

**COMMISSION OF INQUIRY INTO
ASPECTS OF THE FORESTRY INDUSTRY**

INTERIM REPORT NO. 4

**TIMBER EXPLOITATION IN
NEW IRELAND PROVINCE**

**VOLUME 2
Appendices 1-5A**

March 1989

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APPENDIX 1

MAMIRUM TIMBER RIGHTS PURCHASE AREA
MAMIRUM TIMBERS PTY LTD
MALAYSIA OVERSEAS INVESTMENT (PNG) PTY LIMITED

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INTRODUCTION

The exploitation of the Mamirum TRP area on New Hanover illustrates what can happen when the timber rights purchased by the government are rapidly expiring and there is a rush to find a contractor. With the aid of lawyer/consultant Miskus Maraleu, an entirely unsatisfactory contractor was found who, in conjunction with Maraleu proceeded to deceive and deprive the landowner company and the landowners of any real benefit from the operation. The smallness of the financial return to the landowners from an unusual and unfair agreement was a disgrace and it was only made possible because Maraleu betrayed his own people for financial reward.

The fact that the Commission publicly exposed these matters finally resulted in the landowners getting a fairer deal.

ALLOCATION OF RESOURCE

In October 1974 TRP rights for a term of fifteen (15) years were acquired over the area of 12,270 hectares known as Mamirum on New Hanover Island, New Ireland Province. A joint venture company - Palmatas Development Company Pty Ltd was granted a 5 year Timber Permit - commencing 1 March, 1975 over the area. The Joint Venture was between H & C McArthur and a number of landowners from the area. As a result of non compliance with terms and conditions of the Permit DOF recommended cancellation of the Timber Permit. The Permit was cancelled on 30 June 1976. Due to political pressure a one year Timber Licence (Letter of intent) was issued from 1 June 1976. The Company did not operate in the area again and the Licence expired. Further attempts to exploit the timber resource on New Hanover Island were begun in 1979 through LAVONGAI DEVELOPMENT CORPORATION PTY LIMITED which was attempting to launch a number of development projects for the New Hanover people including timber. There were difficulties with this company and a scandal over tuna bait royalties.

In the result Mamirum Timbers Pty Ltd was incorporated on the 28 February 1984 to apply for the Timber Permit over the Mamirum area which had by then been abandoned. It was intended to be a landowner company but the initial shareholders were Posa Pilak, Alphonse Marius Soiat and Gerard Sigulogo. Soiat was the first Chairman and Sigulogo was appointed as Secretary. By 22 March 1984 there were 9 directors, who theoretically represented 9 clan groups and Muzah Musak was Manager. A sum of K5,030

was subscribed for shares by representatives of the landowners but in fact no shares were issued. Instead K3,324 of that money was used as payments to Management; Sigulogo receiving K1,488, Kusak K1,200 and K636 was paid as wages. In evidence before the Commission Mr Sigulogo, a former law student, described the failure to issue shares as something he "overlooked" as Secretary. Due to problems which had arisen a replacement Timber Permit was allocated to Mamirum Timbers and the deadline to commence operations was June 30 1986. Mamirum Timbers had been involved in protracted negotiations with Groome (PNG) Pty Limited to take on the job of contractor and the replacement Permit was intended to facilitate the conclusion of those negotiations. The Groomes negotiations finally broke down, however, in about April 1986 leaving Mamirum Timbers under pressure to find a contractor and start operating before the 30 June deadline expired. On 30 April Alphonse Soiat approached lawyer Miskus Maraleu for advice and assistance. Maraleu was well qualified for this task as he was a New Irelander, a lawyer, Chairman of the Forest Industries Council and principal of a timber consultancy company called Metepikai Holdings Pty Ltd. Soiat specifically approached Maraleu because of these qualifications and Maraleu conceded he was aware that Soiat and Mamirum Timbers relied heavily upon him.

LOGGING AND MARKETING AGREEMENT

Maraleu accepted instructions from Mamirum Timbers to act as its lawyer in getting an extension of time to find a contractor and commence operations. Maraleu discussed the matter with Michael Cowan the Executive Director of F.I.C who introduced him to Francis Sia and his newly formed company *Malaysia Overseas Investment* (PNG) Pty Ltd (MOI) as a suitable contractor for Mamirum Timbers. On 13 June 1986 Sia and Maraleu signed a letter of intent which provided that MOI would act as contractor and also that MOI would appoint Maraleu's company Metepikai as its consultant. Acting now for all parties Maraleu wrote off to Secretary Mamalai and Minister Diro seeking an extension of time of one month for Mamirum Timbers to commence operations. He falsely and dishonestly gave as the reason that Mamirum Timbers was having difficulty finding a contractor. Surprisingly time was extended by Secretary Mamalai until the 31 October a far longer period of extension than Maraleu had sought.

From FIC fax and telex files it is clear that Maraleu obtained Mamirum Timbers' letterheads for use in an emergency and that he and Cowan both actively worked to

ensure that MOI would be pre registered and approved as the logging and marketing contractor before the October deadline.

At this stage MOI was a "two kina" company owned by Francis Sia and his wife. On the 17 October 1986 it received pre registration by the DOF. All the normal checks and procedures had been bypassed, including referral to the pre-registration committee. Sia had previously been involved with his brother Michael in another Timber company, Santa Investments Pte Ltd but, had even a basic check been run on MOI by DOF, it would have shown that, although it was a foreign company, it lacked the necessary NIDA approval to be involved in the timber industry and that it had, almost literally, no working capital at all. (This irregular preregistration granted in October followed after a direction which Minister Diro gave to the Secretary of DOF in May 1986. On the 15 May Diro had received a letter on Santa Investment's letterhead signed by Francis Sia as Managing Director of MOI in which sought preregistration for MOI. Mr. Diro penned a note at the foot of the letter to DOF Secretary Mamalai directing that pre registration be granted (Schedule 1). On the same day as he directed MOI's pre registration Mr. Diro wrote a letter to Francis Sia seeking donations for his political party for it's coming electoral campaign. He sought donations totalling K117500 to be paid between May 1986 and 1 June 1987. (Schedule 2)

MOI was NIDA registered in respect of fishing and wholesaling activities. In October it was pursuing NIDA registration in respect of forestry activities but formal registration had not been granted. Francis Sia knew of this lack of registration but says he proceeded because Mamirum Timbers as a local company wanted him to bring equipment on site and as Maraleu told him it was not illegal to do so because he had lodged a NIDA application. Maraleu denied giving such advice. Maraleu and Sia each asserted the other was lying on this issue. The sole business of MOI is it's involvement in this timber concession.

The pre registration was not followed up immediately but was raised again in October at the same time as MOI was seeking NIDA registration to be involved in the timber industry. At that time Maraleu applied pressure on DOF by falsely saying that the equipment was already in place. In these circumstances DOF Secretary Mamalai bypassed the Pre registration Committee and granted pre registration within three days of receiving details of the application. He then wrote to NIDA supporting MOI's application to that Authority.

MOI formally employed Maraleu as its lawyer and it engaged Maraleu's firm Metepikai as its consultant on a retainer of K1,500 per month. Acting for both MOI and Mamirum Timbers, despite the head on conflict of interests involved, Maraleu drew up a logging and marketing agreement on instructions given to him by Sia.

Maraleu did not even have or check the provisions of the new January 1986 Timber Permit but says he proceeded on statements from Sigulogo and Kusak that it did not vary materially from the Permit it replaced.

The agreement followed one of the two standard forms for logging and marketing agreements whereby the contractor (MOI) would receive a given percentage of FOB price with the balance being retained by the permit holder (Mamirum Timbers). Under this type of arrangement it is normal for the permit holder to pay the FIC levy and the royalty payments from its retention fee and for the contractor to pay all the costs of logging and marketing. Responsibility for paying export tax varies from contract to contract. In this Logging and Marketing agreement drawn up by Maraleu at Sia's instruction the contractor's percentage was set at 75% (the top end of the scale) and the export tax, together with FIC levy and royalties, was to be paid from Mamirum Timbers 25% retention. Normally the contractor would bear all other expenses of the operation from its share. This agreement however was very different and was drawn up by Maraleu in a way which was most unfair to Mamirum Timbers. In addition to paying the above mentioned expenses Mamirum Timbers was to also make the following payments to MOI.

| | |
|-----------------------|------------------------------|
| Logging charge | K27 per m ³ |
| Administration Charge | K 6 per m ³ |
| F.O.B charge | <u>K 1 per m³</u> |

K34 per m³

In relation to these additional charges the evidence of Maraleu and Sia was again in conflict. Maraleu said Sia specifically instructed him to include these additional charges and that he, Maraleu did not know what they represented. Sia said the charges were Maraleu's idea; that he engaged him (through Metepikai) as his paid consultant at K1500 per month and left the whole question of the logging and marketing agreement to Maraleu.

As lawyer acting for both parties Maraleu was now clearly in an untenable and unethical position and could not possibly advise both parties fairly. Without warning Mamirum Timbers of the adverse and unusual conditions in the Logging and Marketing Agreement he advised the directors to sign quickly before the commencement

deadline expired and they did. He claims that he later suggested that Mamirum Timbers should get another lawyer but by then it was too late. He also claims that he told Sia the agreement was conditional on DOF approval and that there were problems in that regard.

Maraleu was also still acting for both sides when the Logging and Marketing Agreement was later amended and made even more unfavourable to Mamirum Timbers Pty Ltd as although the Administration Charge was reduced from K6 to K4 per m³, the Logging Charge was raised from K27 to K35 per m³. The total of these unjustifiable deductions provided for in the Agreement was therefore raised from K34 per m³ to K40 per m³. (Whether the amendments were ever agreed to by Mamirum Timbers was challenged at the public hearing). Maraleu agreed that this K40 per m³ first charge on proceeds of log sales was unusual in a 75/25 percentage type agreement but sought to place blame on the Department of Forests for not insisting on amendment and permitting the agreement to operate despite lack of DOF approval of it.

The Logging and Marketing Agreement drawn up by Mr Maraleu was unfavourable to Mamirum Timbers Pty Ltd in other ways also. Under its Permit certain obligations had been imposed upon Mamirum Timbers Pty Ltd. These included the construction of an Island Ring Road (which Mamirum had no ability to construct) the provision of a small sawmill and an obligation to fell a minimum of 15,000m³ in year 1 and 25,000m³ per year thereafter. If Mamirum Timbers failed to cut the minimum volume it would still have to pay royalty on it. All of these obligations are normally passed on to a contractor and should have been passed on to MOI in the Logging and Marketing Agreement but Maraleu failed to do this.

(When Maraleu eventually forwarded the signed Logging and Marketing Agreement to the Secretary of DOF for approval, as required under the *Timber Permit*, approval was withheld as it was considered to be too unfavourable to Mamirum Timbers. The Secretary insisted that the schedule of payments be adjusted in Mamirum Timbers favour).

The agreement was also conditional upon MOI obtaining NIDA approval for forestry activities.

There was some disagreement between Soiat, Sigulogu and Kusak over the signing of the agreement and a belief it would be reviewed after the first shipment. There is no doubt Maraleu failed Mamirum Timbers very badly. He knew of the reliance they placed in him and he betrayed their trust in a most disgraceful way in favour of his "paymaster" MOI.

No one ever checked to find that the condition of MOI gaining NIDA registration was not fulfilled.

As the 31 October deadline approached Sia made things very difficult for Maraleu and Cowan by going to Malaysia obliging them to send numerous, increasingly desperate, telexes trying to track him down. Sia only returned to PNG on 13 October. As it became clear that they would overshoot the deadline Maraleu, using Mamirum Timber's letter head and signing on it's behalf without authority, wrote to the Secretary enclosing a Hastings Deering receipt for K7500 for freight charge to ship two bulldozers to New Hanover. The receipt was not an official form but was in handwriting and was falsely dated 27 October 1986 giving the impression that the equipment had been despatched even though, at that time, it had not even been leased. The ploy worked and the Secretary DOF, satisfied that genuine arrangements were in progress to commence the operation, refrained from moving to cancel the permit. The equipment was not leased at that date because MOI essentially had no funds at all.

Funding Moi - *"An air of dishonesty"*

The problem of leasing the equipment was not finally resolved until 3 December 1986 when Cowan eventually committed FIC to guarantee a shortfall of K20 000 which enabled MOI to lease the equipment by a specially arranged second presentation of a cheque drawn on the Bank of South Pacific. In doing this Cowan clearly exceeded FIC's powers under the Forest Industries Council Act.

It has been possible to trace what subsequently happened with regard to MOI's "opening capital" by studying FIC files and documents obtained by the Fraud Squad in raids on Sia's house and office when investigating the activities of his other business, Santa Investments Pty Ltd. The loan arrangements involving FIC are dealt with in the Commission's Interim Report No 3.

The equipment was leased on 5 December 1986 with the deposit paid by a BSP cheque for K32,000 which left a shortfall in MOI's account of K20,000 which FIC guaranteed to pay by 31 January 1987. In early January Sia had reached agreement with the Korean sales agent S.J. Park, to whom he had promised the sales agency on the first shipment, for an advance of K20,000. Park found it difficult to send the money into PNG and asked Cowan to advance it from FIC funds owing to him. When the BSP called up FIC's guarantee on the 2 February a

very reluctant Cowan deposited USD21,366 into Sia's account. This money (representing K20,000) was brought into PNG from FIC's American USD account. Whether part of the deposit represents funds of FIC is still not resolved. (see Interim Report No. 3)

The loan by Park of this K20,000 is never referred to again in MOI's books or in correspondence. In evidence Sia said it had never been repaid. This raises the possibility that it may have been repaid to Park out of proceeds of transfer pricing devices (discussed below).

In addition to this K20,000 paid in by Park/FIC Sia claims he also put in K7,500 of his own money. The balance of the working capital was arranged by way of overdraft from the PNGBC Kavieng on the security of the first log shipment. MOI (PNG) Pty Ltd thus commenced operations with virtually no capital and proceeded in an attempt to pay for the whole operation out of the sale of logs. This was completely contrary to national forestry policy regarding foreign companies, as they were expected to bring in adequate foreign capital from outside PNG to commence their operations.

Thus from his first involvement there was an air of dishonesty associated with Sia's activities.

It started with the highly partisan and suspiciously energetic support by Maraleu and Cowan of FIC. There was the false receipt obtained from Hastings Deering and the misleading letters written by Maraleu, some written without authority on Mamirum Timbers letterhead. There was questionable Ministerial involvement in obtaining immediate Forestry pre registration for MOI without the normal checking procedures and then its application for NIDA approval was based on false documents as the Logging and Marketing Agreement submitted in support of its application was not the one actually in force between the parties. (The Agreement submitted to NIDA showed MOI undertaking to do the various road works and community benefit projects specified in the Timber Permit whereas in fact MOI never did bind itself to satisfy these conditions). It's opening capital was scraped together by an unauthorised FIC guarantee and later by means of a suspicious arrangement with S.J.Park and the use of an unauthorised FIC USD account. An unfair logging and marketing Agreement was prepared by MOI's lawyer in flagrant breach of professional ethics and he then applied pressure to mislead Mamirum Timbers into signing it in a hurry.

As will now be seen the suspicious air of dishonesty associated with the arrangement for MOI to exploit the resource was then confirmed by the way it carried out its logging and marketing operation.

THE OPERATION

Sia in evidence admitted the first two bulldozers arrived in December 1986 and other equipment in February and March 1987, well after the October 1986 deadline.

