial benefits involved, forest development projects do also contribute towards the establishing of infrastructure such as roads, wharves, rural townships, etc through the opening up of new areas. There is a big scope for substantial increase to the present achievements. This brings me to an important point.

Mr Deputy Speaker, I wish to inform the honourable members of this Parliament that my ministry, the Department of Forests and the Forest Industries Council are committed to get the forest industry sector make a greater contribution to revenue generation, employment creation and to regional economic development.

It is my objective to get the forest sector to be generating around K200 million in foreign earnings by the turn of this decade. At the same time I expect that employment opportunities will be doubled the present level to around 20 000 by the

year 1990. Furthermore, internal revenue generation is expected to increase to approximately K20 million. It can be further expected that another charge to be called a Reaforestation levy will be imposed by the government to generate funds for the management and replacement of the natural forests. An additional K4 million can be expected from this levy.

In order for the Government to realise the above stated targets, following strategy is being adopted.

(1) The first is to open up new forest areas for utilisation. The intention is to establish 2-3 new timber projects per year. However, because my department presently has a backlog of new projects, it is expected that within the next six months, approximately 10 new projects will be established in the process of clearing up the backlog. These new projects are expected to increase the level of log cut to about two million cubic metres by the end of this year. It is part of the strategy that in considering new projects, emphasis is given to less developed regions or provinces.

#### 21/10

Marketing is a very keen element to the government strategy. Up until the last quarter of last year, the government left Marketing completely up to the Forest Industry. This as I revealed to this Parliament last week was not a good strategy. Papua New Guinea is believed to be losing around K20 million per year due to malpractices by some timber exporters, middlemen agents, shippers, etc some of who do not live in Papua New Guinea and yet enjoying these perks.

It is my conviction that if Papua New Guinea is to get the maximum benefit from the increase utilisation of its forest resources, the government need to ensure that malpractices such as transfer pricing and charging artifically high freight rates are eliminated.

After several years of evaluation of different options as to how best to prevent such malpractices, it has been concluded that a state Marketing Agency arrangement is the best option. This is where the proposal for the appointment of FIC was authorised by my predecessor last August to engage itself in Marketing, there has been drastic improvement in the prices of Papua New Guinea logs.

The average FOB price of Papua New Guinea logs reached a record of K62 per cubic metre in December 1986. In addition, the prices of logs remain competitive throughout the year. The price revolution as reported above was due to three main factors.

- (1) Improved demand and consumption of South Sea Logs in the principal export markets especially Japan, Korea and Talwan,
- (2) Improved market surveillance by the Department of Forests and the Forest Industries Council; and,
  - (3) The introduction of the new ship-by-ship log export licencing system.

The total export earnings for 1986 was K76 million.

Mr Deputy Speaker, improved market surveillance has enabled me and my Ministry to obtain for the first time in history some documentary evidence which confirm that transfer pricing has been in practice in the forest industry. When such

malpractices were uncovered FOB prices for companies involved increased remarkably overnight. A further result of the improved surveillance was that landowners companies, most of which are managed by overseas managers and logging and marketing contractors, began for the first time to receive true market information together with true market prices which were rightfully due to them.

Contrary to the improvement in the export logs, the export of processed products such as sawn timber, plywood, woodchip etc dropped. This was a result of:

- (1) Increased demand and better prices for such products in the domestic market;
  - (2) Most attractive and liberal log export business; and
  - (3) Highly competitive and difficult overseas export market.

Unlike the log export activity, local processing in Papua New Guinea has been neglected during the last seven years in favour of log export. Sawmills and ancillary machineries have been allowed to run down. There is an urgent need for Rapua New Guinea to seriously engage in processing so as not to be too dependent on log export for its foreign exchange earnings.

Papua New Guinea has some very good timber species such as Rosewood, Kwila, Taun, Walnut, Pencil, Cedar and Callophyllum which if exported in sawn timber form, or veneer and plywood would earn this country four to five times more in value than when sold in log form. These valuable species may be restricted in the near future to be exported in log form.

Apart from the value-added benefit, improved efficiency in local processing would assist our own people to buy timber at more competitive prices. Furthermore, local processing would create additional employment opportunities for our people.

Resource Replacement. With the anticipated expansion in the forest industry, more forests will be cut than ever before. It is therefore very essential that ore reaforestation and natural forest management activities are stepped up. Already Papua New Guinea has a growing gap between the area being exploited and the rate of replanting or reaforestation. The present imbalance is that of the 60-80 thousand hectares of virgin forest cut each year, only less than five percent is replanted. This is an alarming trend which require urgent attention.

Increased rate of reaforestation is needed to be embarked on now so that our future generation will also benefit from the country's forest resources. The target replanting rate is to be at least 20 percent of the area logged each year. Reaforestation is a labour intensive activity. The proposed increase in reaforestation is expected to provide employment opportunities for thousands of people.

The responsibility for resources replacement must be left with the government. It is a long term investment therefore not many timber companies are keen to take this responsibility. It also requires a lot of investment capital. The objective would be that a levy will be collected from timber companies to assist in fund for a reaforestation programme. Such a levy is proposed to be collected directly by the Department of Forests. It is proposed the levy will be introduced before the end of this year.

Mr Deputy Speaker, in conclustion, the potential which the forest and forest

industry sector have must be tapped in order that the sector contributes more to the development aspirations of our people. My ministry, the Department of Forests and the FIC are all committed by the Sector. It is essential that all other parties concern, especially the landowners and their respective government co-operate in this regard.

Mr STEPHEN TAGO (Northern - Minister for Defence) - I move - That Parliament take note of the paper.

Mr Deputy Speaker, I thank the honourable minister for this statement and I would like to ask, whether we come back or not, I would like to ask that the representatives of this Parliament take note of this and do our best because forestry and the land that our people live on is the power for our people.

#### 22/09

Our humble people give mandate to people like us who have been privileged to sit in a building like this, in Cabinet and have the access to Government information have power. Our village peoples' strength is their land, forestry and the whole environment. They exercise their democratic right by giving us their votes. That is the peoples' power.

Mr Deputy Speaker, it is like a bulk store, a retail store, rice mill and so on. Forestry covers all these things in the village mans knowledge. For those who live in the coast or along the rivers, the marine resources are their source of strength.

In this case, we are talking about forests. We have a long way to go. We have a big responsibility and I do not know how but I think we can. We are also at times brought to dilemmas, whether to decide, wait, or to act. Pressured by the so-called development around us, we as decision makers, have to make decisions somewhere and draw a line. This we do with our forest development in our country. And when we do, we only count the timber.

We count the big logs which are cut and taken to the mill. But think of the little ones and other plant life in th forest that are cut down and left to rot. If research were to be done, what is destroyed would be worth more than millions of kina, then the treated logs.

Mr Deputy Speaker, you and I have seen this happening in our own province. It breaks my heart to see this happen. It is like killing a person when buildozers and graders go into the forests, which our fore fathers looked after and destroy them. People want schools, roads, houses and other things and that is why we have to make a decision. We need money to do these things and we cannot keep going to Australia to ask for money. We have to decide whether to cut our timbers down and earn some money or leave the timber alone and not have money. That is a very hard decision to make.