Work commenced at Mamirum in February 1987 and almost immediately there was trouble. It was decided to construct the log pond on the beach at Tabut Village. The evidence is that some land was leased for K300 per month and that it was decided to demolish the church and many houses. MOI promised that the village would be repositioned and the Church and village would be rebuilt by the Company. In fact this has still not been done and when the Commission visited the area in September 1987 it witnessed a scene of severe social dislocation. Logs were stacked up on the tidal flats right in front of the remaining village houses and the people's access to their canoes was almost blocked off by long lines of dockings. Fuel Storage tanks and equipment were placed right in the centre of the village. There was significant oil pollution on the beach and in the water. Failure to rebuild the village has been the cause of continuing complaints and protests from the people. During one protest police were called and several villagers were arrested.

The commission made a brief inspection of the logging operation by helicopter and studied DOF and Provincial forestry officers' reports. It then examined Mr Francis Sia and other witnesses in public hearing. It is clear that no attempt has been made to properly fulfil Mamirum Timbers roading obligations, to construct the sawmill or to promote the agricultural development required by the conditions of the Permit.

Under the Logging and Marketing Agreement MOI was obliged to submit monthly reports to Mamirum Timbers specifying amongst other things the volume and species of logs cut. The only reports made however were those supplied to give details of logs sold after each shipment. This must have made it difficult for Mamirum Timbers to monitor MOI's performance; particularly its progress in felling the minimum volume of 40,000 m³ by the end of 1987 required

under the Permit. By December 1987 it had cut only 17,000 m³ and it appears that Mamirum Timbers Pty Ltd is liable to pay royalties on approximately 23000 m³ of uncut timber.

Forestry Inspection Reports show that on the ground operations were very unsatisfactory. Sia's transparent dishonesty and disregard of operating restrictions is clearly illustrated by a telex at the outset of operations in February 1987 where he openly advises Park of his intention to cut undersized premium species trees if there is a market for them but asks Park not to disclose this intention to FIC (Schedule 3)

MARKETING

Early in the operation Sia persuaded the Mamirum Timbers Directors to allow a variation in the Logging and Marketing Agreement to allow him to establish the letters of credit for the first seven shipments in the name of MOI rather than Mamirum Timbers. He claimed this was necessary to promote confidence in the buyers who felt safer in dealing with a company they knew (MOI) but who felt insecure dealing with an "unknown" local company (Mamirum).

This is an unlikely explanation.

Firstly MOI was as unknown as Mamirum Timbers and as MOI had no capital it needed to give local leasing companies and banks (notably Hastings Deering and PNGBC) some assurance they would be paid on equipment leases and that overdraft accommodation would be repaid. The form of assurance required was establishment of letters of credit for log shipments which, when negotiated, would generate the requisite funds.

A further explanation is that Sia required complete control of the documents to enable him to set up machinery for transfer pricing as I am satisfied, on the evidence, that he proceeded to do just that.

The first Shipment M.V Larix (May 1987):

After an abortive earlier arrangement (to ship on M.V. Sarunta 2) the first shipment was loaded in May 1987. At the date of its departure neither royalties nor export tax had been paid. The letter of credit had been made out in favour of MOI (PNG) Pty Ltd and the FOB price for 4720 m³ was eventually shown as K284,236.12.

(Sia in fact overnegotiated the claim on this first shipment very substantially and PNGBC was obliged to refund the amount of the overnegotiation. MOI was so

short of cash that it had already spent well in excess of the true amount to which it was entitled and by having been forced to refund the amount of the over payment the PNGBC had inadvertently "loaned" MOI about K70,000.00.

Sia assured PNGBC this amount would be covered by an L/C on the next shipment which was established with PNGBC. However, he then treacherously established the L/C from the eventual buyer of that shipment with the Westpac Bank leaving the betrayed PNGBC to sue MOI, obtain an injunction and, eventually to force payment out of MOI's fourth shipment).

Accounting to Mamirum Timbers:

Under the unfair and dubiously amended Logging and Marketing Agreement MOI was entitled to deduct from the first shipment proceeds of K284,236.12 the following unfair amounts.

| ITEM | RATE | AMOUNT |
|-----------------------|------------------------|-------------|
| Logging Charge | K35 per m ³ | 165,125.43 |
| Administration Charge | K 4 per m ³ | 18,881.76 |
| FOB Charge | K 1 per m ³ | 2,500.00 |
| | K40 per m ³ | K186,507.19 |

Sia charged Administration charges at K6 per m³ and in addition he claimed reimbursement of several charges which he claimed he had paid. These were for stevedoring, deadfreight, demurrage and commission all of which should have been borne by MOI under the Agreement. He then stated that the total profit on the first shipment amounted to only K7,375.94 of which Mamirum Timbers 25 percent was only K1,843.99.

In his first accounting to Mamirum Timbers MOI (Sia) claimed K237,774.30 as it's 75% share of the profits plus reimbursement for expenses paid. He deducted the export duty and FIC Levy from the balance and then paid the sum of K22,222.00 to Mamirum Timbers. This amount represented it's 25% share of the profit, which he calculated at K1,844.00 plus an amount it should have passed on to the State as royalties. (The accounting is detailed in Schedule 4 Part 1 and notes thereto). Instead of paying the royalties however Mamirum Timbers treated the whole amount as it's share of profits and quickly spent most of it on management expenses as follows:-

| | | |
|------------------------|-------|---------|
| Sigulogo | wages | K 5,911 |
| Kusak | wages | 5,424 |
| Director's Allowances | | 5,271 |
| Board Meeting Expenses | | 1,026 |

(It seems no deductions were made from the wages for Group Tax).

To pay Mamirum Timbers only K1,844 from an FOB price received of K284,236 is absurd and shows the inequity of the Logging and Marketing Agreement drawn up by Maraleu as well as the additional greed of Sia who took off unjustified expenses in addition to those improperly allowed in the Logging and Marketing agreement. Sia also neglected to pay the FIC levies which he had deducted and used these funds as working capital. He also did not pay (see below) the deadfreight and demurrage charges which he deducted and, again, used these funds as working capital.

This original accounting was later adjusted in circumstances described below. (The calculations are shown in Schedule 4 Part 2).

A comparison of what Mamirum Timbers actually received with what it would have received under more normal types of agreement is set out, in Schedule 4 Part 3 and with what it would have received under the finally amended December 1987 agreement with MOI is set out in Schedule 4 Part 4.

Sia's original calculation of Mamirum's share at K1,844 compares with fairer methods of calculating as follows:-

- (a). K13,541.83 on readjustment (Schedule 4 Part 2)
- (b). K27,497.42 on a 75/25 split with Mamirum paying the export duty (Schedule 4 Part 3A).
- (c). K52,915.33 on a 75/25 split with MOI bearing export duty (Schedule 4 Part 3B).
- (d). K47,709.24 on the retention fee basis finally agreed to in December 1987 (Schedule 4 Part 4).

When studying the files relating to this first shipment certain telexes between Sia, Park and the Shipping Company regarding a dead freight claim seemed to indicate that 666m³ more than the volume disclosed in PNG was actually loaded. After very detailed analysis of all documents and after checking with Japanese and Korean authorities, it seems that there may be an innocent explanation for what otherwise looked like an offence of smuggling and so I make no adverse finding on this matter against the company.

Soiat Challenges MOI:

At the time of the first shipment the Chairman of Mamirum Timbers was Alphonse Marius Soiat who was deeply disturbed at the gross inequity whereby his company received only K1,844 from an FOB price of K284,236. He instructed lawyer Sebulon Watt to inquire of MOI but MOI replied that the Managing Director of Mamirum Timbers Micah Kusak had advised that Watt did not act for Mamirum Timbers. (This is the first sign of a split in Mamirum Management between those receiving a salary from MOI's payments (KUSAK and the Company Secretary Gerald Sigulogo) and the honorary Chairman Soiat). At the time Maraleu had pressed Mamirum Timbers to sign the Logging and Marketing agreement it was clearly expressed that it would be subject to review after the first shipment. Soiat now tried to renegotiate but was opposed by Sia, Kusak and Sigulogo and other Board members did not actively support Soiat.

One of the reasons for him receiving no support from the majority of Board Members may have been that they had actually received fairly substantial personal benefits in the way of directors fees and meeting allowances from the first log sale.

In the case of Gerard Sigulogo he also (later) received tangible benefits in the form of a free return trip to Singapore and approximately K2,000 spending money and a watch for his wife. He received a written commitment from Sia to assist with election expenses to the extent of K2000.00 which Sia promised in July would be paid from the second shipment proceeds. This aspect is further dealt with below. Sigulogo and Kusak were also claiming back pay at the rate of K15,000 and K18,000 per annum respectively totalling between them K123,750.

Eventually Soiat decided to use direct action to gain justice for his people. He organised a landowners' protest march and landowners and company representatives squatted on the land. The police were called in and several were arrested. A restraining order was obtained from the local Court to prevent a repetition.

It was at this stage that Alphonse Soiat briefed Henao Cunningham lawyers to issue a Writ against MOI alleging.

- (1). Numerous breaches by MOI of the Logging and Marketing Agreement.
- (2). Incorrect calculations of the moneys owed to Mamirum Timbers..

- (3). Letter of Credit was in the name of MOI instead of Mamirum Timbers.
- (4). Failure by MOI to furnish reports required under the agreement.
- (5). Failure by MOI to keep proper records and to allow access to such records.

The Writ was issued in August 1987 in the name of Mamirum Timbers Pty Ltd though commencement of proceedings had not been approved by the Board. Henao Cunningham also sought and obtained an interim injunction which restrained MOI from:-

- (1). further breaching certain conditions of the Logging and Marketing Agreement.
- (2). continuing Logging operations.
- (3). removing or otherwise dealing with any Timber products.
- (4). performance of any further obligations under the Logging and Marketing Agreement.

On 26 August this injunction was varied to permit logs lying on the ground to be exported on terms that the sale proceeds, less export duty, were paid into Court. The order was further varied to allow the sale proceeds to be dealt with upon terms that a sum of K11,411.28 was paid into Court. In obedience to the varied order the sum of K11,411.28 received by MOI from the second shipment in September 1987 was then paid into Court.

At this stage MOI was in a desperate situation with another log shipment expected soon and yet the urgently needed funds from the second shipment were frozen in the bank by the National Court Order. The pressure on MOI to renegotiate the Logging and Marketing Agreement and to begin to honour the terms of Mamirum Timber's permit conditions was now at it's highest. Company Secretary Sigulogo however, (without Board approval) purported to instruct Henao Cunningham to discontinue the Court proceeding. He joined with Kusak to have Alphonse Soiat removed from the position of Chairman and he was replaced. The newly constituted Board immediately after Soiat's removal also instructed Henao Cunningham to discontinue the National Court Action. Notice of Discontinuance was filed on 6 October 1987. The sum of over K11,000 however was retained in Court under the terms of the Court Order but MOI had been "saved" by the released of the balance proceeds of the second

shipment. The failure by Sigulogo and Kusak to support Soiat to force the issue of the agreement with MOI and to force a fairer agreement is quite remarkable. They both stated in evidence that they feared Mamirum was at risk on the undertaking to pay damages which had been given by Soiat to obtain the original injunction. Whilst I do not dismiss such a concern out of hand I consider they acted out of less pure motivation. As previously described each of them had procured a backdated employment contract and stood to gain handsomely if the operation continued. They were at risk if there was any prospect of the operation coming to a halt. Sigulogo was additionally compromised by Sia's promises to pay election expenses and by the fact that arrangements were already made for his Singapore trip and the K2000 cash "spending money".

One result of the National Court proceedings was that it persuaded Sia to recalculate Mamirum Timber's share of the first shipment by removing the unauthorised deductions for stevedoring, dead freight and demurrage. This increased Mamirum Timbers' share from K1,844 to K13,542. (The readjustment is detailed in Schedule 4 Part 2).

MOI sought and obtained the consent of Mamirum Timbers's newly constituted Board to defer payment of Mamirum Timbers's share of the proceeds of the second shipment so that MOI (PNG) Pty Ltd could survive. Sia himself paid K17,128.81 in royalties owing from the first shipment to enable the second ship to depart because Office of Forest was enforcing the requirement to pay royalties before log export was permitted.

The Second Shipment M.V Yue Hope: (August/September 1987)

Before this shipment was made in August/September 1987 there were previous attempts to sell these logs through Mr. Wong of Hindai Timbers (Hindai is a related company to Santa Investments and was it's Singapore transfer pricing vehicle) and through Mr. S.J. Park of Korea. A careful study of all correspondence regarding those two proposed shipments again shows up Sia's dishonesty:-

(a). it is clear that arrangements through Hongkong were being put in place to transfer about USD 10.00 per m³ and that about USD 10,000 of this was to be used to pay part of the dead freight claim still outstanding on the first shipment. (Schedule 5). (The vessel MV. Sarunta 2 was originally arranged for the first shipment but there were no logs for loading and a large deadfreight and demurrage claim resulted);

(b). it is also clear that Sia intended to defraud the Customs Branch on spare parts he was arranging to be shipped. *"Please prepare a false invoice to Mr. Toyama so that he not pay too much money for custom duty"* (Telex 12 August 1987 Sia to T.P.Lee).

(c). when the forestry Officer Kavieng queried his price as being below MEP Sia justified it by saying that it was a long standing agreement made when the MEP was lower. In support of his claim Sia wrote to the PFD on the 2 September 1987 saying, *"Regarding the price, the contract was committed earlier prior to new dated price on 24.7.87. We will send you a copy of the Letter of Credit to prove it"* In Sia's Letter of Credit File the Commission found a patently altered copy of the letter of Credit HK142022 relating to this shipment (Schedule 6). The letter of credit was issued on 13 August 1987 (applicant YEH CHEONG TRADING COMPANY of Hong Kong) and the Westpac original document is dated 14 August 1987. (Schedule 7) In the copy in Sia's file the dates have been erased and *"July"* written in (This was confirmed by examination of the relevant Westpac file) (Schedule 6). This seems to involve the forgery of a document and the altering to DOF of that forged document and I recommend this matter be referred to the Commissioner for Police.

(d). A study of the documents relating to those two proposed shipments show that the appropriate FOB price as arranged was USD 89-98 per m³ (Though a lower price was to be disclosed in PNG).

Not much documentation on the second shipment is available but it was probably organised by Wong of Hindai though Sia later negotiated directly with the buyer Ocean Enterprise Co Ltd of Osaka Japan. Eventually the Shipment consisted of 1639 logs with a volume of 5997.538 m³ for an FOB price of USD 78.00 aggregating USD 467,807 (K413,330.94). Ocean Enterprise Co. is not averse to transfer pricing arrangements and was involved actively in transfer pricing with Bruce Tsang (see Appendix 7 to this Interim Report).

Accounting to Mamirum Timbers:

Sia gave his accounting to Mamirum Timbers on 15 November (more than two months after the shipment) and had still not paid Mamirum at the date of the Commission's December hearing and was not in a financial position to do so. In this Statement Sia showed total income of K413,330.94 and total expenses of K302,393.04 (including Royalties shown *"as paid"* of K22,649.50). Sia made the deductions listed in the statement and showed a total profit of K110,937.90 of which he calculated Mamirum's 25% share to be

of which he calculated Mamirum's 25% share to be K27,734.47. The split was made on the basis of the unfair and unusual agreement with the dubious amendment Schedule.

The payment entitlements are as set out in Schedule B Part 1. To Mamirum's calculated profit share of K27,734.47 Sia then added the Royalty figure of K22,649.59 to give a total of K50,384.06. The Royalties are, of course payable to the State and shown "as paid" but at that stage they had not in fact been paid and were not paid until after the facts were disclosed by the Commission. They were then paid out of the proceeds of sale of the fourth shipment.

From this figure of K50,384.06 Sia then made further deductions which he had no authority to make, save perhaps for Royalties.

There were:-

| | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| (a). Sia's estimate of an amount for legal fees in the National Court proceedings for which he gave no details | K5,000.00 |
| (b). Sia's travelling expense (for which he had no details) except to say (which is ridiculous) that he had to make 9 trips to Port Moresby for the Court case. | K3,555.00 |
| (c). Food, accommodation and taxi expenses which he could not satisfactorily particularise | K1,152.00 |
| (d). Hiring of his boat by Mamirum personnel | K 730.00 |
| (e). Cash to Mamirum Directors when in PDM, for the Court case when their attendance seemed unnecessary | K 120.00 |
| (f). Royalty paid by MOI (on first shipment) | <u>K17,128.81</u> |
| | K27,685.81 |

If one disregards the Royalty payment which is payable to the State, Sia showed Mamirum as entitled to a payment of K48.66.

of the first shipment and was included in MOI's payment to Mamirum from that shipment of K22,222. Mamirum had not actually paid that money to the State and MOI had been forced to pay it later to clear the second shipment.

Even then, as I have said, no moneys were paid to Mamirum or for additional Royalties until months after the shipment as Sia and MOI lacked the funds to make payments. If the standard formula (even on a 25/75 split) was used the entitlements would have been as set out in Schedule B Part 2 depending who bore export duty.

If the formula in the Agreement finally signed with MOI in December 1987 was used the entitlements would have been as set out in Schedule B Part 3. The comparisons available from the tables are obvious. Sia calculated Mamirum's share at K27,734.47.

This compares with:-

- (a). K37,343.67 on a 75/25 split with Mamirum bearing export duty (Schedule B Part 2A).
- (b). K79,343.67 on a 75/25 split with MOI bearing export duty (Schedule B Part 2B).
- (c). K86,714.71 on the retention fee basis finally put in place (Schedule B Part 3).

Third Shipment - Don Antonio Botelho: (October 1987)

There are few documents available regarding this shipment for which the Letter of Credit was established on 14 September 1987 and which loaded in October 1987. This may be explained in part by the fact that Fraud Squad Officers seized documents at the offices of Santa Investments on 22 September 1987 and at Sia's Kavieng premises on 16 October, 1987. There appear to be no relevant telexes among the documents seized by the Fraud Squad and when the Commission required Sia to produce relevant telexes or facsimiles none relating to this shipment were produced. In Sia's "Westpac Bank" file however is a copy of the Letter of Credit relating to this shipment. It is numbered HK 142374 dated 14 September, 1987 for an amount of USD 300,000.00 covering about 3500 m² on an FOB basis. The Applicant is again Sia's transfer pricing contact YEH CHEONG TRADING COMPANY of Hong Kong and the notify party is NANYO KIGO LIMITED.

All available documents here show the shipment was a part shipment of 693 logs with a volume of 2574.136 m³ for an FOB price of USD 80.00 per m³ aggregating USD 205,930.88. The Log List, Log Summaries, Bill of Lading, Time Sheet, Invoice and Export Entry all agree in this regard. The records of Westpac Bank show this is the sum claimed and paid and that it converted to K182,660.00 (and less bank charges of K15.00 equals K182,645.00).

As Sia was again dealing through Yeh Cheong Trading Co. of Hong Kong for a price more than USD10 below Park's prices, and in view of Sia's known previous transfer pricing arrangements through that company, I am satisfied that Sia price transferred through Hong Kong on this shipment and that the magnitude of the transfer was at least USD 10.00 per m³. I recommend referral of this aspect to the Commissioner of Police for further investigation.

Accounting to Mamirum Timbers:

The following analyses and tables proceed on the basis the price was at the rate of USD 80.00 per m³ disclosed in PNG. Sia's only accounting for this shipment is dated 25 November 1987, even though again he had not paid any moneys to Mamirum at the time the Commission sat in Kavieng in December 1987 and was not in a financial position to do so.

In his statement Sia showed total income of K182,645.00 and total expenses of K131,197.26 (including Royalties shown "as paid" of K9,266.88). Sia made the deductions listed in the statement and showed a total profit of K51,447.73 of which he calculated Mamirum's 25% share to be K12,861.93. The split was made on the basis of the unfair and unusual agreement with the dubious amended Schedule. The payment entitlements are as set out in Schedule 9 Part 1. Sia, in his statement, again adds Royalties (payable to the State) to Mamirum's share. Again they are shown "as paid" but were again paid out of the fourth Shipment proceeds. From the true Mamirum entitlement of K12,861.93 Sia then makes further deductions as follows:-

| | | |
|-------|-------------------------------------------------|--------------------|
| (a). | an advance by Sia to Mamirum of | K 10,000.00 |
| (b).. | charges for pre mixed petrol | K 490.60 |
| (c). | charges for food rations used by the Police. | K 195.20 |
| (d). | charges for pre mixed petrol | K 88.00 |
| | | <u>K 10,773.20</u> |

The amount payable is thus K12,861.93 less K10,773.20 or K2,088.73 with Mamirum also having the benefit of the K10,000 advance. Even then, no moneys other than the advance were paid until after the Fourth Shipment and Sia and MOI lacked the funds to make payments. If the standard formula (even on a 25/75% split) was used the entitlements would have been as set out in Schedule 9 Part 2 depending on who bore export duty. If the formula in the Agreement finally signed was used the entitlements would have been as set out in Schedule 9 Part 3. The comparisons again are plain. Sia calculated Mamirum's share at K12,861.93.

This compares with:-

- (a). K17,355.39 on a 75/25 split with Mamirum bearing export duty (Schedule 9 Part 2A).
- (b). K35,860.94 on a 75/25 split with MOI bearing export duty (Schedule 9 Part 2B).
- (c). K39,839.78 on the retention fee basis (Schedule 9 Part 3).

These figures in all Schedules would be increased as the price used for calculations (USD 80.00 per m³) was a falsely low price due to transfer pricing.

Fourth Shipment (December 1987)

At the time the Commission sat in Kavieng the fourth shipment was in course of loading. This coincided with the public disclosure of the facts. The unusual provisions and unfairness of the Logging and marketing Agreement were disclosed and admitted by Maraleu, as was the miniscule nature of the returns to Mamirum. It was clear Sia was in an absolutely desperate financial position and by having letters of credit for the first three shipments established favour of MOI had used the Shipment receipts to service MOI's debts. Monthly log returns had not been filed since August 1987. Assessed Royalties had not been paid to the extent of K 21,362.94

up to August 1987 and up to November would have approached K35,000 and there were no funds to pay them. FIC levies had not been paid and there were no funds to pay them. The landowners Company Mamirum had not been paid in full it's share of shipment proceeds - K22,000.00 had been paid on the first shipment and further K11,411.28 had been paid into Court for that shipment. Out of the second shipment only the arrears of royalties of K17,128.81 (on the first shipment) had been paid. On the third Shipment only the K10,000 advance had been paid. MOI had failed to fulfill Sia's promises to PNGBC and that Bank had obtained a National Court injunction to seek to secure payment of the debt to it amounting to over K70,000.00.

There were numerous debts and no money. The whole future of the operation depended on the proceeds of sale of the fourth shipment. In order to protect the State's position regarding Royalties pressure was exerted by the PFD and First Assistant Secretary (Operations) to require (as is the legal requirement in any event) that monthly log returns were furnished and assessed and that all assessed Royalties were paid in advance of the vessel being cleared. In order to reform Mamirum's position it was pressing to have Sia sign the usual "retention fee" type Logging and Marketing Agreement prepared by the Department of Forests and to ensure moneys already due to it from previous shipments by MOI were paid. Pressure regarding Royalties was possible because the Letter of Credit for the fourth shipment contained a "red clause" (which allows some money to be drawn in advance). If the PNBC agreed to a variation of it's injunction that "red Clause" could have been drawn upon to substantially pay the Royalty arrears. There was every indication the PNGBC would so agree. With the prospect of "demurrage" for shipment delays the scene was set to force Sia to act reasonably. Placed under this pressure Sia signed the new Logging and Marketing Agreement and at the request of Sia and Mamirum the Secretary for Forests permitted the ship to clear on a promise to pay royalties arrears out of the shipment proceeds. I have not checked how export duty on the shipment was paid but as there were no funds it is likely that an ordinary cheque was accepted and not met until the shipment proceeds were received.

There dramatic events illustrated the results which flow from many irregularities and in large part from the failure by Government authorities to properly follow established systems and procedures

The investigation into the Mamirum operation resulted in one startling revelation after another. There was a sense of drama as the injustices were still occurring and many of them were publicly disclosed for the first time

at the public hearing in Kavieng. That hearing was a lively one as several witnesses lied and then changed their evidence under threat of perjury prosecution and some (notably Miskus Maraleu) publicly confessed past wrong doing. As things stood at the time of the hearing there were winners who stood to gain handsomely from improper benefits and losers who were already suffering substantial loss.

LOSERS

a. The Land Owners

The landowners were distinct losers. They used to own the timber which is being felled. In exchange for the timber rights which they sold to the State they were intended to receive certain benefits:

- (a). Under the Timber Permit they were to have a substantial Island Ring Road in their area, with all the required bridges and culverts, built at a rate of 2km in the first year and 5 km per year thereafter and built to standards specified in the Permit.

No road was constructed (except where it was needed for logging operations).

- (b). They were to have a portable sawmill by April 1986 to process logs for local use.

No Mill was installed.

- (c). They were to receive/royalties from Mamirum Timbers. The royalty rate is K3.50 per m³ on non premium species and from K4.90 to K12.50 on premium species. They were to receive 25% of those royalties after the TRP price of K44,660.00 had been recouped four times over. ie after total royalties of K178,640.00 had been paid. (See schedule 10).

Royalty payment was delayed and the money was being used to finance MOI's operations.

- (d). Their resource was to be logged on standardised Timber Permit conditions designed to protect them from environmental damage and it was to be done in accordance with approved Forest Working Plans and in accordance with accepted logging standards..

Logging Standards were bad and no forest working plans had been submitted and approved.

- (e). The product of their resource was to be marketed according to sound marketing practices "to establish the highest returns to the permit holder", Mamirum Timbers and as shareholders in that company, they were entitled to expect dividends if the company was profitable as well as the other benefits performed by the company from those profits.

MOI indulged in transfer pricing of at least USD 10 per m³ as a matter of routine and as a result disclosed a loss in PNG.

- (f). They were protected by the fact that any logging and marketing agreement signed by Mamirum Timbers had to be approved by the Secretary of the Department of Forests "prior to execution".

The Logging and Marketing Agreement was not approved by DOF.

If Mamirum Timbers failed to make a profit or failed to carry out the conditions of the permit or to make arrangements for them to be carried out then the landowners would be the real losers.

b. Mamirum Timbers Pty Ltd

Although Mamirum Timbers was the permit holder it had very little capital and no experience or capacity to conduct the logging and marketing operation. For these operations it depended entirely on its contractor MOI (and the benevolent supervision by DOF and the Provincial forestry office). As well as hoping to receive its agreed percentage of the FOB price obtained by MOI, Mamirum Timbers had the legal obligation to carry out the roading obligations under the permit and to pay royalties to the State, the Provincial Government and the landowner's agents. It also had the duty to fulfill the sawmill and other obligations imposed by the permit.

There is a condition in the Permit which specifies that the resource is to be cut at a minimum rate of 15000 m³ in Permit Year One and 25000 m³ in subsequent years. There is an obligation upon Mamirum Timbers to pay royalty on those minimum cut levels if the minimum cut level is not achieved. All these obligations should have been passed on to MOI in the Logging and Marketing

agreement. When the commission conducted it's hearings in December 1987 two years of the Permit period had elapsed and one year nine months remained.

The position was as follows:-

(a). The unfair Logging and Marketing agreement with MOI (prepared by Maraleu) ensured that Mamirum Timbers could never make a profit.

(b). Mamirum's obligations were not passed on to MOI in the logging and marketing agreement prepared by Maraleu. Although DOF refused to approve that agreement it still formed the basis for the operation which was occurring despite that lack of approval.

(c). There was no Island Ring Road construction (though under the Permit 8 km should by then have been constructed) and no portable sawmill. Mamirum Timbers had no capability to construct the road and no funds to buy the mill yet it still bears the legal liability. All the landowners are likely to receive are temporary logging and hauling roads with temporary bridges which will rapidly disintegrate after logging ceases.

(d). The minimum cut and damages obligation was not passed on to MOI in the logging and marketing agreement. At December 1987 a minimum 40,000 m³ should have been harvested yet MOI had only exported:-

| | |
|------------|----------------------------|
| Shipment 1 | 4720 m ³ |
| Shipment 2 | 5997 m ³ |
| Shipment 3 | <u>2574 m³</u> |
| | <u>13291 m³</u> |

The fourth shipment was of 3000 to 3500 m³ making a total cut of about 16300 to 16800 m³. Mamirum Timbers is therefore liable to the State for damages (with no recourse against MOI). Those damages even at the base royalty rate of K3.50 per m³ would amount to about K78,750.

(e). The resource has not been logged in the specified manner and there appears to have been significant non compliance with environmental protection requirements; Forest Working plans have not been submitted or approved and logging practices appear below acceptable standards.

There had been severe social dislocation and the people were both angry and resentful and staged public protests which were dispersed by the police at Sia's request. Further demonstrations were prevented by a restraining order.

(f). The rejected unfair logging and marketing agreement was still in force, infact it had been altered to make it even more unfair. Despite DOF's rejection of it, and despite Soiat's efforts and the case in the National Court, Sia was still refusing to change it. Only when this Commission focussed attention on it at a public hearing, and because he was under pressure to clear the fourth shipment, did Sia finally agree to sign a new DOF approved agreement.

The loss to Mamirum Timbers can be clearly shown by comparing what Mamirum was entitled to receive from MOI under the earlier agreement with what it would have received under the DOF approved December 1987 agreement:-

| <u>SHIPMENT</u> | <u>ORIGINAL AGRT</u> | <u>LATER AGRT</u> | <u>SCHEDULES</u> |
|-----------------|----------------------|--------------------|------------------|
| 1 | K 13,541.83 | K 47,709.24 | 4 Parts 1 and 4 |
| 2 | K 27,734.47 | K 86,714.71 | 8 Parts 1 and 3 |
| 3 | <u>K 12,861.93</u> | <u>K 39,839.78</u> | 9 Parts 1 and 3 |
| | K 54,138.23 | K174,263.73 | |
| | | <u>K 54,138.23</u> | |
| | Difference | <u>K120,125.50</u> | |

The figures tell only part of the story. The position is even worse because the above figures are based on actual FOB price received in PNG and that was not the full price paid by the buyer. Sia admitted in evidence that he arranged sales through Hong Kong but said he did that on the buyer's instructions. I do not accept Sia's evidence as it is quite clear that he sold through Hong Kong in order to transfer price and that he was benefitting from that transfer pricing.

(f). MOI was not in a financial position to comply with the original agreement and to make prompt payment of the scandalously low amounts due. Mamirum had to wait until the fourth shipment proceeds were received before the funds-starved MOI could pay up in full and it did so then only because the position had been publicly disclosed before this Commission.

At the time of the public hearing it was depressingly clear that Mamirum Timbers and the landowners were heavy losers from this miserable operation.

c. The State

The State was also a distinct loser.

(a). It's NIDA rules which govern foreign participation in commercial activity had been blatantly disregarded with impunity.

(b). It's expressed 1979 Forest Policy had been disregarded. This was a Log Export/Road Construction type of operation. The foreign participant, MOI, was irregularly pre registered, was a new company with no "track record" and it had no financial substance. Amazingly the road construction obligations were not imposed upon it at all. It was permitted to operate on a blatantly unfair agreement without DOF Secretary's approval until forced by public disclosures to enter an amended acceptable agreement.