I am trying to make a point that we have to make decisions which are difficult. We have to come up with stronger and better policies to punish those who come and destroy, tell lies and go. Mr Deputy Speaker, in our province this company called Fletcher came and told lies and made a stupid agreement. They had their agents in Vanuatu or Solomon Islands and exploited us. Whether they made profit or not, they were being paid K300 000 a month under the agreement. The Government had to pay that money and we are still paying them although they left. A new company has taken over and that company is better than the previous one. Had we made a better decision, the present company could have done better.

The Department of Forests needs our support, whether it be money, manpower and technical know-how so that we can improve the policy which also covers the reaforestration. Many companies have not done this throughout Papua New Guinea. As far as I know, may be only in Rabaul and Madang, have reaforestation programmes. This was also done in Brown River but this is still not enough.

In my province, there were clauses in the agreement for agricultural development and reaforestration but nothing has taken place. All the resources have been taken out and they have left a trail of destruction. People were only paid between K50 and K100 per person. Millions of kina have been taken out and we are left with nothing.

When the National Party comes into power, one of the things which we will fight for is to punish these people who tell lies and go away. We will legalise so that, those people who come, tell lies, mislead us and steal things and go away will be punished.

Mr Deputy Speaker, as I discussed with you, if our provincial government allocates enough money to engage top level lawyers, to punich these people. I am sure this is the same sort of experience all over the country.

Reaforestration is very important but these agreements do not really mean anything. What can we do when things go wrong? The only people with the money and lawyers is the government. What can the humble people of Kumusi timber area do eventhough they have been exploited by Fletcher? They could take both the government and the company to court but they have no money.

I support the statement presented by the Minister but I make the point that Department of Forests needs all the support it can get so that it can protect our peoples' resources.

Motion (by Mr Timothy Bonga) agreed to That the question be now put.

Motion - That the Parliament take note of the paper - agreed to.

<del>23/10</del>

# POLITICAL AND SOCIAL TREND IN PAPUA NEW GUINEA

Mr MICHAEL SOMARE (East Sepik - Leader of the Opposition) - Sir, as the term of Parliament rose to its conclusion, I believe it is fitting to reflect on how political trench in the last five years will have a bearing on future politics in this country.

Mr Speaker, the five-year term of this Parliament began with Pangu Pati led-government at the helm. We had the United Party as the coalition partners. Papua New Guinea's parliamentary politics being as fluid as it has always been did not guarantee the Pangu-United Party Government, the right opportunity to see the full term. I am not complaining about the split that has occured in the Pangu Pati which resulted in the creation of PDM and LNA, nor am I lamenting my loss of government to previous loyal Deputy Leader of Pangu Pati and Pangu Pati members. That is history.

I am concerned though that the Parliament was not accorded a decorum, it is entitled to the last five years by honourable members. We have made Parliament

FIA

# PAPUA NEW GUINEA FOREST INDUSTRIES ASSOCIATION

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P. O. Box 1064 PORT MORESBY.

PHONE: 21 1310 21 1359

FAX: 21 1406

APPENDIX 34

MINUTES OF THE SECOND GENERAL MEETING OF THE PAPUA NEW GUINEA FORESTS INDUSTRIES ASSOCIATION HELD ON THE 28TH APRIL 1987 AT THE PT MORESBY TRAVELODGE, AT 0930 HRS

PRESENT:

MARK GRACE PRESIDENT BEECHWOOD PTY LTD

WAYNE CROSS SECRETARY LAKI TRADING PTY LTD

JOHN DIXON TIMBERSALES

JIM BELFORD FORESTRY MANAGEMENT SERVICES (PNG) PTY LTD

PETER EDDOWES AGRIM PTY LTD

R. GIBSON MORGAN EQUIPMENT

G. MC NEIL TONOLEI DEVELOPMENT CORPORATION

J. O'CONNOR VUNA LOGGING

ANTON WESPE WECO PTY LTD

A. AUPO FOREST INDUSTRIES COUNCIL

G. WARD TAVANAPO, BAFAP

DAVID TOMS WAWOI GUAVI

PHIL. PARNELL MITSUI & CO(AUST) LTD

JIM MC PHERSON LAKI TRADING PTY LTD(SAWMILL)

G. MASSINGHAM PNG FOREST PRODUCTS PTY LTD

BRUCE PERT TIMBER INVESTMENT MANAGEMENT PTY LTD

NEIL GREEN P.I. LOGGING PTY LTD

MICHAEL JOURDAIN LONG TERM TRADING PTY LTD

ERNEST BELL DELTA STORES

IAN LENNANE A.N.G. TIMBERS

BOB FORD SUMITOMO FORESTRY(H.K) PTY LTD

S. HIRATA STETTIN BAY LOGGING P/L.

R. GAULT RONALD GAULT INDUSTRIES P/L.

R. CHRISTENSEN MILNE BAY LOGGING P/L.

ALLAN OALA AHIA DEVELOPMENT P/L.

IMARI TRAWA FOREST INDUSTRIES COUNCIL

VEVEHERE H. ARIA AHIA DEVELOPMENT P/L.

TIM O'NEIL VUNAPOPE

ED FITZGERALD TAWAY TIMBERSS

MAUNO MCKEAN MADANG TIMBERS

MISKUS MARALEU SAKAI MANAGEMENTS

IAN KUBA BUNNINGS/VFP

KEN HART VFP/VTC

RON GIBBS QUARTER ENTERPRISES

GARTH MC ILWAIN CREDIT CORPORATION

APOLOGIES: CLIFF WELLS

AGENDA :

- APOLOGIES

- MINUTES OF PREVIOUS MEETING

- MATTERS ARISING

- PRESIDENTS REPORT

- MEMBERSHIP APPLICATIONS

- FOREST INDUSTRIES COUNCIL NOMINATIONS

- OTHER MATTERS...

WARD ATTEMPTED TO MOVE THAT MEMBERSHIP APPLICATIONS BE DEFERRED FIRST HOWEVER THIS WAS REJECTED BY THE PRESIDENT.
IN KEEPING WITH PROCEDURE AND THE AGENDA LAID DOWN THIS REQUEST WAS SHELVED UNTIL THE PRESIDENTS REPORT WAS READ OUT.

MOTION 1: THAT MINUTES OF PREVIOUS GENERAL MEETING BE ACCEPTED. (FITZGERALD/WARD)

NO MATTERS ARISING FROM THE PREVIOUS GENERAL MINUTES.

PRESIDENTS REPORT WAS THEN READ OUT WHICH IS ATTACHED WITH MINUTES OF PREVIOUS GENERAL MEETING ON 10TH FEBRUARY.

IT WAS MOVED BY RON GIBBS AND UNANIMOUSLY AGREED THAT THE PRESIDENT'S REPORT (ATTACHED), BE RECEIVED.