(c). The State has lost revenue in the form of export levy by virtue of transfer pricing and must have suffered detriment in the company tax area by the loss of tax or by excessive losses being brought to account for taxation purposes and carried forward. It suffered long delays in receiving royalties.

d. Tabut Villagers

The lifestyle of these villagers has been severely damaged. Their peaceful beach front fishing village is now the centre of a logging operation. Their church and many houses have been destroyed; they are inundated with foreigners and the alcohol they have brought with them; their environment is polluted by fuel tanks, heavy equipment, log offcuts, noise and disruption. Their trust has been abused and the promise to relocate and rebuild their village was broken. For this man made disaster they were promised the sum of K300 per year.

e. Alphones Marius Soiat

Whatever may have been his motives I adjudged Soiat as a genuine man with a genuine care and concern for his people who was disturbed when he saw them being ruthlessly exploited. He was Chairman of Mamirum Timbers and I accept that he signed the original logging and marketing agreement (on Maraleu's advice) out of expediency and on the clear understanding that it would be reviewed after the first shipment. When it was not reviewed and he was dissatisfied with MOI's performance he was prominent in organising the protest march and used his own (unauthorised) initiative to institute the National Court proceedings. For his efforts in creating circumstances where MOI would have been under pressure to agree to Mamirum Timber's demands he was betrayed by Sigulogo, Kusak and his fellow directors and removed as Chairman of Mamirum Timbers.

WINNERS**a Miscus Maraleu**

Maraleu as a lawyer, timber consultant, chairman of FIC and a New Irelander was trusted and relied upon by his people and they retained him as their lawyer and consultant. From the beginning he created an impossible conflict of interest by acting as lawyer for MOI and Sia and having his company Metepikai engaged as MOI's consultant. Despite his conflict of interest, Maraleu drew the unfair and unusual logging and marketing agreement and prevailed upon Mamirum Timbers to sign it. As he admitted in evidence Maraleu's conduct can only be described as disgraceful. He disregarded the interests of his own people who were his clients and served the interests of his foreign paymaster. In the result his people suffered while MOI and Maraleu benefitted. Maraleu "won" at least a consultancy fee from MOI of K1,500 per month. He therefore, not only had a conflict of interest but he improperly benefitted from it.

I recommend that this aspect be referred to the PNG Law Society for examination of Maraleu's professional conduct as a lawyer. One worrying aspect of Maraleu's conduct was that he confused his roles by acting sometimes as "Maraleu the lawyer" and sometimes as "Maraleu the Consultant". A lawyer cannot be allowed to hide his conflict of interests by claiming to be an employee of his own consultancy company for one party and lawyer for the other party regarding the same or related subject matter.

b Micah Kusak and Gerald Sigulogo

Both these men gave evidence that they had been involved with the Mamirum Timber Area since about 1979. Their original involvement was apparently with Lavongai Development Corporation. They said that until 1986 they had met all relevant expenses from their own pockets but were not able to quantify those expenses or produce any documentary evidence of what such expenses were. In 1984 they received between them over half the K5,030 subscribed as capital for shares which were not issued. It seems that when negotiations with Broomes were proceeding well in 1985 expectations must have been high because the Mamirum Timbers Board of Directors agreed to enter employment contracts with both Kusak and Sigulogo. Kusak's contract (Schedule 11) was as Manager and provided a base salary of K18,000 per year and other benefits. Sigulogo's contract (Schedule 12) was as

Assistant Manager (managing Agricultural projects) and provided a base salary of K15,000 per year and other benefits.

Each contract was backdated in it's effect to 4 March 1984 and was for a term of seven years. By December 1987 the base salaries due to Kusak and Sigulogo under these contracts would have aggregated K123,750.00. Both men believed they were entitled to be paid.

In my view, the way the Mamirum project has operated, there can be absolutely no justification for having two full time employees paid at these rates of salary. When the records of Mamirum Timbers are examined it is clear such a situation was also not justified in the past and the base salary accrued is ridiculously generous for the little work that has been done. Out of the payment for the first shipment Kusak received as wages K5,424.00 and Sigulogo K5,911.00. When Alphonse Soiat's action in instituting Court proceedings threatened MOI's existence and the continuation of it's operations both Kusak and Sigulogo opposed Soiat, had him removed and gave instructions to the lawyers which permitted the operation to continue and MOI to survive unscathed. They did not seriously question Sia's accounting to Mamirum but accepted it.

Their clear and joint motivation was to obtain the money which they believed was due to them and not to place their prospects of obtaining such money in jeopardy. Their prospects could have been in jeopardy if for any reason MOI ceased operations. In this regard both men placed their personal financial interests above the interests of the people they represented and in doing so permitted the opportunity to extract a fair deal from MOI to be lost. They knowingly acted against the interest of Mamirum Timbers and the landowners.

c Gerald Sigulogo

Gerald Sigulogo however, had personal interests additional to those of Micah Kusak. Sigulogo was contesting the Kavieng Open Seat in the 1986 National Elections, a seat he was successful in winning.

Chronologically what occurred was this:-

- (a). 24.07.87 Sigulogo wrote to Sia that election expenses are K2,960.00, details kept for typing and thanking him for kind help (Schedule 13).

- (b). 27.07.87 Sia acknowledged Sigulogo's letter and asked for a copy of expenses and said *"we will be willing to assist you with K2,000 after the coming shipment"* (Schedule 14)
- (c). In July 1987 the protest demonstration took place and afterwards Sia wrote to the Premier, Police Commander and District Manager thanking them for their assistance (Schedule 15).
- (d). 18.08.87 Sigulogo wrote to Sia on National Parliament letter Head referring to Sia's letter of 27.07.87, attaching a copy of his election expenses and thanking Sia for his kind assistance.
- (e). 20.08.87 The Writ in the name of Mamirum Timbers arranged by Alphonse Soiat, was issued.
- (f). 21.08.87 Henao Cunningham obtained injunctions to stop MOI operating.
- (g). 25.08.87 Sigulogo telexed Henao Cunningham from Sia's telex machine that he, as Company Secretary, authorised release of the Court injunction as the log ship was approaching (Schedule 16).
- (h). 26.08.87 The Court order was varied to allow removal and loading of logs felled on terms that the proceeds of sale (less export duty) were paid into Court.
- (i). 27.08.87 A Board meeting of Mamirum was held (copy Minutes is Schedule 17) Sigulogo spoke against the Court proceedings on the basis that if MOI could not load the ship it could cost Mamirum Timbers a lot of money. The Board agreed to stop the Court proceedings and Alphonse Soiat was ousted as Chairman. Sigulogo stated his intention to Stand down as Secretary on 30 November and this was agreed.
- (j). 27.08.87 An extract of the Board decision was prepared for Henao Cunningham (Schedule 18).
- (k). 09.09.87 The Court Order was further varied to allow MOI to deal with the sale proceeds of the second shipment provided K11,411.28 was paid into Court.

- (l). In early September 1987 Sigulogo departed on a trip Kavieng - Port Moresby - Singapore - Thailand and return to Kavieng at Sia's (MOI's) expense.
- (m). 14.09.87 Approval was granted for Henao Cunningham to withdraw from the Court proceedings.
- (n). 05.10.87 Sigulogo wrote to Sia (Schedule 19) a letter as follows:-

"Dear Mr. Sia,

Firstly, I would like to thank you and your wife for the privilege you have given me to travel to see Singapore. Then I had the golden chance of having to go up to Thailand again. Very grateful indeed for the fine opportunity.

As I discussed in detail with you about the project at Mamirum and I assured you that you'll continue to operate as long as I am a member of the Parliament.

The only problem I have which is quite serious in my own personal involvement with the company is that as from November 30th 1987, the little money I get from the Mamirum Timbers P/L will cease. This is to avoid being caught by the Leadership requirements as a member of Parliament.

I would like to leave a proposal with you for consideration. If it is possible to look at some kind of payment for me out of your administrative fund. As you know Francis, I have to have some incentives to put my weight behind the operation and at least I know I'm getting something out of it. Therefore I would like to propose that you make provision for me for about K30,000 to be payable at K3000 each shipment. This looks quite a lot but comparing the amount of work put in during the recent court case, I would have made more during those two weeks.

Please consider it and do discuss it with me.

Once again, thank you for the trip and every assistance you've give me. Anyway, my wife is very grateful for the watch, you bought for her. She thank you very much for it.

With thanks.

Gerald Sigulogo".

(k). 20.10.87 The Ombudsman Commission wrote to Sigulogo regarding this trip (Schedule 20).

(l) 19.11.87 Sigulogo replied to the Ombudman Commission (Schedule 21).

d Moi and Francis Sia

The major beneficiary of the whole episode is MOI and it's alter ego, Francis Sia.

They are still involved as contractor in an operation that should never have commenced. MOI commenced this operation without NIDA approval, without a capital base, with irregularly granted pre registration and with financial assistance through an illegal FIC guarantee given by Cowan. The loan was repaid under pressure by a further dubious loan from S J Park through FIC' United States dollar account in which FIC's funds may have been involved.

Sia compromised Maraleu and gained the benefit of a very favourable logging and marketing agreement which imposed few obligations and a great deal of benefit on MOI. The agreement was operative despite DOF rejection of it.

Sia accounted to Mamirum making improper and unauthorised deductions in addition to the unfair deductions allowed under the agreement and even then withheld Mamirum's "entitlement" because MOI did not have the funds. FIC levies remained unpaid, royalties were not paid and MOI was permitted to continue to operate with leased equipment and inadvertently provided loan accommodation from PNGBC. When the landowners staged a peaceful demonstration he called on the police to disperse it and thanked them for doing so. When Court action intervened he relied on the compromised Sigulogo, assisted by Kusak, to restore the status quo.

MOI (Sia) benefitted from transfer pricing and it would seem the loan from Park (of K20,000) and deadfreight/demurrage on the first shipment (of at least USD10,000) were probably paid out of the proceeds. Sia was also dishonest in other ways. It was not until Sia's activity was publicly disclosed in Commission Hearings that he agreed to conduct himself in a more reasonable manner.

IMPROPER BENEFITS

Gerald Sigulogo:

Mr Sigulogo's conduct in asking for money from Sia either is, or comes perilously close to being, a criminal offence. At the time he wrote the letter he was a member of the National Parliament who had previously proved his allegiance to Sia and MOI by arranging the withdrawal of court proceedings and the removal of the Chairman of Directors of Mamirum Timbers. For these tasks he was handsomely rewarded. In the letter he seeks a payment of K30,000 to be paid out of shipment sales proceeds. In exchange he expressly says (of the Mamirum Project) *"I assure you that you will continue to operate as long as I am a member of the Parliament"*

Under Section 61 Criminal Code it is an offence for a Member of Parliament to ask or to attempt to receive or obtain any benefit for himself on any understanding that,

"his vote, opinion, judgement, or action in Parliament, or any Committee of the Parliament will

(a). be influenced by it".

In view of the fact that Sigulogo asked for money from Sia and at the same time assured him he will continue to operate as long as Sigulogo is a member of Parliament I recommend that this matter be referred to the Commissioner of Police to consider whether he should be prosecuted for an offence under Section 61 (1) (a) of the Criminal Code. In my opinion Sigulogo attempted to create an understanding between Sia and himself that his vote, opinion, judgment or action in Parliament would be influenced by the receipt of the money.

Similarly, as a member of Parliament Sigulogo is a public office holder charged with a duty under Section 27 of the Constitution. Under that Section he has a:

"duty to conduct himself in such a way, both in his public or official life and his private life, and in his associations with other persons as not

(a). to place himself in a position in which he has or could have a conflict of interests or might be compromised when discharging his public or official duties,....

2. *In particular....shall not use his office for personal gain or enter into any transaction or engage in any enterprise or activity that might be expected to give rise to doubt in the public mind as to whether he is carrying out the duty imposed by subsection (1)."*

In view of that duty I recommend that Sigulogo's actions be referred to the Chief Ombudsman Commissioner to consider whether he should be charged with any leadership offence.

Finally, as a public office holder Sigulogo's actions may also constitute an offence under Section 87 of the Criminal Code. That section makes it an offence for a public office holder to corruptly ask for benefits on account of anything done or to be done in the discharge of the duties of his office. One of Sigulogo's duties, imposed by Section 27 of the Constitution was to refrain from placing himself in a conflict of interest situation. In my view he corruptly asked for money from Sia on account of serving the interests of MOI while he was a member of Parliament. He thereby created, or attempted to create, a conflict of interests situation in violation of his duty under Section 27 of the Constitution. I therefore recommend that this possibility should also be referred to the Commissioner for Police to consider whether to commence a prosecution under Section 87 of the Criminal Code.

Francis Sia:

The evidence of Sia's transfer pricing is quite clear and all profit obtained in this way is improper benefit within the meaning of the Commission's terms of reference.

The evidence, in relation at least to Shipment No.1, is sufficiently clear to warrant prosecution for criminal offences and I recommend that this aspect be referred to the Commissioner or police for his consideration.

It also seems that in connection with the second log shipment on M.V. Yue Yope he obtained approval to export by supplying a fraudulently altered copy of a letter of credit to the Department of Forest. His conduct in altering the document would seem to amount to forgery and his presentation of it to Government officials would seem to amount to altering the forged document.

I recommend this aspect be referred to the Commissioner of Police for his consideration.

Miscus Maraleu

The circumstances in which Mr. Maraleu's firm Metepikai Holdings received a fee of K1,500 per month from MOI amounts, in my view, to an improper benefit to Miskus Maraleu.

Friends of MOI

It is quite clear that Francis Sia was willing to pay politicians and public servants for "assistance" from the onshore and offshore funds of Santa Investments and MOI. It does not follow that every person in authority who assisted MOI received some benefit from Francis Sia but, granted his known record, suspicions are aroused. MOI received a lot of assistance:-

- (a). from Minister Diro over the pre registration.
- (b). from Maraleu as Chairman of FIC in an endeavour to obtain approval for MOI's operation.
- (c). from Michael Cowan as Executive Director of FIC in obtaining finance and guarantees.
- (d). from S J Park the Korean agent in obtaining a loan.
- (e). from Forestry Officers, Customs Officers and Police Officers over operational matters, clearances and in quelling the demonstration on New Hanover.

My suspicions in relation to some persons are strengthened by the fact that I have made findings of fact that Diro sought substantial funding from Sia for his political party (though he swears he received none); that Cowan was dishonest and seeking personal profits from his duties at FIC; that Maraleu did receive benefits, and that S J Park was involved with Francis Sia in smuggling and transfer pricing (through Santa Investments). It is virtually certain that all of those people assisted Sia in the expectation that they would receive benefits from his illegal offshore funds once the

transfer pricing system was in place or in the expectation of some other benefits. Whether or not they received the hoped for benefits has not been established (except for Maraleu's consultancy fee).

With regard to the other public officers, for lack of evidence all that I can say is that their obliging behaviour in helping such a man as Sia, with his known propensity to give bribes, raises suspicions. It should be noted in this regard that the Provincial Forestry Officer (Mr Jack Masu) obligingly (and improperly) permitted MOI's first three shipments to depart before the payment of the royalties due. Custom's officers must have accepted MOI's ordinary cheques (in payment of export duty when clearing shipments (as there were no funds for bank cheques). The police squad which quelled the disturbance on New Hanover at the end of July were fed by Sia (but on Mamirum Timber's account) and on the 5th August received from Sia additional "bonus" sponsorship for their football team Tarakum of K1000 to win the grand final. (Schedule 22).

Malaysia Overseas Investment (PNG) Pty Ltd:

As previously pointed out an air of dishonesty has surrounded MOI since the time it first applied for pre-registration and the odour clings to everyone who seems to be benefitting from it's activities. MOI should never have been allowed to commence operations in the first place and, once started it should long ago have been suspended. In a very real sense ~~therefore~~ all benefits which have been received by MOI are improper benefits as I interpret my Terms of Reference.

CONCLUDING COMMENTS

On my findings Francis Sia and his company Malaysia Overseas Investment (PNG) Pty Ltd have proved themselves unfit for any form of involvement in the PNG timber industry. At the present time MOI continues to log for Mamirum Timbers on New Hanover and is rumoured to be lobbying for a contract to operate on another area on New Hanover.

Francis Sia and MOI are also competing with Hui Ling Engineering Pty Ltd for the right to be contractor for Pezrak Pty Ltd in Konos Rue TRP. There is evidence that the Provincial Forests Minister Sialas Sabagas is supporting MOI.

For Pre-Reg. C'Hee's Counsel

H

MALAYSIA OVERSEAS INVESTMENT (PNG) PTY LTD.

28/5

P. O. BOX 2143 BOROKO. PAPUA NEW GUINEA.

DATE: 15TH MAY 1986.

THE HONOURABLE MINISTER FOR FORESTS
P. O. BOX WARDSTRIP
WAIGANI

Dear Sir.

RE: APPLICATION FOR PRE-REGISTRATION

I would like to tender my application for the Pre-registration with your Ministry for Malaysia Overseas Investment (PNG) Pty Ltd which was incorporated in Papua New Guinea on 14TH February 1984.

The company, Malaysia Overseas Investment (PNG) Pty Ltd was approved by the Minister for National Investment And Development Authority (NIDA) on 16TH April 1985. Attached please find copies of the INCORPORATION CERTIFICATE and CERTIFICATE OF REGISTRATION with NIDA.

Enclose also find a copy of the company's MEMORANDUM AND ARTICLES OF ASSOCIATION for your persual and retention. All activities are listed in this memorandum of Articles that can be undertaken by the above-named company.

I am seeking your assistance to get this Pre-registration 's approval done as soon as possible.

Looking forward to your earliest approval.

Thank you.

Yours sincerely.

Francis Sia

Managing Director

See.

1. NIDA requires pre registration before including forestry as an activity.
2. Since the Principals, the company are known to us both, I have no objections.
3. I counsel with the request. Please take appropriate action.

1/17



Schedule 2

Brigadier General E.R. DIRO, CBE, O St J. MP

P.O. BOX 322, PORT MORESBY, PAPUA NEW GUINEA.

000037

15th May, 1986

*Documents shown to
Mr. Diro re. Perygo
Application*

Mr Francis S H Sia
General Manager
Santa Investments Pty Ltd
P O Box 88
PORT MORESBY

Dear Mr Sia,

As you are aware, Papua New Guinea's General Elections are scheduled for March-June 1987. As from June this year, no doubt, your office will be flooded with requests for financial assistance. Two political parties have already launched their fund raising programmes.

I am writing to seek your kind assistance in providing funding support for my Party. I would like to point out that the laws relating to donations to political parties do not set a ceiling for funding assistance and I have felt at liberty to propose to you my budgetary forecasts for your consideration.

Our budget is necessarily designed to meet our election strategy which serves to return up to 20 members. Initially, there must be a major drive to increase the numbers within the current Parliamentary Wing.

This is necessary, in order to gravitate for bigger numbers in 1987. We, therefore, require an immediate cash injection followed by a planned programme of expenditure up until the day of voting. From then on, post election strategy commences where even greater injection of financial effort is most crucial in securing the required numbers.

According to our budget forecast and based on our mutual desire that we must be victories at the coming elections we sincerely request your support as follows:

- | | |
|--------------------------------------|--------------------|
| a. Immediate cash grant | K25,000.00 |
| b. 1st June until 31st December 1986 | K 2,500.00 monthly |
| c. 1st January, 1987 cash grant | K50,000.00 |
| d. 1st June, 1987 cash grant | K50,000.00 |

This request is being submitted in the full knowledge that the Party will serve our mutual interests and the interests of our people and the nation as a whole.

Yours sincerely,

Test Diro

E R DIRO CBE, OStJ, FAIM, MP

13343 FEB 12 1428 GA
80128657+22657
SIAWOOD NE949270
DAIHWA K28657

Schedule 3

Ex "200"

000038

QWXXIU

ATTEN: MR. S/J PARK

RE: ITEMS FOR OPERN

WIRE ROPE----5-10 ROLLS BUT MUST BE CUT IN THE LENGTH OF 50 METERS
PER PCS.
RAFTING NAILS--
8800
(,.
TIME 000.9 MINS

13536 FEB 12 1429 GA
80128657+
DAIHWA K28657AAS-HOOKS----ALL CANCELLED.

RE: LOGS

ABOUT 2,500 M3 OF LOGS HAD BEEN CUT UP TO TODAY. IT WIL BE ABOUT 6,000
M3 BY END OF THIS MONTH. ACTUAL FULL SWING CUTTING COMMENCED ON LAST
WEEK ONLY.

SPECIES ARE AS FLLWS:-

MAJOR---CAL., PC., TW+ TAUN-----75%

OTHERS---CELTIS, LITSEA, CANARIUM, NUTMEG, WALNUT, QUANDONG---25%.

LENGTH----MINIMUM 10 METERS ABOVE

DIA.-----AVERAGE 50 CM ABOVE

VOLUME----AVERAGE 4 M3 PER PCS.

MANY TAUN, CAL., N PENCIL CEDAR OF THE SIZES OF 45 CM N 48 IN DIA
WHICH WE DO NOT CUT. BUT I AM THINKING THESE SPECIES ARE HAVING
GOOD MARKET N INTEND TO CUT N PLS LET ME KNOW IF THEY ARE ACCEPTABLE
TO OUR CLIENTS. WE NEED UR URGENT REPLY SO MAY HELP ME TO BOOST
VERY HIGH PRODUCTION PER HACTRE.

DO NOT CONVEY THIS INFOR. TO FIC.

I WLD LIKE TO COMMENCE SHIPMNT BY END OR PRIOR TO END OF THIS MONTH
FOR TOTAL VOLUME OF 5,000---6,000 M3. OF COURSE THIS WIL FULLY
DEPEND ON WEATHER COND.

PLS ARRANGE CLIENT N SHIPMNT SLH'NT DELAY. FULL L/C OPEN TO BANK
OF PNG+ OF SOUTH PACIFIC LTD, BOROKO BRANCH. PAPUA NEW GUINEA IN
FAVOUR OF MESSR MALAYSIA OVERSEAS INVESTMENT (PNG) PTY LTD. P.O.
BOX 236, KAVIENG, NEW IRELAND PROVINCE, PNG.

UR REPLY SLH'NT BE LATE N LATEST NOT LATER THAN END OF NEXT WEEK
I.E. BEFORE 19/2.

RDGS,
FRANCIS SIA

I JUST RETURN FROM N/HANOVER CAMPSITE.
00000
TIME 003.9 MINS

Schedule 4

FIRST SHIPMENT
PART 1

(15 MAY 1987) - INITIAL ACTUAL BREAKUP

| | | |
|----------------|------------------|-------------|
| Logging charge | 165,215. 43 | |
| Stevedoring | 4,720.441 | |
| Dead freight | 21,849.214 | |
| Demurrage | 5,392.289 | |
| Administration | 28,322.646 | |
| FOB charges | 2,500.000 | |
| Commission | 4,242.330 | |
| 75% of profit | <u>5,531. 95</u> | K237,774.30 |

Necessary Expenses

| | | |
|-------------|------------------|-------------|
| Export Duty | 22,360.96 | |
| FIC Levy | 1,014.89 | |
| Royalties | <u>21,241.94</u> | K 44,617.83 |

Mamirum Receipts

| | | |
|---------------|-----------------|--------------------|
| 25% of profit | <u>1,843.99</u> | K <u>1,843.99</u> |
| | | <u>K284,236.12</u> |

Notes

1. In Sia's letter of 5 June 1987 to Michael Kusak he says K20,378.01 is allowed for estimate of Royalty and FIC levy. The FIC figure of K1,014.89 remains constant so he must have reduced the estimated Royalties to K19,363.12. On this basis the profit would increase by K21,241.98 less K19,363.12 or K1,878.86. This adjustment was made but profit shares were not recalculated; Mamirum was just paid K20,378.01 plus K1,843.99, i.e. K22,222.00.
2. Though Sia claimed the stated amounts for demurrage and dead freight, these may not be true figures in fact. The evidence suggests a much lower sum may have been negotiated.
3. Export duty of K22,360.96 was based on the FOB price which was below MEP and was later increased by a further K3,056.95.

Schedule 4

FIRST SHIPMENT
PART 2

(November 1987 READJUSTMENT OF BREAK-UP)

MOI Receipts

| | | |
|-----------------|------------------|-------------|
| Logging charges | 165,125.43 | |
| Management fee | 18,881.76 | |
| FOB charges | 2,500.00 | |
| 75% of profit | <u>40,625.49</u> | K227,132.68 |

Necessary Expenses

| | | |
|-------------|-----------------|-------------|
| Export duty | 25,417.91 | |
| Royalty | 17,128.81 | |
| FIC Levy | <u>1,014.89</u> | K 43,561.61 |

Mamirum Receipts

| | | |
|---------------|-----------|--------------------|
| 25% of profit | 13,541.83 | <u>K 13,541.83</u> |
| | | <u>K284,236.12</u> |

000043

0
SIAWOOD NE94927
AUTO LINE TEST PASSED

03910 MAY 16 1154 GA

03914 MAY 16 1154 GA

MAY 16 1225 0
SIAWOOD NE94927

BO: SIAWOOD NE94927
FM: HINDAI, SIBU
RE: H167 16/5/87

RE: SARUNTA 2

RYT15 CONTENTS ALL NTD, V UNDERSTD VSL WINCHES 2 GANG OUT OF ORDER N
WATER/FUEL IS SHORT BUT U MUST UNDERSTD VSL ARRIVD LDG PRT ON
1/5 N SAIL ON 14/5 BECOS U HV NO INFMTN TO US/MSTR N FURTHER
V UNDERTD LOGS STILL NOT AVAILABLE, DUE TO HEAVY RAIN N V ALSO
CANN'T COMMUNICATE WITH U EITHER BY PHONE OR TLX. V FULLY
UNDERSTD UR SITUATN N PLS ALSO UNDERSTD OUR SITUATN.

2. IN ORDER TO SETTLE THE DEAD FRT/DEM MONEY WHICH SHIPOWNERS
CLAIMG AMTG USD75,000 V WIL DO OUR BEST TO NEGOTIATE N MINIMIZE THE
CLAIMS TO SHOW OUR WILLINGNESS, V STRONGLY RQST U TO TT REMIT
USD10000/- TO THE SUMUTOMO BANK LTD., DAINI, TOKYO, USD A/C
NO. 5041 FAVOURG NANRIN TSUSHO CO. LTD., TOKYO. PLS CFM N
ARRANGE REMIT ON MONDAY.

RGDS NSWONG+
BOTRAD MA720180
SIAWOOD NE94927VVVC

000044

09704 MAY 21 1350 GA
8472018+
BOTRAD MA72018
SIAWOOD NE949270
BOTRAD MA72018

21/5/87

ATTN: MR NSWONG

TKS YR TLX YDAY N TODAY. FRANCIS IS GETTG BETTER BUT IS STILL VERY WEAK.

REGARDG THE USD10,000/-, I'VE GONE TO BANK THIS A.M. TO FILL UP APPLICATION FORWARD TO THE NATIONAL BANK IN PORT MORESBY HQ FOR REMITTANCE APPROVAL. ONCE IT IS APPROVED THE ABY-MENTIONED AMT WILL BE AUTOMATICALLY TRANSFERRED FM SHIPPER'S A/C TO THE RECEIVER'S BANK A/C IN TOKYO, JAPAN AS INSTRUCTED.

THE AMT EXCEEDG K500/- WL NEED TO BE APPLIED FOR PRIOR TO REMIT'CE IN PNG PARTICULARLY, WHICH IS VERY STRICT IN FOREIGN CURRENCY EXCHANGE CONTROL.

THE SARUNTA 2 WANTED TO RUSH BACK TO RABAU FOR FRESH WATER N FOODS THEN PROCEED TO EAST COAST NAMATANAI FOR LOADING 3000M3 ROUND LOGS. IT IS VERY UNFAIR TO CLAIM FOR USD75,000/- BY S/OWNER. THIS CLAIM IS BASED ON WHAT PRINCIPALITY???

RGDS H.SIA
SIAWOOD+000000
TIME 002.6 MINS

000045

09997 JUN 10 1136 GA
8472018+
BOTRAD MA72018

SIAWOOD NE949270
BOTRAD MA72018

10/6/87

ATTEN : MR. WONG N.S.

RE: US\$ 10000 REMNCE

THE NATIONAL BANK HAS TURNED DOWN OUR APPLICATION DUE TO LACK OF DOCUMENTS SUPPORTING. IT IS DIFFICULT AND STRICT IN FOREIGN EXCHANGE CONTROL. BUT I AM STILL WORKING ON THAT MATTER WITH THE CONSULTATION WITH MY LAWYER HERE.

REGARDING THE ROUND LOGS FOR KWILA, THERE IS STOCK IN BURNS BROTHER LOGGING CO., IN VANIMO. HOWEVER, THEY HAVE LONG TERM BUSINESS WITH A BROKER DOWN IN AUSTRALIA. WOULD YOU PLEASE CONTACT HIM AND GET THE INFORMATION FROM HIM. THE PARTICULARS AS FOLLOWS:-

MR. RON GIBBS,
ADDRESS: QUARTER ENTERPRISES P/L
P.O. BOX 83, ROUND CORNER, N.S.W. 2154, AUSTRALIA.
TEL: 02-6549251 N TLX: AA70996 GARTEX

PLEASE COME BACK TO ME IF YOU DO HAVE DIFFICULTIES.

SORRY I JUST CAME BACK FROM PORT MORESBY TODAY AND DELAYED REPLY IS REGRETTED.

DUE TO LAST WEEK HEAVY RAIN, WE ONLY HAVE STOCK AT THE BEACH CLOSE TO 1,800 M3. I AM GOING TO THE CAMP THIS WEEK-END. PLEASE WAIT UNTIL I COME BACK FROM THE CAMP TO GIVE YOU MORE DETAILS ABOUT VOLUME AND ESTIMATED TIME FOR THE SHIPMENT.

MY PHONE IS AGAIN OUT OF ORDER DUE TO RAIN TODAY.

PLEASE KEEP ME IN TOUCH BY TELETYPE.

THANKS.

KIND REGARDS,
FRANCIS SIA
00000
TIME 003.7 MINS

000046

SIAWOOD NE94927
AUTO LINE TEST PASSED

JUN 30 2118
SIAWOOD NE94927
TRAVLEX NE22248

ATTN FRANCIS SIA

JAPANESE BUYER ACCEPTED 3000M3 LOGS AT AVERAGE PRICE
USD90 M3 FOB WITH 100% MEASUREMENT GUARANTEED LOADING
DATE 15-20 JULY 1987.

WE HAVE INTRUCTED BUYER OPEN LC BASED UPON DB6/M3.
BALANCE D4/- TOBE DEDUCTED AGAINST SARUNTAZ DEAD
FREIGHT/DEMMURAGE. SINCERELY HOPE YOU WILL AGREE. VSL'S
NAME NLC UNDER ARRANGING WILL ADV LATER.