# GENERAL DISCUSSIONS:

MR MISKUS MARALEU REQUESTED THAT ANY MATTERS CONCERNING THE FIC NOT BE DISCUSSED AT THIS MEETING. HE FURTHER ADVISED:

- 1. THAT HE HAD NOT RECEIVED A LETTER OR A REQUEST FROM THE PRIME MINISTER'S OFFICE FOR HIM TO RESIGN FROM THE FIC.
- 2. THAT HE WAS NOT NOMINATED BY THE FIA TO THE FIC BUT HAD BEEN APPOINTED BY FOREST MINISTER LUCAS WAKA TO REPRESENT MINOR NATIONAL MEMBERS.
- 3. THAT HE WELCOMED THE BOARD OF ENQUIRY.
- 4. THAT IN HIS POSITION HE HAS BEEN PRIVY TO A NUMBER OF UNTHINKABLE MATTERS WHICH HE HAD SOUGHT NOT TO PUBLICISE.
- 5. THAT HE REQUESTED NO NOMINATIONS BE MADE TO THE FIC COUNCIL UNTIL THE BOARD OF ENQUIRY COMES OUT WITH A RESULT.

THE PRESIDENT ADVISED THAT GAVAN J. SPILLANE HAD NOMINATED MISKUS MARALEU FOR MEMBERSHIP TO THE FIC AND THAT THE RECORDS COULD BE CHECKED.

MR D.TOMS ADVISED THAT HE HAD RECEIVED NO LETTER CALLING ON HIM TO RESIGN HENCE, HE WOULD NOT RESIGN.

MR G.WARD ADVISED HE ALSO HAD NOT RECEIVED ANY LETTERS, TELEXES OR TELEPHONE CALLS REQUESTING HIM TO RESIGN FROM THE FIG. HE STATED HE DOES NOT ANSWER MEDIA STATEMENTS.

MR GREEN ASKED MR MARALEU DID THE FIC HAVE SUFFICIENT NUMBERS TO CONTINUE.

MR MARALEU ADVISED THAT THE FOREST SECRETARY, TOMS, WARD AND HIMSELF HAD NOT RESIGNED. MR MARALEU STATED MARKETING HAD COMPLETELY CEASED AND ONLY DAY TO DAY ACTIVITIES ARE BEING DONE AT THE FIC WITH MR. I. TRAWA IN CHARGE OF THE OFFICE SINCE MR COWAN WAS ON LEAVE. MR MARALEU SAID HE WAS QUITE HAPPY WITH THE OFFICE ARRANGEMENT.

MR JOHN DICKSON ADVISED THAT IF THE FIC WASN'T ACTING PROPERLY THEN WHY SHOULD WE BE PAYING ANY LEVIES TO WHICH MR WARD REFERRED MR DICKSON TO THE RELEVANT FIC ACT.

MR JACK O'CONNOR COMMENTED THAT SHOULDN'T THE PRIME MINISTER HAVE ASKED IN THE FIRST INSTANCE FOR THE FIA TO REQUEST THAT THEIR NOMINATED MEMBERS RESIGN FROM THE FIC. THE PRESIDENT REPLIED THE PRIME MINISTER IS FREE TO ACT AS HE SO WISHES WITHIN THE BOUNDS OF REASON. YOU WILL NOTE THAT HE HAS NOT SACKED ANY BODY AT PRESENT.

MR DAVID TOMS SAID THAT HE FELT THAT THE FIC SHOULD NOT BE ACTIVE WHILST THE COMMISSION OF ENQUIRY WAS IN PROGRESS TO WHICH THE PRESIDENT ADVISED TOMS THAT HE WAS ENTITLED TO HIS OWN OPINION, AND ADDED THAT THE PRESIDENT'S INTERPRETATION OF THE ACT DID NOT AGREE WITH TOMS OPINION.

MR WARD THEN ADVISED THAT UNTIL THE ENQUIRY IS COMPLETE NO MEMBERS OF THE FIC SHOULD BE ASKED TO RESIGN UNLESS THEY ARE FOUND GUILTY. •

MR GIBBS ADVISED THAT TO HIS KNOWLEDGE NOBODY PRESENT IN THE FIA MEETING HERE HAD NAMED ANY PERSON AS BEING GUILTY OF A CRIME.

THE COMMISSION OF ENQUIRY WOULD BE INVESTIGATING ANY CLAIMS.

MR TOMS FELT THAT THE FIC MEMBERSHIP SHOULD STAY IN PLACE. MR GIBBS STATED THE NOMINATIONS TO THE FIC HAD NOTHING TO DO WITH THE CURRENT COMMISSION OF ENQUIRY AND THAT HE FAILED TO SEE ANY TIE UP.

THE PRESIDENT ADVISED THAT THE FIA HAD BEEN ASKED TO PUT UP A PANEL OF NAMES FOR FIC MEMBERSHIP. THIS REQUEST WAS MADE BY THE PRIME MINISTER. THE PRESIDENT ADDED THAT THE NOMINATIONS WERE TO BE PUT IN PLACE FOR THE APPROPRIATE TIME.

MR WARD ASKED THE PRESIDENT IF THE FIC MEMBERS WHO HAD RESIGNED HAD BEEN FORMERLY ACCEPTED BY THE MINISTER. THE PRESIDENT ADVISED THAT THIS WAS SO. FOR FURTHER ELABORATION GOVERNMENT OFFICERS WOULD BE APPEARING VERY SHORTLY AT THIS MEETING TO ADDRESS QUESTIONS ON FIC MEMBERSHIP AND THE TERMS OF THE COMMISSION OF ENQUIRY.

THE PRESIDENT ADJOURNED DISCUSSIONS ON THE SUBJECT OF MEMBERSHIP.

MEETING ADJOURNED FOR MORNING TEA AT 10:30 HOURS.

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MEETING RESUMED 10:58 HOURS.

# MEMBERSHIP:

STATED THAT WITHIN THE FIA CONSTITUTION THERE WAS A PRESIDENT FOLLOWED BY WAS CLEARLY OUTLINED AND WHICH PROCEDURE THE EXECUTIVE THE FIA. MEMBERSHIP THIS YEAR TO EXECUTIVE FOR COMMITTEE HAS SOUGHT LEGAL ADVISE BECAUSE IT DID NOT WANT TO BE SEEN TO BE DOING THINGS IN MANNER. HE SAID UNDER AN IMPROPER SECTION 3A OF THE FIA CONSTITUTION THERE IS A CRITERIA LAID DOWN. STATED IT IS A MATTER FOR THE COMMITTEE TO VETT, THE PRESIDENT ACCEPT OR REJECT APPLICATIONS FOR MEMBERSHIP. THE COMMITTEE HAS THE LETTER OF THE LAW IN THE SENSE THAT WE HAVE TRIED TO GONE BY HAVE RECEIVED. APPLICATION THAT WE **EVERY** BE FAIR WITH APPLICATIONS FOR MEMBERSHIP WHICH WERE TO MEMBERS WERE SENT CHECKED OUT WITH 37 MEMBERS BEING ACCEPTED, TEN DEFERRED BECAUSE OF LACK OF INFORMATION AVAILABLE AND TWO REJECTED.

IT IS THE POLICY OF THE COMMITTEE NOT TO ACCEPT PRIVATE INDIVIDUAL MEMBERSHIP. ONLY COMPANY APPLICATIONS AT THIS TIME ARE PERMITTED. THE PRESIDENT EMPHASISED THAT MEMBERSHIP APPLICATIONS UNDER THE FIA CONSTITUTION ARE SOLELY AT THE DISCRETION OF THE COMMITTEE, WHICH WAS ELECTED EARLIER THIS YEAR.

NOT APPLIED USING THE APPLICATIONS FORMS WHO HAVE THOSE MEMBERS FREE TO SENT OUT HAVE NOT BEEN GRANTED THEY ARE MEMBERSHIP. WILL BE THEY AND THE CONCLUSION OF THIS MEETING APPLY AT CONSIDERED AT THE NEXT SITTING OF THE COMMITTEE. THE PRESIDENT APOLOGISED TO ALL MEMBERS WHO DID NOT RECEIVE APPLICATIONS.

# MEMBERSHIP LIST ACCEPTED.

BEECHWOOD P/L. VANIMO FOREST PROD. P/L. WAFII P/L DELTA STORES TIMBER INV. MANGEMENT (PNG) P/L. PNG FOREST PROD. BULOLO NORTH WEST B'BILLE DEV. COR. B'VILLE FOREST ENT. SUPERIOR TIMBERS P/L. TAWAY TIMBERS P/L. TAVANAPO P/L. MILNE BAY LOGGING P/L. STETTIN BAY LOGGING CO. P/L. QUARTER ENTERPRISES. ANG TIMBERS P/L. R. GAULT AMBOGO SAWILL P/L.

AGRIM P/L. FOREST MANAGEMENT SERV. (PNG) P/L. GAULIM TIMBERS P/L. TIMBERSALES P/L. CENTRAL POMIO LOGGING TONOLEI DEV. CORPORATION TIMBERLINE P/L. LAKI TRADING P/L. LONG TERM TRADING P/L. ULABO TIMBER CO. GROOME (MILNE BAY) P/L. GOLDEN SQUARE P/L. VANILO TIMBER CO. P/L. PNG FOREST RES. BOALA LOGGING P/L. **VUNAPOPE** BUIN EARTHMOVING P/L. TEPEROI TIMBERS P. I. LOGGING P/L.

#### DEFERRED

#### REJECTED

GRAHAM WARD ANTON WESPE

MR WARD STATED THAT UNDER THE FIA CONSTITUTION, MEMBERSHIP WAS RESTRICTED TO HOLDERS OF TIMBER PERMITS, AND TO PERSONS OR FIRMS LOGGING, INVOLVED IN SAWMILLING, MANUFACTURING ONLY. MR WARD OF THE FIRMS READ OUT ARE MARKETERS, BUYERS NOT INVOLVED IN MANAGEMENT AND NOT INVOLVED IN THE TIMBER INDUSTRY AND HE REQUESTED FATHER TIM O'NEIL TO EXPLAIN THE ORIGINAL AIMS OF THE ASSOCIATION AS HE WAS INVOLVED IN THE START OF THE ASSOCIATION. MR WARD FURTHER STATED THAT ASSOCIATION WAS THE INTENDED AS AN ASSOCIATION OF PRODUCERS, AND THOSE DIRECTLY INVOLVED IN LOGGIAG. FATHER TIM O'NEIL REPLIED HE HAD NO CONSTITUTION SO THE PRESIDENT REPLIED FROM THE CHAIR.

THE PRESIDENT READ FROM THE CONSTITUTION QUOTING SECTION 3A WHICH REFERS .TO MEMBERSHIP, AND WHICH STATES THAT MEMBERS SHALL WHO ARE HOLDERS THOSE OF TIMBER PERMITS ADMINISTRATION OF TIMBER PERMITS AND LICENSES AND OR BONA FIDE COMPANIES CONCERNED WITH LOGGING. OR MILLING. PERSONS MANUFACTURING.

THE PRESIDENT ADDED THAT THE COMMITTEE HAS ASSESSED THIS UNDER LEGAL COUNSEL TO COME UP WITH A FORMULAE THAT THE PEOPLE INVOLVED IN MARKETING, MERCHANDISING, EXPORTING, UTILISING OR OTHERWISE ARE ACCEPTABLE FOR MEMBERSHIP AT THIS POINT.

MR WARD ARGUED OVER THE INTERPRETATION UNDER THE CONSTITUTION FOR FIA MEMBERSHIP AND THE PRESIDENT REPLIED THE COMMITTEE HAS MADE ITS DECISION AND THAT THIS COULD BE A MATTER FOR THE GENERAL FORUM TO DISCUSS LATER. THE PRESIDENT STATED HE COULD NOT CHANGE THE COMMITTEE DECISION BY HIMSELF.

MR WARD CONTINUED TO ARGUE WITH THE PRESIDENT OVER THE QUESTION OF MEMBERSHIP WITH THE PRESIDENT STATING THAT THE MEMBERSHIP QUESTION WAS LAID DOWN WITH FULL LEGAL COUNSEL. THE PRESIDENT STATED THAT THE COMMITTEE HAD ALREADY DECIDED WHO WOULD VOTE AT THIS MEETING. MR TOMS STATED THE COMMITTEE WAS ACTING IN ULTRA VIRES.

THE PRESIDENT STATED THAT THE PRIME FUNCTION OF THE COMMITTEE WAS TO ACT ON THE QUESTION OF MEMBERSHIP AND THE COMMITTEE HAS DONE SO, AND THAT THERE WAS RECOURSE FOR THOSE AFFECTED MEMBERS, BUT NOT AT THIS MEETING.

MR GREEN STATED UNDER SECTION 7B THAT THE COMMITTEE COULD ACCEPT OR REJECT APPLICATIONS. AGAIN MR WARD STATED THAT THE COMMITTEE MUST ACT WITHIN THE CONSTITUTION. THE PRESIDENT STATED THAT THERE WAS NO POINT IN ARGUING ANY FURTHER AS A COMMITTEE HAS MADE 1TS DECISION. MR WARD PERSISTED AND SAID TO THE PRESIDENT, WAS THE PRESIDENT PREPARED TO TAKE THE CHANCE THAT THE WHOLE VOTING FROM NOW ON MAY BE INVALIDATED LATER ON.

MR DICKSON SAID THAT EITHER A LEGAL OPINION OR A SHOW OF HANDS WOULD SOLVE THE MATTER. THE PRESIDENT STATED THAT ALL WHO HAD PAID THE APPLICATION FEE AND LODGED AN APPLICATION PAPER, COULD NOW VOTE ON THE QUESTION OF MEMBERSHIP.