OPLSE CFM OVERALL.

NS WONG

TRAVLEX NE222480000

000047

16961 JUL 01 1530 GA

NP

•

SIAWOOD NE94927
AUTO LINE TEST PASSED

2/7/87

ATTEN : MR. WONG N.S.

RE: M.V. SARUNTA

MAXIMUM COMPENSATION FOR THE ABOVE VSL SLD'NT BE MORE THAN
US\$10,000.

LOGS FOR THE COMG SHIPMNT MUST BE US\$90/ M3 N D87 FOR OPENG
L/C. POSSIBLE ARRANGE BACK TO BACK L/C FOR D80 TO PNG.

WEATHER IS QUITE OK. EXCEPT YDAY N TODAY RAINING LIGHTLY.

PLS CFM THE ABOVE.

RDGS,
F. SIA

31332 JUL 02 0834 GA
8472018+
BOTRAD MA72018

SIAWOOD NE949270
BOTRAD MA72018
2/7/87

ATTEN : MR. WONG N.S.

RE: M.V. SARUNTA

MAXIMUM COMPENSATION FOR THE ABOVE VSL SLD'NT BE MORE THAN
US\$10,000.

LOGS FOR THE COMG SHIPMNT MUST BE US\$90/ M3 N D87 FOR OPENG
L/C. POSSIBLE ARRANGE BACK TO BACK L/C FOR D80 TO PNG.

WEATHER IS QUITE OK. EXCEPT YDAY N TODAY RAINING LIGHTLY.

PLS CFM THE ABOVE.

RDGS,
F. SIA

00000
TIME 001.3 MINS

000048

16/7/87

ATTEN : MR. WONG N/S

RE: M/V DAEYAND

PLS SUPPLY THE FLLG DETAILS URGENTLY:-

1. NOTIFY PARTY N ADDRESS

2. BUYER'S NAME N ADDRESS

) 3. DISCHARGING PORT

4. L/C OPEN FROM HK TO PNG AT US\$78 PER M3. TOTALUS\$ 156,000/2,000M3.

5. CORRECT SPEELLING FOR ''PTE'' SHOULD READ ''PTY''

PLS SEND BY TELEX ON THE ABOVE MATTER LATEST BY TODAY.

RDGS,
F. SIA.

22952 JUL 16 1205 GA
8472018+
BOTRAD MA72018

SIAWOOD NE94927
QYXUXIU

ATTEN : MR. WONG N/S

RE: M/V DAEYAND

PLS SUPPLY THE FLLG DETAILS URGENTLY:-

1. NOTIFY PARTY N ADDRESS

2. BUYER'S NAME N ADDRESS

3. DISCHARGING PORT

4. L/C OPEN FROM HK TO PNG AT US\$78 PER M3. TOTALUS\$ 156,000/2,000M3.

5. CORRECT SPELLING FOR ''PTE'' SHOULD READ ''PTY''

PLS SEND BY TELEX ON THE ABOVE MATTER LATEST BY TODAY.

RDGS,
F. SIA.000000
TIME 001.4 MINS

000049



Timber Sendirian Berhad

89, Kg. Labor Rd. End of P. O. Box 1117 Sibu, Sarawak, East Malaysia. Tel. 332301 & 332577 (5 Lines) Cable: BOITRADI Telex: MA 72018

Our Ref:

Date 17th July, 1987

Your Ref:

THE MANAGING DIRECTOR
MALAYSIA OVERSEAS INVESTMENT (PNG) PTY. LTD.,
KAVIENG.

ATTN: MR FRANCIS SIA

RE: SARUNTA 2 DEAD/FRT/DEM

V ENCLOSE HERewith THE TLX EXCHANGE COPY N STATMNT
OF A/C OF SARUNTA 2 AMTG USD41887.74 FR UR REF N
ATTN. V HV TRIED OUR BST TO NEGO THIS MTRS MANY
TIMES. CHARTERER/SHIPG STIL INSIST THEIR CALCULATN
(BASD UPON THE SHIPG TRADING IN JAPAN) IS CORRECT.
KNDLY ADV UR OPINION N V WUD DO BST TO RQST THEM
REDUCE SOME AMT N SETTLE BY INSTALMNTS.

UR EARLY REPLY WIL BE APPREC.

RGDS NSWONG*

000050



Timber Sendirian Berhad

41, Kuala Lumpur Road, 11000 Kuala Lumpur, Malaysia. Tel: 312301 & 312577 (5 Lines) Cable: BOTRADE Telex: MA 72018

Our Ref: WNS/EL/87

Date: 25th August, 1987

Your Ref:

Malaysian Overseas Investment (PNG) Pty. Ltd.,
P. O. BOX 236,
Kavieng, New Ireland Province,
Papua New Guinea.

Attention: Mr. Francis Sia

Dear Sirs,

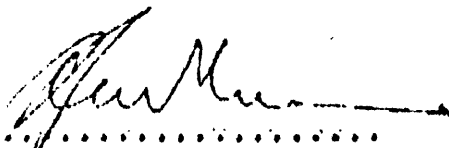
Enclosed herewith please find Laydays Statement
of N.V. "SARUNTA II" shipment dated 1st May, 1987
for your necessary reference.

Meanwhile, kindly remit at least US\$10000/-
to Tokyo for settling part of the demurrage
as soon as possible, otherwise we are also
facing difficulties.

Your co-operation on the above matter is much
appreciated.

Thanking you.

Yours faithfully,


.....
WONG NAI SUNG

Encl.

LAYDAYS STATEMENT

000051

Date:

Name of Vessel "SARUNTA-II" (Voy No 10) Port THREE ISLAND, KISELA & KONOS

Charterers NARIN TSUSHO CO., LTD.

Cargo P.N.G. ROUND LOGS

Rate of Freight as per C/P dated 450 M3 per W.W.D.SHEX., U.U.

QUANTITY: 794 pcs. 1,914.013 M3

Days Allowed 4 Days 06 Hours 05 Minutes (4.25336 Days)

| | | | | |
|----------------------|------|-------------|------|-------|
| Arrived at Three Is. | Date | May 1, 1987 | Hour | 10:18 |
| Berthed | Date | | Hour | |
| N/R Tendered | Date | May 1, 1987 | Hour | 10:18 |
| N/R Accepted | Date | May 2, 1987 | Hour | 06:00 |
| Lay Time Commenced | Date | | Hour | |
| Completed | Date | | Hour | |
| Lay Time Expired | Date | | Hour | |

| Date | Day of Week | Remarks | Lay Time Allowed D H M | Lay Time Used D H M | Lay Time Saved or Lost D H M |
|-------|-------------|---------------------------------------------|---------------------------|------------------------|---------------------------------|
| May 1 | Fri | 10:18 Arrived THREE ISLAND (Public Holiday) | | | |
| 2 | Sat | 13:00 L/T Commenced. | 0-11-00 | 0-11-00 | |
| 3 | Sun | | 0-00-00 | 0-00-00 | |
| 4 | Mon | WAITING FOR LOGS. | 1-00-00 | 1-00-00 | |
| 5 | Tue | " | 1-00-00 | 1-00-00 | |
| 6 | Wed | " | 1-00-00 | 1-00-00 | |
| 7 | Thu | " | 0-19-05 | 1-00-00 | |
| | | 19:05 L/T Expires. | | | |
| 8 | Fri | WAITING FOR LOGS. | | 1-00-00 | |
| 9 | Sat | " | | 1-00-00 | |
| 10 | Sun | " | | 1-00-00 | |
| 11 | Mon | " | | 1-00-00 | |
| 12 | Tue | " | | 1-00-00 | |
| 13 | Wed | " | | 1-00-00 | |
| 14 | Thu | 13:00 Shift to Rabaul. | | 1-00-00 | DEM. 7-04-55 ... 1. |
| 15 | Fri | 19:55 Shift to Kisele. | | 1-00-00 | |
| 16 | Sat | 10:30 Arrived Kisele. | | 1-00-00 | |
| 17 | Sun | | | 1-00-00 | |
| 18 | Mon | | | 1-00-00 | |
| 19 | Tue | 15:00 Completed Kisele. | | 1-00-00 | |
| 20 | Wed | 06:00 Arrived Konos. | | 1-00-00 | |
| 21 | Thu | | | 1-00-00 | |

LAYDAYS STATEMENT

00003..

Date:

Name of Vessel

(Voy. No.)

Port

Charterers

Cargo

Rate of Loading & Unloading as per C/P date

Laytime Allowed

Days

Hours

Minutes (

Days)

Arrived

Date

Hour

Berthed

Date

Hour

N/R Tenders

Date

Hour

N/R Accepted

Date

Hour

Lay Time Commenced

Date

Hour

Commenced

Date

Hour

Completed

Date

Hour

Laytime Expiry

Date

Hour

| Day | Day of Week | Event | Lay Time Allowed D. H. M. | Lay Time Used D. H. M. | Lay Time Saved or Lost D. H. M. |
|--------|-------------|----------------------------|------------------------------|---------------------------|------------------------------------|
| May 22 | Fri | 02:00 Completed Kenos. | | 1-00-00 | |
| 23 | Sat | | | 1-00-00 | |
| 24 | Sun | | | 1-00-00 | |
| 25 | Mon | 18:00 Documents Completed. | | 0-18-00 | DEM. 10-18-00 ... 2. |
| | | | 4-06-05 | 22-05-00 | DEM. 17-22-55 |

DEMURRAGE:

1. 7-04-55 (7.20486 d/s) x \$2,000.- per day = US\$14,409.72

2. 10-18-00 (10.75000 d/s) x \$2,200.- per day = US\$23,650.00

Total: US\$38,059.72
vvvvvvvvvvvv

DOWA LINE CO., LTD.

Manager of Business Dept.

BRANCH P O BOX 77 PORT MORESBY

Phone No

14 JULY

1987

000053

IRREVOCABLE DOCUMENTARY CREDIT

Issuing Bank Number HK 142022

Dated 13 JULY 1987

Issued By BANK OF AMERICA NT AND SA
MAIN OFFICE
ST. LOUIS BUILDING
HONG KONGApplicant YEH CHEONG TRADING COMPANY
HONGKONGAmount USD480,000-00 FOUR HUNDRED AND EIGHTY
THOUSAND, DOLLARS UNITED STATES CURRENCYB TO MALAYSIAN OVERSEAS INVESTMENT
CORPORATION (MIO) LTD, P O BOX 236,
KUALA LUMPUR, FEDERAL TERRITORY OF
KUALA LUMPUR, MALAYSIA

Shipment no later than 20 SEPTEMBER 1987

This Credit expires on 05 OCTOBER 1987

Dear Sir(s).

(Please follow instructions marked "N")

We advise that a Documentary Credit as detailed herein has been established in your favour. If you are unable to comply exactly with the terms and conditions, kindly inform us immediately. Credit is available by means of:-

Your drafts in duplicate drawn at SIGHT FOR FULL INVOICE VALUE

On YEH CHEONG TRADING COMPANY HONGKONG

Enfaced "DRAWN UNDER BANK OF AMERICA NT AND SA, HONGKONG, IRREVOCABLE DOCUMENTARY CREDIT

Accompanied by the following documents in duplicate unless otherwise stated

SIGNED COMMERCIAL INVOICE IN QUADRUPLICATE

LOG LIST IN TRIPLICATE

TIME SHEET IN TRIPLICATE

FULL SET CLEAN ON BOARD OCEAN BILLS OF LADING PLUS TWO NON-NEGOTIABLE COPIES TO ORDER OF

SHIPPER BLANK ENDORSED MARKED

FREIGHT COLLECT AND NOTIFY OCEAN ENTERPRISE CO LTD NO 6-1-501 3-CHOME MINAMI SENBA

MINAMI-TU OSAKA 542 JAPAN

INSURANCE TO BE EFFECTED BY BUYER AT DESTINATION.

COVERING.

ABOUT 6,000 CB OF P.N.G. ROUND LOGS FOB P.N.G. PORT(S)

SPECIAL CONDITIONS.

CHARTER PARTY B/L ACCEPTABLE

ALL BANKING CHARGES OUTSIDE HONG KONG ARE FOR BENEFICIARY'S ACCOUNT A DISCREPANCY FEE OF USD20-00 WILL BE CHARGED TO BENEFICIARY BY L/C OPENING BANK FOR EACH SET OF DOCUMENTS THAT CONTAIN DISCREPANCY(IES).

"AS THIS DOCUMENTARY CREDIT WAS RECEIVED BY CABLE YOUR ATTENTION IS DIRECTED IN PARTICULAR TO ARTICLES 12(b) AND 18 - UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (1983 REVISION) I.C.C. PARIS (PUBLICATION NO. 400)."

OFFICE COPY.

PLEASE FORWARD DOCUMENTS IN ONE COVER TO THE ISSUING BANK BY REGISTERED AIRMAIL UPON RECEIPT OF DOCUMENTS DRAWN IN COMPLIANCE WITH TERMS AND CONDITIONS OF THIS CREDIT. THE ISSUING BANK SHALL REMIT THE PROCEEDS TO THE NEGOTIATING BANK IN ACCORDANCE WITH THEIR INSTRUCTION.

☐ Documents must be presented within _____ days from the date of issuance of the Bills of Lading or other shipping documentsDespatch Shipment from Taking in charge at PAPUA NEW GUINEA
to JAPANESE PORTSPartial Shipments
PERMITTEDTransshipments
NOT PERMITTED

THIS CREDIT IS ADVISED WITHOUT ENGAGEMENT ON OUR PART EXCEPT WHERE IT IS ISSUED BY OR CARRIES THE CONFIRMATION OF WESTPAC BANKING CORPORATION

BANK OF AMERICA NT AND SA, HONG KONG, I.C.C. PARIS (PUBLICATION NO. 400)

otherwise expressly stated this documentary credit is subject to Uniform Customs & Practice for Documentary Credits (1974 Revision) International Chamber of Commerce Publication 290.

Schedule 7

FOR USE ONLY WHEN CREDITS ARE RECEIVED IN FULL BY CABLE, TELEX - REFER RULE 1040(2)

B251 PNG
R2716**Westpac Bank - PNG - Limited**OUR INTERNATIONAL
RFI EXPORT DEPT

BRANCH P O BOX 77 PORT MORESBY

Phone No.

14 AUGUST

1987

IRREVOCABLE DOCUMENTARY CREDITIssuing Bank Number HK 142022
Dated 13 AUGUST 1987Issued By BANK OF AMERICA NT AND SA
MAIN OFFICE
ST GEORGES BUILDING
HONGKONGApplicant YEH CHEONG TRADING COMPANY
HONGKONGAmount USD-80,000-00 FOUR HUNDRED AND EIGHTY
THOUSAND, DOLLARS UNITED STATES CURRENCYTO
MALAYSIA OVERSEAS INVESTMENT
(PNG) PTY LTD, P O BOX 236,
KAVIENG NEW IRELAND PROVINCE
PAPUA NEW GUINEAShipment not later than 20 SEPTEMBER 1987
This Credit expires on 05 OCTOBER 1987

Dear Sir(s).

(Please follow instructions marked "X")

We advise that a Documentary Credit as detailed herein has been established in your favour. If you are unable to comply exactly with the terms and conditions, kindly inform us immediately. Credit is available by means of:

Your drafts in duplicate drawn at SIGHT FOR FULL INVOICE VALUE

On YEH CHEONG TRADING COMPANY HONGKONG

Enfaced "DRAWN UNDER BANK OF AMERICA NT AND SA, HONGKONG, IRREVOCABLE DOCUMENTARY CREDIT
Accompanied by the following documents in duplicate unless otherwise stated NUMBER HK-142022 DATED 13 AUGUST 1987".