# MOTION 2

MR DICKSON MOVED THE MOTION THAT THE LIST OF MEMBERS DECIDED BY THE COMMITTEE BE ACCEPTED BY THIS VOTE.

VOTING 21 FOR 5 AGAINST.

MR WARD CONTINUED TO ARGUE ABOUT THE VOTE SAYING SOME MEMBERS ARE UNQUALIFIED TO VOTE.

#### MOTION WAS CARRIED.

MESSRS. TOM, WARD, MARALEU, WESPE, O'CONNOR THEN LEFT THE MEETING. MR WARD ON HIS DEPARTURE STATED THAT HE WANTED TO PLACE RECORD THAT HE HAD DONE NOTHING WRONG AND THAT ANY WILL BE TAKEN UP LEGALLY FROM NOW ACCUSSATIONS ON. PRESIDENT REPLIED THAT NO ONE HAD ACCUSED MR WARD OF ANYTHING. MR WARD WAS ADVISED THAT SOME OF HIS COMPANIES HAD BEEN ACCEPTED FOR MEMBERSHIP WHICH GAVE HIM THE RIGHT TO VOTE AND THAT HE COULD STAY ON AT THE MEETING TO TALK ABOUT QUESTIONS OF FIC MEMBERSHIP.

MR EDDOWES ASKED THE PRESIDENT WAS THERE ANY SUBSTANCE TO MR WARD'S ALLEGATIONS TO WHICH THE PRESIDENT REPLIED'IT WAS A MATTER OF LEGAL INTERPRETATION AND THAT THE COMMITTEE HAS THE AUTHORITY TO DECIDE ALL MEMBERSHIPS UNDER THE CONSTITUTION.

ENTER MR JACK NOUAIRI, DEPUTY SECRETARY DEPARTMENT OF PRIME MINISTER AT 11:15 HOURS INTRODUCED BY THE PRESIDENT. MR NOUAIRI ADVISED:

- 1. THAT THE COMMISSION OF ENQUIRY ON FORESTRY MATTERS WOULD COMMENCE IN ONE AND HALF WEEKS FROM TODAY.
- 2. THAT THE COMMISSION WOULD LAST 6 MONTHS.
- 3. THAT THE COMMISSION WAS USING UP TO THREE LAWYERS, OF WHICH MR NOUAIRI WAS THE SECRETARY TO THE COMMISSION.
- 4. THAT THE COMMISSION SOUGHT THE CO-OPERATION OF ALL MEMBERS IN PROVIDING DETAILS AND EVIDENCE.
- 5. THAT THE STATE WOULD CONSIDER GRANTING PARDONS TO THE PEOPLE WHO CAME FORWARD VOLUNTARILY.
- 6. THAT SEVEN RESIGNATIONS HAD BEEN RECEIVED FROM PREVIOUS FIC MEMBERS.
- 7. THAT ALL FIC MEMBERS HAVE BEEN REQUESTED TO RESIGN AND THAT TELEXES HAD BEEN SENT TO ALL MEMBERS IN ADDITION TO LETTERS. WITH THE TELEXES ALL HAD BEEN CONFIRMED AS RECEIVED.

# FIC NOMINATIONS:

THE PRESIDENT CALLED ON MR NOUAIRI TO ADVISE ON THE FIC MEMBERS WHOSE RESIGNATIONS HAVE BEEN ACCEPTED BY THE GOVERNEMNT. THESE MR. NOUAIRI SAID, ARE MESSRS. GRACE, KANAWI, O'NEIL, HIRATA, TEMU, MC ILWAIN.

MR. NOUAIRI SAID, MR TOMS DENIED RECEIVING A LETTER TO RESIGN AND HAD BEEN SENT A LETTER REQUESTING HIS RESIGNATION AND THAT THE GOVERNMENT WAS AWAITING TOM'S RESPONSE.

THE REMAINING MEMBERS WHO REFUSED TO RESIGN WERE MESSRS. WARD, MAMALEI, MARALEU.

THE PRESIDENT THEN READ A LETTER, REFERENCE 2-3-40 DATED 28TH APRIL ADDRESSED TO HIM ON THE PRIME MINISTER'S BEHALF CALLING FOR FRESH NOMINATIONS. (ATTACHED)

THE PRESIDENT POINTED OUT THAT PRESENT MEMBERS WILL HAVE TO VOTE NOW ON FIC NOMINATIONS BECAUSE THE FIC WAS NOT FUNCTIONING PROPERLY. THE OPINION OF THE COMMITTEE ON THIS ISSUE HAS BEEN THAT THE FIC ADVERTISING HAS NOT BEEN OF ANY INTEREST OR IN ALL FAIRNESS TO MEMBERS OF THE ASSOCIATION. A LOT OF IT IS INACCURATE. WE HAVE CHECKED WITH ASSOCIATION MEMBERS ON THE AUTHENTICITY OF FIC ALLEGATIONS AND FOUND A NUMBER OF ANOMALIES, OR FALSITIES.

THE PRESIDENT SAID MR MARALEU IS NOT A CURRENT FIA MEMBER AND THAT THE GOVERNMENT CAN APPOINT AND DISMISS, MEMBERS TO THE FIC.

PRESIDENT ADVISED THAT PROXIES COULD VOTE ON THE FIC NOMINATIONS AND THE SECRETARY ADVISED THAT PROXIES WERE RECEIVED FROM GALUM LOGGING PROXY JOHN DICKSON, CENTRAL POMIO LOGGING CORPORATION PROXY JOHN DICKSON, TIMBER SALES RABAUL JOHN DICKSON, ULABO TIMBER COMPANY MR R. J. PERT, GROOM MILNE BAY PROXY R.J. PERT, QUARTER ENTERPRISES PROXY K.J. HART, PNG FOREST PRODUCTS PROXY G.H. MASSINGHAM, LAKI TRADING PROXY JIM MC PHERSON, LONG TERM TRADING PROXY MICHAEL JOURDAIN, WAPI TIMBER INDUSTRIES PROXY MARK GRACE, NORTH WEST BOUGAINVILLE DEVELOPMENT CORPORATION GORDON MC NEIL BOUGAINVILLE FOREST ENTERPRISES PROXY BOB TAIT, BOALA LOGGING PROXY NEIL GREEN, TEPEROI TIMBERS JOHN DICKSON, DELTA STORES KIKORI ERNEST BELL, B & F EARTH MOVING GORDON MC NEIL. PNG FOREST RESOURCES RICHARD R. GAULT.

THE PRESIDENT ADVISED THAT SOME PROXY VOTES WERE DEFERRED PENDING MORE INFORMATION SO THAT THEY CANNOT VOTE AT THIS MEETING. THE PRESIDENT STATED THAT IT WAS DIFFICULT UNDER THE CONSTITUTION TO GIVE EQUIPMENT SUPPLIERS THE RIGHT TO VOTE HOWEVER THE MATTER WAS UNDER REVIEW FOR POSSIBLE AMENDMENT OF THE CONSTITUTION.

# MOTION 3 (HART/EDDOWES)

THAT THOSE FIC MEMBERS WHO HAVE RFFUSED TO RESIGN FROM THE FIC AT THE REQUEST OF THE PRIME MINISTER NO LONGER REPRESENT THE SUPPORT OF THE INDUSTRY.

CARRIED UNANIMOUSLY, 32 IN FAVOUR.

# MOTION 4 (FITZGERALD/EDDOWES)

- 1. THAT THE NAMES OF THOSE WHO HAVE ALREADY RESIGNED FROM THE FIC BE PUT ON THE TOTAL LIST OF NAMES PROVIDED BY THE EXECUTIVE COMMITTEE
- 2. THAT THE COMPLETE FIA EXECUTIVE COMMITTEE BE INCLUDED IN THE LIST OF NAMES FORWARDED TO THE PRIME MINISTER FOR NOMINATION TO THE FIC BE AMENDED TO INCLUDE AARON NAWASON IN LIEU OF BRUCE TELFER.

#### FTA EXECUTIVE COMMITTEE 1987

MARK GRACE PRESIDENT

GORDON MC NEIL VICE PRESIDENT

WAYNE E. CROSS SECRETARY

JOHN DIXON MEMBER

JIM BELFORD MEMBER

ROBERT FORD MEMBER

KEN HART MEMBER

NEIL GREEN MEMBER

BRUCE TELFER MEMBER

3. THAT THE POSSIBLE WITHDRAWAL OF BOB FORD (EXECUTIVE COMMITTEE) BE SUBJECT TO THE NOMINEES ACCEPTANCE TO THE FIC AS A NEMBER!

CARRIED UNANIMOUSLY 32 IN FAVOUR.

#### OTHER MATTERS:

# COMMISSION OF ENQUIRY.

MR RICHARD GAULT ASKED MR NOUAIRI IF THE TERMS OF REFERENCE COULD INCLUDE THE STREAM LINING OF THE DEPARTMENT OF FOREST AS THERE WAS A NUMBER OF TRP'S WHICH HAD BEING DELAYED. FURTHER HAD THE TERMS OF REFERENCE BEEN SPELT OUT. MR NOUAIRI EXPLAINED THAT THE TERMS OF REFERENCE COVERED BOTH THE FIC AND THE DEPARTMENT OF FOREST.

MR GAULT ASKED MR NOUAIRI IF LEASES WOULD BE ISSUED, MR NOUAIRI FELT NOW THAT THEY COULDN'T UNTIL THE COMMISSION IS OVER.

MR GIBBS ASKED MR NOUAIRI WILL THE COMMISSION BE ABLE TO SIT OUTSIDE PNG MR NOUAIRI REPLIED NO. MR GIBBS ASKED MR NOUAIRI WILL THE COMMISSION BE GIVEN CASH AND OFFICES AND THE RIGHT TO CROSS EXAMINE TO WHICH MR NOUAIRI ADVISED THAT THE COMMISSION WILL BE SET UP AT THE NATIONAL PARLIAMENT OFFICES. ON THE QUESTION OF CROSS EXAMINATION HE WOULD COME BACK TO US ON IT.

MR GIBBS EXPLAINED THAT IT WOULD BE DIFFICULT TO GET ALL THE NECESSARY INFORMATIONS FROM OVERSEAS PARTICULARLY AS OVERSEAS PEOPLE WOULD NEED TO BE CONVINCED. MR GIBBS SUGGESTED THAT THE PNG OFFICES OVERSEAS BE USED TO GET THE CO-OPERATION OF THOSE PEOPLE WITH THE INFORMATION IN THE RESPECTIVE OVERSEAS COUNTRIES.

MR RIMBANK PATO SAID IT WOULD BE DIFFICULT UNDER THE COMMISSION'S JURISDICTION TO CALL WITNESSES TO PNG FROM OVERSEAS AS IT WAS COMPLETELY DIFFERENT TO CRIMINAL CASES.

GARTH MC ILWAIN STATED THAT THE FIA SHOULD FULLY SUPPORT MR NOUAIRI AND FATHER TIM O'NEIL SAID THE TERMS OF REFERENCE USED IN THE COMMISSION OF ENQUIRY SHOULD NOT BE INTERFERED WITH BY THE FIA IN REGARD TO INVESTIGATIONS.

# MOTION 5 (FORD/HART)

THAT THE FIA WESHES TO ASSURE THE PRIME MINISTER AND THE COMMISSION OF ENQUIRY THAT THEY HAVE THE TOTAL SUPPORT AND CO-OPERATION OF ALL ITS MEMBERS.

CARRIED UNANIMOUSLY.

# MOTION 6 (GIBBS/FITZGERALD)

THAT THE PRESIDENT OF THIS COMMITTEE AND HIS COMMITTEE BE COMMENDED FOR THEIR ACTIONS IN THE PAST THREE MONTHS.

CARRIED UNANIMOUSLY.

MR GIBBS PROPOSED THAT ALL FUNDS AND LEVIES BE SET ASIDE NOW IN THE FIC SEPARATE TO THOSE LEVIES ALREADY EXISTING. AFTER DISCUSSION IT WAS FOUND THAT THE SEPARATION OF LEVIES WAS POSSIBLE.

THE SECRETARY ASKED MR NOUAIRI DID HE GET THE FIC ACCOUNTS AND MR NOUAIRI EXPLAINED HE WAS GIVEN ONLY THREE SHEETS OF PAPER CONCERNING SHIPPING TRANSACTIONS NOT THE BALANCE SHEETS AS WAS RECENTLY REQUESTED.

MR GIBBS EXPRESSED CONCERN OVER THE FIC ADVERTISEMENTS AT SIX TO SEVEN HUNDRED KINA PER TIME.

MR IAN LENNANE SAID WE SHOULD NOT AS THE FIA BEGIN A WITCH HUNT TO WHICH MR MC ILWAIN ADVISED THE GOVERNMENT HAD THE RIGHT TO INVESTIGATE.

#### MOTION 7 (GIBBS/BELFORD)

1. THAT WE WRITE IMMEDIATELY TO THE PRIME MINISTER ADVISING HIM THAT DUE TO WANTON SPENDING BY THE FIC THAT THE NOMINATIONS OF THE FIA BE EXPEDITED.

CARRIED UNANIMOUSLY.

MR. I. TRAWA OF THE FIC ADVISED THAT HE HAD INSTRUCTED THE FIC ACCOUNTANT TO SEGREGATE THE FIC AND SMA ACCOUNTS. FURTHER THAT MR COWAN WOULD RETURN HERE BY THE FIRST OF MAY. HE SAID THAT THERE WAS NO OVERDRAFT IN THE FIC WHEN QUESTIONED BY THE SECRETARY.

MR JACK NOUAIRI ADVISED THAT THE COMMISSIONER COULD SUBPOENA PERSONS AND THAT A FALSE DECLARATION COULD INCUR A K200 FINE.

MR JACK NOUAIRI LEFT WITH THE FIC STAFF AT 12:25 PM.