SIGNED COMMERCIAL INVOICE IN QUADRUPLICATE

LOG LIST IN TRIPLICATE

TIME SHEET IN TRIPLICATE

FULL SET CLEAN ON BOARD OCEAN BILLS OF LADING PLUS TWO NON-NEGOTIABLE COPIES TO ORDER OF

SHIPPER BLANK ENDORSED MARKED

FREIGHT COLLECT AND NOTIFY OCEAN ENTERPRISE CO LTD NO 6-1-501 3-CHEME MINAMI SENBA

MINAMI-KU OSAKA 542 JAPAN

INSURANCE TO BE EFFECTED BY BUYER AT DESTINATION.

COVERING.

ABOUT 6,000 M3 OF P.N.G. ROUND LOGS FOB P.N.G. PORT(S)

SPECIAL CONDITIONS.

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ALL BANKING CHARGES OUTSIDE HONG KONG ARE FOR BENEFICIARY'S ACCT A DISCREPANCY FEE OF
USD20-00 WILL BE CHARGED TO BENEFICIARY BY L/C OPENING BANK FOR EACH SET OF DOCUMENTS
THAT CONTAIN DISCREPANCY(IES)."AS THIS DOCUMENTARY CREDIT WAS RECEIVED BY CABLE YOUR ATTENTION IS DIRECTED IN
PARTICULAR TO ARTICLES 12(b) AND 18 - UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS
(1983 REVISION) I.C.C. PARIS (PUBLICATION NO. 400)."☐ Documents must be presented within days from the date of issuance of the Bills of Lading or other shipping documentsDespatch Shipment from Taking in charge at PAPUA NEW GUINEA
to JAPANESE PORTSPartial Shipments
PERMITTEDTransshipments
NOT PERMITTEDTHIS CREDIT IS ADVISED WITHOUT ENGAGEMENT ON OUR PART EXCEPT WHERE IT IS ISSUED BY OR CARRIES THE CONFIRMATION
OF WESTPAC BANKING CORPORATION

We expressly state this documentary credit is subject to Uniform Customs & Practice for Documentary Credits (1974 Revision) International Chamber of Commerce Publication No. 200.

Schedule 8

SECOND SHIPMENT
PART 1

ACTUAL NOVEMBER 1987 BREAK-UP

| <u>MOI Receipts</u> | (Kina) | |
|-------------------------------|------------------|--------------------|
| Logging charges | 209,913.83 | |
| Management fee | 23,990.00 | |
| FOB charges | 2,500.00 | |
| 75% of profit | <u>83,203.43</u> | |
| | | 319,607.26 |
| <u>Necessary Expenses</u> | | |
| Royalty | 22,649.59 | |
| FIC levy | 1,289.47 | |
| Export duty | <u>42,050.00</u> | 65,989.06 |
| <u>Mamirum Receipts</u> | | |
| 25% of profit | <u>27,734.47</u> | <u>27,734.47</u> |
| | | <u>K413,330.79</u> |

Schedule 8

SECOND SHIPMENT
PART 2

COMPARISON WITH 75/25 SPLIT

A If Mamirum bears export duty:

| | |
|--------------------------------------------------|------------------|
| <u>MOI Receipts</u> | (Kina) |
| 75% of gross FOB of K413,330.94 | 309,998.21 |
| <u>Mamirum Receipts</u> | |
| 25% of gross FOB of K413,330.94 = K103,332.73 | |
| <u>Less Expenses:</u> | |
| Royalty | 22,649.59 |
| FIC levy | 1,289.47 |
| Export duty | <u>42,050.00</u> |
| Total Expenses | 65,989.06 |
| Mamirum nett receipt | <u>37,343.67</u> |
| | K413,330.94 |

B If MOI bears export duty:

| | |
|------------------|--------------------|
| MOI Receipts | 267,948.21 |
| Expenses | 65,989.06 |
| Mamirum Receipts | <u>79,393.67</u> |
| | <u>K413,330.94</u> |

Schedule 8

SECOND SHIPMENT
PART 3

COMPARISON WITH DECEMBER 1987 AGREEMENT

The gross FOB price was K413,330.94 for a shipment of 5,997.538m³ i.e. a rate of K68,91676884 per m³.

(Kina)

| | |
|-----------------------------------------|--------------------|
| (1) Royalties | 22,649.59 |
| (2) FIC levy | 1,289.47 |
| (3) Retention fees: | |
| 10% FOB up to K50.00 per m ³ | |
| i.e. K5.00 x 5,997.538 = | K29,987.69 |
| 0.5 x (K18.91676884 x 5,997.538) = | <u>K56,727.02</u> |
| | 86,714.71 |
| (4) Contractor's fee | <u>302,677.17</u> |
| | K413,330.94 |

Or put in different form:

MOI Receipts

| | | |
|------------------------------------|------------------|---------------------------|
| Contractor's fee | 302,677.17 | |
| Less Export duty | <u>42,050.00</u> | 260,627.17 |
| Mamirum Receipts | | <u>86,714.71</u> |
| Expenses | | |
| (Royalties, FIC levy, Export duty) | | <u>65,989.06</u> |
| | | <u>K413,330.94</u> |

SCHEDULE 9

TABLE 3 - THIRD SHIPMENTPART 1

ACTUAL NOVEMBER 1987 BREAK-UP

| | | |
|--------------------------------------|------------------|-------------|
| MDI Receipts | | (Kina) |
| Logging charges | 90,094.76 | |
| Management fee | 10,296.54 | |
| FDB charges | 2,500.00 | |
| 75% of profit | <u>38,585.80</u> | 141,477.10 |
| <u>Necessary Expenses</u> | | |
| Royalty | 9,266.88 | |
| FIC levy | 533.43 | |
| Export duty | <u>18,505.65</u> | 28,305.96 |
| <i>Manirum Receipts</i> | | |
| 25% of profit | <u>12,861.93</u> | 12,861.93 |
| | | ----- |
| | | K182,644.99 |
| | | ----- |

Schedule 9

TABLE 3 - THIRD SHIPMENTPART 2

COMPARISON WITH STANDARD 75/25 SPLIT

A If Mamirum bears export duty:

| | |
|--------------------------------------|------------------|
| MOI Receipts | (Kina) |
| 75% of gross FOB of K82,645.00 = | 136,983.75 |
| Mamirum Receipts | |
| 25% of gross FOB of K182,645.00 = | K45,661.25 |
| Less expenses | |
| Royalty | 9,266.88 |
| FIC levy | 533,43 |
| Export duty | <u>18,505.65</u> |
| Total Expenses | 28,305.96 |
| Mamirum nett receipts | <u>17,355.29</u> |
| | 182,645.00 |

B If MOI bears export duty:

| | |
|------------------|--------------------|
| MOI Receipts | 188,478.10 |
| Expenses | 28,305.96 |
| Mamirum Receipts | 35,860.95 |
| | <u>K182,645.00</u> |

Schedule 9

TABLE 3 - THIRD SHIPMENTPART 3

COMPARISON WITH USING DECEMBER 1987 AGREEMENT

The gross FOB price was K182,645.00 for a shipment of 2,574,136 m³ at a rate of K70.95390453 per m³.

| | |
|-----------------------------------------|--------------------|
| | (Kina) |
| (1) Royalties | 9,266.88 |
| (2) FIC levy | 533.43 |
| (3) Retention fees | |
| 10% FOB up to K50.00 per m ³ | |
| i.e. K5.00 x 2,574.136 = 12,870.68 | |
| 50% of excess above K50 per | |
| m ³ 0.5 x (K20.95390453 | |
| x 2,574.136) = 26,969.10 | 39,839.78 |
| (4) Contractor's fee | <u>133,004.91</u> |
| | <u>K182,645.00</u> |

Or put in different form:

MOI Receipts

| | | |
|-------------------|------------------|------------|
| Contractor's fees | 133,004.91 | |
| Less Export duty | <u>18,505.65</u> | 114,499.26 |

Mamirum Receipts

39,839.78

Expenses


| | |
|------------------------------------|--------------------|
| (Royalties, FIC Levy, Export duty) | <u>28,305.96</u> |
| | <u>K182,645.00</u> |

P R E S S R E L E A S E

STATEMENT: ROYALTY PAYMENT MAMIRUM TRP

The Secretary of the Department of New Ireland Mr E Silachot has responded to previous Chairman of Mamirum Timbers Mr Alphonse Marius Statement over royalty payment to the landowners of Mamirum TRP, saying that:

1. Mamirum Timber Rights was fully purchased by the State in 1974 at a sum of K44,660, total purchased price.
Payment was made to the landowners in a form of a lump sum (Instalment) payment, K4,466 paid every year until final payment was made in 1984.
2. This K44,660 total purchased price has to be recouped 4 times by the State which means a total of K178,640 royalty share to the Provincial and National Government must be fully recovered by State before flow-on payment to the landowners may commence.
3. From the timber operations in Mamirum TRP so far, State only had recouped K28,814.87. Another K149,825.13 is still yet to be recouped. Therefore further payments to the landowners cannot be made yet.


E SILACHOT
a/Secretary

DEPARTMENT OF NEW IRELAND

MAMIRUM TRP

ROYALTY PAYMENT

1. Mamirum TRP was purchased in 1974.
The payment to the Landowners was made in a form of a lump sum (instalment) payment, the sum of K4,466 paid every year. In 1984 the final payment was made which adds up to K44,660 total purchased price.
2. The K44,660 total purchased price has to be recouped 4 times by the State which means a total sum of K178,640 had to be reached before flow - on payment to the landowners may commence.
3. Since commencement of operation up till now a total of K28,814.87 has been recouped by State. Another K149,825.13 is yet to be recouped.

THIS AGREEMENT is made on *26th September*, 1985

BETWEEN: MAMIRUM TIMBERS PTY LIMITED a company incorporated in Papua New Guinea of P.O. Box 31, KAVIENG, NEW IRELAND PROVINCE, Papua New Guinea (hereinafter called "the Employer")

AND: MICAH KUSAK of P.O. Box 31, KAVIENG, NEW IRELAND PROVINCE (hereinafter called "the Manager")

WHEREAS the Employer is desirous of employing a person to manage and supervise all its business operations (hereinafter called "the Business") and the Manager is willing to serve in such capacity subject to the following terms and conditions -

NOW IT IS HEREBY AGREED as follows:-

1 "the Board" means the Board of Directors of the "Management Company"

2 NATURE AND PERIOD OF SERVICE

- (1) The Employer will employ the Manager and the Manager will serve the Employer as Manager of the Business from 1st of March 1984 until 31st of March 1991 or such earlier date on which his employment may be terminated as hereinafter provided.
- (2) Subject to the provisions of any law in force from time to time in Papua New Guinea, the Manager shall work all such hours on all such days as may be necessary to properly fulfil his duties herein.
- (3) The Manager shall devote himself exclusively to the Business and shall personally attend thereto at all times during the hours of work specified above except in the case of illness or accident in which case he shall furnish to the board of directors such evidence thereof as they may require.

3. MANAGER'S RESPONSIBILITIES AND POWERS

The Manager shall to the best of his ability supervise and control all activities of the Employer, and all employees appointed by the Employer and in the exercise of his responsibilities and powers, he shall carry out the instructions of the Employer, take his direction from the Board for the performance of his duties under this Agreement

4. SALARY

- (1) The Manager's salary shall be at the rate of Eighteen Thousand Kina (K18,000.00) per annum payable fortnightly in arrears, the first payment or a proportion thereof to be paid on or at a reasonable time after the first shipment of export log by the Employer.
- (2) At the expiration of 12 months from the commencement of employment the Employer shall review the salary of the Manager and his performance of the obligations in his part contained in this Agreement during the preceding 12 months and may at the consent of both parties award an increase in salary.

5. SICK LEAVE

- (a) The Manager shall at any time be prevented by illness or accident from performing his duties he shall notify the Employer as soon as practicable and if required he shall furnish the Employer with evidence satisfactory to it of such incapacity and the cause thereof.
- (b) Subject to the Employer being satisfied as to the reasonableness of any absence from duties caused by illness or accident the Manager shall be granted sick leave on the conditions set out hereunder
- (c) The Manager shall be entitled to seven (7) days sick leave per bi-annum
- (d) It shall not be necessary for the Manager to furnish a medical certificate in cases where the period of absence through illness does not exceed 1½ days.
- (e) The maximum amount of leave per bi-annum which shall be granted in accordance with (d) above shall be three days per bi-annum.

- (f) Notwithstanding anything elsewhere contained in this Clause the Manager shall not be entitled to payment for absence occasioned through illness or accident in respect of which Worker's Compensation is payable or through injury sustained by him outside the scope of his employment caused or contributed to by his own negligence, fault or omission or by his participation in a sport or games in respect of which he received any payment by way of fee or bonus.

6. ACCOMMODATION

The Employer shall provide High Covenant accommodation to the Manager, his wife and their children at a rental of Fifteen Kina (K15 00) per fortnight. The Employer shall pay all maintenance and service charges associated with such accommodation other than:-

- (a) electricity charges; and
- (b) water and sewerage charges

7. TRAVEL AND ALLOWANCES

The Employer shall pay travelling and camping allowances when the Manager travels within and outside the Province while in the performance of his functions under this Agreement. The said allowances shall be determined by the Board.

8. HOLIDAYS

In addition to any statutory holidays, the Manager shall be entitled to take three weeks holiday in each period of twelve months after the date of this Agreement at a time to be approved by the board of directors.

9. COMPASSIONATE LEAVE

Where the Manager can provide the Employer with satisfactory evidence of the need for it, the Manager shall be entitled in addition to his holidays to fourteen days compassionate leave with pay in any period of twelve months. Any further compassionate leave with or without pay shall be in the absolute discretion of the Employer.

10. TERMINATION OF EMPLOYMENT

- (1) The Manager may resign his employment hereunder upon giving the Employer three months written notice of his desire to do so but no such notice shall be given before.
- (2) If the Manager shall fail or neglect to comply with directions or restrictions given or imposed by the Board of Directors of the Employer and shall not remedy such failure or neglect forthwith upon being given notice in writing by the board so to do, or if in the opinion of the board he shall have for a period of not less than three months failed to discharge his duties hereunder satisfactorily, or if he shall become unable through physical or mental illness to discharge his duties hereunder, or if he shall be convicted of any criminal offence, the board may forthwith by written notice terminate his employment hereunder.
- (3) The employment of the Manager hereunder will terminate automatically upon the winding up of the Employer for any cause.
- (4) In case the Manager shall die during his employment hereunder the Employer shall pay to his legal personal representatives the salary payable hereunder on a proportionate basis up to his death and shall have no liability to pay the salary thereafter.

11. NON-DISCLOSURE

The Manager shall not during his employment hereunder or thereafter except in the proper course of his duties as Manager disclose to any person whomsoever any information relating to the Employer or its customers or any trade secrets of the Employer of which he shall become possessed.

12. NON-SOLICITATION

The Manager shall not during his employment hereunder or thereafter either on his own account or for any other person, clan, group, firm or company solicit, interfere with or endeavour to entice away from the Employer any person, clan, group, firm or company who at any time during or at the date of the termination of his employment hereunder were customers of or in the habit of dealing with the Employer.

13. NON-COMPETITION

- (1) The Manager shall not during his employment hereunder be concerned or interested directly or indirectly except as manager of the business in any trade, business or activity similar to or in competition with any trade, business or activity of the Employer.
- (2) The Manager shall not at any time within years from the termination of his employment hereunder either solely or jointly with or as agent for any other person, clan, group, firm or company directly or indirectly carry on or be engaged, concerned or interested in carrying on within a radius of four kilo metres any trade, business or activity similar to or in competition with any trade business or activity carried on by the Employer during the period of his employment hereunder.