MR PETER EDDOWES THEN READ HIS REPORT ON THE KOREAN HELD SEALPA CONFERENCE STATING THAT IT WAS A VERY SUCCESSFUL TRIP. ATTACHED HEREWITH 1S HIS REPORT.

THE PRESIDENT STATED THAT THE FINANCES OF THE FIA WERE LIMITED.

THE SECRETARY ADVISED THAT THERE WAS TWO AND HALF THOUSAND KINA APPROXIMATELY LEFT IN THE FIA ACCOUNT. MR FITZGERALD ASKED THE SECRETARY HOW MUCH MORE MONEY WAS NEEDED FOR OUR BUDGET AND THE SECRETARY REPLIED SEVERAL THOUSAND. THE SECRETARY ADVISED THAT DUE TO THE MOUNT OF EXPENDITURE PLANNED WE WOULD NEED TO INCREASE OUR REVENUE, VERY SOON AS WE HAD MORE ACCOUNTS TO BE SETTLED..

MR BRUCE PERT SAID THAT IN BORNEO IT WAS THE PRACTICE TO FUND THE FORESTRY ASSOCIATION FROM THE LEVY IMPOSED BY THE FIC EQUIVALENT.

FATHER TIM O'NEIL SAID THAT THE FIA SHOULD BE ABLE TO GET FINANCES FROM THE FIC.

# MOTION 8 (O'NEIL/LENNANE)

THAT THE FIC BE APPROACHED FOR SUITABLE FUNDING OF THE FIA AND FOR THIS TO BE DELIBERATED BY THE NEXT FULL MEETING OF THE FIC.

# CARRIED UNANIMOUSLY.

THE PRESIDENT THEN SPOKE TO THE FORUM EXPRESSING HIS THANKS TO ME AS THE SECRETARY FOR WORK PERFORMED IN THE PAST SEVERAL MONTHS.

# MOTION 9 (GIBBS/GREEN)

THAT THE MARKET DIGEST AND STATISTICS BE REACTIVATED FROM THE FIC.

# CARRIED UNANIMOUSLY.

MR MC NEIL ADVISED THAT THERE WAS PROBLEMS WITH ROYALTIES IN THAT EVEN THOUGH PATMENTS HAD BEEN MADE TO THE PROVINCIAL GOVERNMENT OR NATIONAL GOVERNMENT THE LAND OWNERS HAD PROTESTED CAUSING OPERATIONS TO SHUT DOWN. THE PRESIDENT ADVISED MR MC NEIL THAT WE WOULD TAKE THIS UP LATER WITH THE GOVERNMENT FROM THE FIC LEVEL.

THE MEETING WAS ADJOURNED 1:25 PM.

# PRESIDENTS REPORT- FIA 28/4/87

#### INTRODUCTIONS

ince our last beneral meeting, much has been haveening in certain areas of the timber industry which has necessitated the calling of this the second General Meeting for the year. As was muted at our jest meeting on Feb 18th, whilst changes and events are coming at the pace we are experiencing, it is desirable that we continue mootings at number 15 intervals to ensure we the Association are informed and involved in what is Soing on:

In this report I shall comment on events which have occurred since we last met, actions taken by the Executive Committee in response, media statements which have appeared, market observations, and the Present situation around the FIC.

#### THE LAST 3 HONTHS:

Within days of our last ROM, the media besk, indicating in the Times and Nuisini Nuis that all was not hell with the FIC and Industry in general. Following these reports the Chairman of FIC whote me a letter demanding that I resign from the council, and accused me of feeding information to the media. I refused to resign and denied any responsibility for information in the media. I understand that Mr Wer Kanawi received a similar demand from Mr Maraleu at this time, but also refused to resign.

Around this time I received a statement from Mr Maraleu addressing some of the questions and concerns raised by members at our last meeting. Unfortunately he had included defamatory statements relating to Mr Kanawi and myself which negated my Publicising this statement. I returned the document to Mr Maraleu with the request that he remove the defamatory sections however he refused to de this so his replies have not been sent out to members.

Immediately following this demand to resign, a notice appeared in the Government Gazette, terminating my appointment to the FIC on the grounds that I'no longer represented or had any interest in the timber industry. Similar termination notice was also posted in this issue for Mr Kanawi, whilst a new appointment was made of a Mr D. Tomms. These notices (Dated 3/3/87) were signed by Hon. P. Torato, the Forest minister at the time, and all were done without any reference to the FIR, who normally should have had some say in these matters. The appointment of Mr. D. Tomms was made without respect for the views of FIR, who should have been asked for nominations as set out in the FIC Act.

Following these events I contacted the Exec.Committee for their comments and as a result called a Committee meeting in Moresby 21st/22nd of March.At this meeting the Committee resolved to seek legal recourse to reverse the actions of the Forest Minister in

is matter, and requested Mr P. Steeles to represent, the FIA at this time and to commence action immediately.

As a result of this meeting a further mooting of the Quorum of the Committee with the Forest minister was called on the moday, week following. This meeting was called by the Minister and attended by FIA representatives including MrP. Steeles and Mrp. Pato (employed by Mr Steeles). Sec. for Frade and Industry Mr Week Kanawi, Sec. for Forest Mr Mamalai, Mr Maraleu and Mr Tay (FIC), and Hon. P. Torato.

At this meeting the Minister revealed that he had taken the action in question on the advice of FIC Chairman, but was prepared to reconsider his action in light of the stance of the FIA in the refair. A press statement was released the same day outlining the consensus of this meeting and announcing reinstatement of myself and Mr Kanawi to the FIC.

et the end of the same week however, the Prime Minister Hon. Pais Fingti moved the Forest Minister to another ministry and called for the resignations of all FIC members to allow investigations to follow. I responded Promptly to this call and following discussions with FIA Committee, requested Publicly other FIA members of the council to follow, it being our wish to cooperate with the Prime Minister who wanted to see matters, in and around the FIC and industry, cleared up quickly. As far as I Know Ell FIA members have resigned with the exception of Mr G. Ward and Mr M. Maraleu. In light of the refusal of these members resign, the FIA committee resolved to issue a Public statement late lest week, disassociating the FIA from the actions of these men, calling on them to resign immediately, and reminding them of their obligation to represent the consensus and interests of the Association at this time.

It is not in the interest of the FIA to stand against the Prime Minister of the country on obstruct investigation of questionable dealings within the Industryand FIC, which reasoning prompted the statements of the Committee at this time. I would also add that the damaging and defamatory statements printed by Mr Maraley grif the name of the FIC (without the endoresment of a Council resolution and presumably funded by Council money) are highly question ble in content and destructive to the name hand reputation with main companies who are neputable members of this Association Such action by one supposedly representing the FIR and nominated from the Association initially, must be strongly condemned as action not bofitting one elected from within our ranks. This action is but a reflection of the total loss of identity and role which the FIC has suffered over recent months, since the SMA activities were adopted by this body. Rather than holding the interest and welfare of the industry, responsible for its funding at heart, the FIC is now seen to be biting the hand that feeds it.

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As a result of Problems evident within the Industry and FIC, it has resolved thru the recent Committee meetings, to formalise the Proceedure for renewal and application for membership within the FIA.

This was seen as a necessary step to ensure that the general rights and interests of Industry members and the Nation, are properly represented both within the Association and the FIC in the days ahead.

The FIA Constitution clearly lays down a proceedure to be followed for membership, and it has been this document which the Committee has used as a guidline to commence the process of properly vetting each applicant for membership this year. We appolosise for the shortage of time available to carry out this process and for any ruffled feathers caused by the departure this year from tradition, but I believe that in light of recent events and the rapidly changing face of the Industry, this action was necessary to ensure our identity as the forum of the Industry is strengthened and recognised, rather than diluted and fractured, in days to come.

#### COMMENTS ON THE MARKET:

Over the last 2 months the average FOB price for PNG logs has dropped from around K70/K75/m3 to K60/K65/m3 which is an average price range at present. A drop in prices around this time of year is the normal experience in PNG as log production increases in Sabah/Sarawak region after Chinese New Year festivities are over and weather conditions improve.

It is generally muted that Prices should bettom out within the month of May and indications are that they won't go much below K60/m3 on average. However at Present there are reports of growing difficulty in securing log ships in the region, perhaps more so than has been the case for a number of years. It is also possible that freight rates could rise by as much as 15% over the next few weeks. Just why this difficulty has arisen is not clear, although the seasonal thaw occurring in the Northern Hemisphere at this time usually signals the movement of large volumes of Siberian logs from that region, and many log ships head that way to handle the volume around this time.

#### General Market Trends:

Over the last 4 Years, demand for, and useage of, tropical broadleaf hardwoods, has undergone dramatic change in the markets of Japan, Korea and to a smaller extent Taiwan.

In Japan and to some extent Korea the basic demand for timber

Industry. Today the application of raw tropical logs is mainly for the in the domestic markets of those countries whilst 5 years ago a large proportion was used in manufacture of wood products for export.

Although demand in both Japan and Korea has been more than halved over recent years, the effect on long term Prices has not been as damaging as could be expected, due to compensating factors on side of both demand and supply thru this Period.

R Key compensating factor in this period was the introduction of log export bans in Indonesia during 84/85. This action increased demand for production of logs in Malaysia and held price levels up despite the drop in demand for logs overall. However this action has meant more rapid consumption of logs in the Sabah/Sarawak region and has resulted in a serious revision of supply possibility from this area at present. The realisation has come in Malaysia that their timber resource is seriously depleted and this is causing log producers to look elsewhere for resources, a trend which has been felt recently in this country, as most of us know, which has been felt recently in this country, as most of us know, which has been felt recently in this country, as most of us know, which has been felt recently in this country, as most of us know, which has been felt recently in this country, as most of us know, which has been felt recently in this country, as most of us know, which has been felt recently in this country, as most of us know, which has been felt recently in this country, as most of us know, which has been felt recently in this country.

to large export of high quality manufactured wood Products, has tended to focus their buying of logs around the Chinese Producers in Sabah and Sarawak, with a large demand for the well known, high quality Diptercarpacae species, common to Malaysia.

However, with the changing factors in the Malaysian log supply situation we could well find the Taiwanese manufacturers looking for alternate species and suppliers. PNG would do well to explore the possibilities for extended markets in this area as a result of this trend.

New Market Possibilities should be aggressively explored by PNG over the coming years to offset the lessenning demand we are experiencing from traditional markets. Apart from the Taiwanese market we could find expanded market in other regions such as Pakistan, Middle East, Italy and Thailand. The recent success in marketing small volumes into India is a good example of potential that exists if we are prepared to be innovative and flexible.

PHG today, is well placed to reap maximum benefit from it's timber resource, in the near future, provided we do not rush in to carelessly exploit new concessions.

The allocation of future concessions should be carefully planned to ensure that the best interests of the landowner and the Nation are being served by future development, rather than selling out our resource for short term benefits. Patience and adherance to a carefully planned policy for future development by the Government, for the timber Industry, should be the order of the day for PNG.

Fresh emphasis must be placed in the immediate future upon the producer to increase ratios of sawn and manufactured timber products for domestic and export markets as opposed to simply increasing raw log exports.

There is at Present an under supply of soun construction timber within the country, a situation which could well see us importing the very logs before sold in a soun state, at 4 times the value received when we sold them. Apart from this Possibility we are a fready seeing a switch to imported pre-fab material housing all over the country, a trend brought about by the shortage of sawn timber within the country today. These trends are occurring at a time when we are increasing our exports of logs, and must surely offset any gains in the balance of trade for the Nation.

# FOREST INDUSTRIES COUNCIL:

In light of the recent call by the Prime Minister for resignations of members from the FIC, the FIR have been asked to submit a full ranel of hames to the Forest Minister for new appointments to be made to the Council. This exercise needs to be carried out today so that the operation of the FIC can be effectively resumed as soon as Possible. I ask all members present to give very careful consideration to this matter and ensure that those nominated are indeed representatives of the forum of the FIR. It is important that those who serve the Association on the FIC are members committed to the interests of the industry and Mation as a whole rather than the individual interests of a few.

With the setting up of a Commission of Inquiry into the FIC last week the FIR members and any other persons, who have information which could be relevant to the Inquiry, have been asked to assist the Government by coming forward. If you have such relevant information or can indicate where it may be found please contact Mr Jack Novari of the Prime Ministers Dept. by either mail or telephone (Ph 271971/271709). We have been assured that all communication will be kept in strict confidence.

#### CONCLUSION:

In conclusion I wish to express my thanks to the Executive Committee. Secretary and Vice-Presidents of the FIR, who have given generously their support and assistance over these last few months. Their willingness to attend meetings called at short notice, and to become involved at the cost of their time and programes have been greatly appreciated, and I thank the companies they represent for their support. The interests of the Resociation have been at risk during these hectic weeks and pithout the residuassistance of these men we could well have lost valuable ground as a body.

The dramatic events of recent weeks have come about as a result of pressures from both within and outside the country.

From within we have seen growing discord develop throught the Industry as the FIC moved into the area of marketing logs for the

state, lacking as some have observed the Proper Protections and guidelines necessary to see this exercise carried out Properly and the identity of this body Preserved. This move has been the cause of FIC rapidly changing its role to the Point where Council employees in some cases were seen to become involved in Management of private companies, resource allocation issues and a general confusion as to the functions originally intended for this body.

From outside the country we have experienced a dramatic increase in pressure from neighboring Asian companies, seeking new resources. As mentioned previously this trend is caused by the depletion of resource within their own regions and is often accompanied by an aggressive approach to secure concessions at any cost, with little concern for the interests of the landowner or Nation as a whole.

Given the scenario as I've outlined, it is vital at this time for the FIA to close rank and ensure that the long term interests and benefits of our Industry and the Nation are maximised and protected in the face of these changes. It is my hope that by working together from here on this Association can ensure just that. Gentlemen this responsibility is upon us all.

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