14. INDEMNITY

- (1) The Employer shall take out a policy for personal accident to cover the Employee up to the value of Thirty Thousand Kina (K30,000 00) during the period of his employment.
- (2) At the commencement of the Agreement, the Employer shall take out Workers Compensation as required by the Workers Compensation Act 1958 to cover the employee.

15. VARIATION

The terms and conditions of this Agreement may be varied by written agreement between the parties

16. ARBITRATION

Every dispute or difference arising between the parties with regard to this Agreement or the duties and powers or liabilities of either party or with regard to the construction of any clause hereof of anything herein contained whether during the continuance of this Agreement or upon or after its termination by act of either party hereto or otherwise shall be referred to arbitration in accordance with the provisions of the Arbitration Act 1951 or any statutory re-enactment or modification thereof for the time being in force and for this purpose this clause shall be deemed to continue notwithstanding the termination of this Agreement.

17 SUBSTITUTION FOR EXISTING CONTRACTS

This Agreement is in substitution for any previous service agreement (oral or written) between the Employer and the Manager which shall be deemed to have been terminated by mutual consent as from the date hereof.

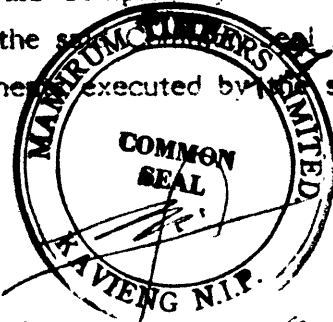
18. NOTICES

- (1) Notices to be given under this Agreement to the Manager may be delivered to him personally or posted to such place of residence as may for the time being be provided for him by the Employer.
- (2) Notices to be given under this Agreement to the Employer may be delivered or posted to its registered office for the time being or otherwise given in the manner in which documents may be served upon the Employer by virtue of the provisions of the Act under which the Employer is incorporated.
- (3) Any notice posted in accordance with the foregoing provisions shall be deemed to have been received on the seventh day after it was posted.

IN WITNESS WHEREOF the Employer and the Manager have executed this Agreement on the day and year first herebefore written.

THE COMMON SEAL of
MAMIRUM TIMBERS PTY LIMITED
was hereto affixed by order of its Board
of Directors we certify that we are the proper
officers of the said Company by whom or in
whose presence the COMMON SEAL is to be
affixed to documents executed by the said
Company.

SIGNED by
in the presence of



Kari Ruak

[Signature]
.....
CHAIRMAN

[Signature]
.....

Schedule 12

THIS AGREEMENT

is made on

26th

September, 1985

000069

9/2-87

BETWEEN:

MAMIRUM TIMBERS PTY LIMITED a company incorporated in Papua New Guinea of P.O. Box 31, KAVIENG, NEW IRELAND PROVINCE, Papua New Guinea (hereinafter called "the Employer")

AND:

GERARD SIGULOGO of P.O. Box 31, KAVIENG, NEW IRELAND PROVINCE (hereinafter called "the Assistant Manager")

WHEREAS the Employer is desirous of employing a person to manage its Agricultural projects as part of the activities of the Employer (hereinafter called "the Business") and the Assistant Manager is willing to serve in such capacity subject to the following terms and conditions -

NOW IT IS HEREBY AGREED as follows:-

1. "the Board" means the Board of Directors of the "Employer".
2. NATURE AND PERIOD OF SERVICE
 - (1) The Employer will employ the Assistant Manager and he will serve the Employer as Assistant Manager of the Business;
from 4th March, 1984
until 4th March, 1991
or such earlier date on which his employment may be terminated as hereinafter provided.
 - (2) Subject to the provisions of any law in force from time to time in Papua New Guinea the Assistant Manager shall work all such hours on all such days as may be necessary to properly fulfill his duties herein.
 - (3) The Assistant Manager shall devote himself exclusively to the Business and shall personally attend thereto at all times during the hours of work specified above except in the case of illness or accident in which case he shall furnish to the board of directors such evidence thereof as they may require.

- 2 -

3. ASSISTANT MANAGER'S RESPONSIBILITIES AND POWERS

The Assistant Manager shall to the best of his ability assist the Manager appointed by the Employer in the exercise of his responsibilities and powers. He shall carry out the instructions of the Manager, take his direction from the Manager for the performance of his duties under this Agreement.

4. SALARY

- (1) The Assistant Manager's salary shall be at the rate of Fifteen Thousand Kina (K15,000.00) per annum payable fortnightly in arrears, the first payment or a proportion thereof to be paid on or at a reasonable time after the first shipment of export log by the Employer.
- (2) At the expiration of 12 months from the commencement of employment the Employer shall review the salary of the Assistant Manager and his performance of the obligations in his part contained in this Agreement during the preceding 12 months and may at the consent of both parties award an increase in salary.

5. SICK LEAVE

- (a) The Assistant Manager shall at any time be prevented by illness or accident from performing his duties he shall notify the Employer as soon as practicable and if required he shall furnish the Employer with evidence satisfactory to it of such incapacity and the cause thereof.
- (b) Subject to the Employer being satisfied as to the reasonableness of any absence from duties caused by illness or accident the Assistant Manager shall be granted sick leave on the conditions set out hereunder.
- (c) The Assistant Manager shall be entitled to seven (7) days sick leave per bi-annum.
- (d) It shall not be necessary for the Assistant Manager to furnish a medical certificate in cases where the period of absence through illness does not exceed 1½ days.
- (e) The maximum amount of leave per bi-annum which shall be granted in

000071

- 3 -

- (f) Notwithstanding anything elsewhere contained in this Clause the Assistant Manager shall not be entitled to payment for absence occasioned through illness or accident in respect of which Worker's Compensation is payable or through injury sustained by him outside the scope of his employment caused or contributed to by his own negligence, fault or omission or by his participation in a sport or games in respect of which he received any payment by way of fee or bonus.

6. ACCOMMODATION

The Employer shall provide High Covenant accommodation to the Assistant Manager, his wife and their children at a rental of Fifteen Kina (K15.00) per fortnight. The Employer shall pay all maintenance and service charges associated with such accommodation other than:-

- (a) electricity charges; and
- (b) water and sewerage charges.

7. TRAVEL/ALLOWANCES

The Employer shall pay travelling and camping allowances when the Assistant Manager travels within and outside the Province while in the performance of his functions under this Agreement. The said allowances shall be determined by the Board.

8. HOLIDAYS

In addition to any statutory holidays, the Assistant Manager shall be entitled to take three weeks holiday in each period of twelve months after the date of this Agreement at a time to be approved by the board of directors.

9. COMPASSIONATE LEAVE

Where the Assistant Manager can provide the Employer with satisfactory evidence of the need for it, the Assistant Manager shall be entitled in addition to his holidays to fourteen days compassionate leave with pay in any period of twelve months. Any further compassionate leave with or without pay shall be in the absolute discretion of the Employer.

10. TERMINATION OF EMPLOYMENT

- (1) The Assistant Manager may resign his employment hereunder upon giving the Employer three months written notice of his desire to do so but no such notice shall be given before.
- (2) If the Assistant Manager shall fail or neglect to comply with directions or restrictions given or imposed by the Board of Directors of the Employer and shall not remedy such failure or neglect forthwith upon being given notice in writing by the board so to do, or if in the opinion of the board he shall have for a period of not less than three months failed to discharge his duties hereunder satisfactorily, or if he shall become unable through physical or mental illness to discharge his duties hereunder, or if he shall be convicted of any criminal offence, the board may forthwith by written notice terminate his employment hereunder.
- (3) The employment of the Assistant Manager hereunder will terminate automatically upon the winding up of the Employer for any cause
- (4) In case the Assistant Manager shall die during his employment hereunder the Employer shall pay to his legal personal representatives the salary payable hereunder on a proportionate basis up to his death and shall have no liability to pay the salary thereafter .

11. NON-DISCLOSURE

The Assistant Manager shall not during his employment hereunder or thereafter except in the proper course of his duties as Assistant Manager disclose to any person whomsoever any information relating to the Employer or its customers or any trade secrets of the Employer of which he shall become possessed.

12. NON-SOLICITATION

The Assistant Manager shall not during his employment hereunder or thereafter either on his own account or for any other person, clan, group, firm or company solicit, interfere with or endeavour to entice away from the Employer any person, clan, group, firm or company who at any time during or at the date of the termination of his employment hereunder were customers of or in the habit of dealing with the Employer.

13. NON-COMPETITION

- (1) The Assistant Manager shall not during his employment hereunder be concerned or interested directly or indirectly except as manager of the Business in any trade, business or activity similar to or in competition with any trade, business or activity of the Employer.
- (2) The Assistant Manager shall not at any time within years from the termination of his employment hereunder either solely or jointly with or as agent for any other person, clan, group, firm or company directly or indirectly carry on or be engaged, concerned or interested in carrying on within a radius of Four kilo metres from any trade, business or activity similar to or in competition with any trade business or activity carried on by the Employer during the period of his employment hereunder.

14. INDEMNITY

- (1) The Employer shall take out a policy for personal accident to cover the Employee up to the value of Thirty Thousand Kina (K30,000) during the period of his employment.
- (2) At the commencement of the Agreement, the Employer shall take out Workers Compensation as required by the Workers Compensation Act 1958 to cover the employee.

15. VARIATION

The terms and conditions of this Agreement may be varied by written agreement between the parties.

15. ARBITRATION

Every dispute or difference arising between the parties with regard to this Agreement or the duties and powers or liabilities of either party or with regard to the construction of any clause hereof of anything herein contained whether during the continuance of this Agreement or upon or after its termination by act of either party hereto or otherwise shall be referred to arbitration in accordance with the provisions of the Arbitration Act 1951 or any statutory re-enactment or modification thereof for the time being in force and for this purpose this clause shall be deemed to continue notwithstanding the termination of this Agreement.

- 6 -

16. SUBSTITUTION FOR EXISTING CONTRACTS

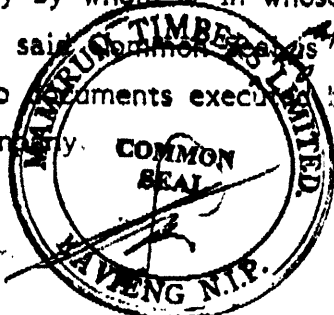
This Agreement is in substitution for any previous service agreement (oral or written) between the Employer and the Assistant Manager which shall be deemed to have been terminated by mutual consent as from the date hereof.

17. NOTICES

- (1) Notices to be given under this Agreement to the Assistant Manager may be delivered to him personally or posted to such place of residence as may for the time being be provided for him by the Employer.
- (2) Notices to be given under this Agreement to the Employer may be delivered or posted to its registered office for the time being or otherwise given in the manner in which documents may be served upon the Employer by virtue of the provisions of the Act under which the Employer is incorporated.
- (3) Any notice posted in accordance with the foregoing provisions shall be deemed to have been received on the seventh day after it was posted.

IN WITNESS WHEREOF the Employer and the Assistant Manager have executed this Agreement on the day and year first herebefore written.

THE COMMON SEAL of
MAMIRUM TIMBERS PTY
LIMITED was hereto affixed by order
of its Board of Directors we certify
that we are the proper officers of the
said Company by whom or in whose
presence the said Common Seal is to
be affixed to documents executed by
the said Company.



.....
CHAIRMAN

- 7 -

SIGNED by

in the presence of

NA

Gerard Sienko

Manisium Timbers Plc
P.O. Box 31
Karieng, N.P.
24-7-87

Dear Francis,

I have worked out the
cost of my election
expenses. Just for
your information, the grand
total is K2,960.00

I am keeping the details
of the cost for typing.

Thank you for kind help.

Yours Sincerely
Gerard Sigulogo

MALAYSIA OVERSEAS INVESTMENT (PNG) PTY. LTD.

P.O. Box 236, Kavieng, New Ireland Province, Papua New Guinea

Schedule 14

27. 7. 87. 000077

Dear Gerald S.

Parliamentary Member for Kavieng Open,
New Ireland Province.

RE : PERSONAL FINANCIAL ASSISTANCE

Thank you for your letter dated 24th July, 1987 and the contents of the letter is noted with interest.

Please supply to us a copy of your expenses.

We will be willing to assist you with K 2,000 after the coming shipment.

Thank you.

Yours faithfully,

Francis Sia


Managing Director.

Schedule 15

31st July 1987

000078

The Premier
Mr. Padi Anis
New Ireland Province
Kavieng.

My dear Premier,

RE : A WORD OF " THANK YOU "

On behalf of the Company and the Management Staff, we would like to say a big " Thank you " to you and your Government for spending tremendous of your valuable time in ironing out the disputes and problems instigated by Alphons Marius, Father David, A. Williams, some political losers and many other misled people living around Ugalik Island, Metrakasing, Neikondanon and other TTP areas.

As a foreign Contractor, we are awarded Mamrum Timbers TTP concession of Fow Hanover Island, and we will follow and abide the rules and conditions set down by both the National and Provincial Governments.

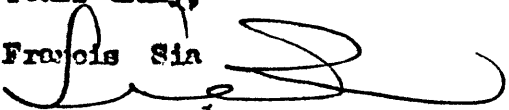
We will give our full support to you and carry out more development to the Province and the Island.

Last but not least, our loyalty and sincerity to you and your Government remains forever.

Thank you Premier and all your Ministerial and Departmental Staff.

Yours truly,

Francis Sia


Managing Director.

13240 AUG 25 1636 GA

Schedule 16

424524

AUG 25 1636

MORHEAD NE42492

SIAHODD NE949270

MORHEAD NE42492

000073

25/8/87

ATTENTION :- MR. BRYAN PRIESTLY

AS PER TELEPHONE CONVERSATION WITH MR. BRYAN PRIESTLY ON 25/8/87.

1. I GERARD SIGULOGO-SECRETARY M.T. AUTHORISES HENAO CUNSSINGHAM N CO TO RELEASE COURT INJUNCTION AS PER MOI N MT TIMBER OPERATIONS AT TABUT AS THE LOG-SHIP IS MOVING INTO THE AREA RIGHT NOW.
2. SUCH ACTION WOULD ASSIST REDUCING COST OF DAMAGES BY MANIRUM TIMBERS P/L.

WITH THANKS,
GERARD SIGULOGO
BOX 31 , KAVIENG.N.I.P.

00000

TIME 001.8 MINS

000080

HAMIRUM TIMBERS PTY LTDBOARD OF DIRECTORS' MEETING

1. PLACE: Provincial Government Lobby Room

2. DATE: 27/8/87

3. BOARD MEMBERS PRESENT

1. Peter Lam
2. Anania Pasingan
3. Herman Ngumakiutas
4. Kavalpak Buka
5. Lais Kuak
6. Daniel Siriwan
7. Vilvilau Posopilak
8. Silawin Joseph
9. Alphonse Marius - Chairman

4. ABSENT

Salatiel Patduik

Malpo Joseph

5. OFFICERS PRESENT

Micah Kusak - Manager

Gerard Sigulogo - Secretary

6. OFFICERS OF PROVINCIAL GOVERNMENT

Ferdinard Smare - Minister for Commerce

Joseph Kuaisombi - Business Development Officer

Peter Wapela - Forestry Officer

7. OBSERVERS

Gerard Kasik - Ungalik Village

John Lapan - Noipuos village

8. PRAYER

Siaman - Mr Alphonse Marius i askim mi - Gerard Sigulogo long opim miting long wanpela prayer.

9. WELKAM

Mr Alphonse Marius i tok yumi gat quorum pinis na miting imas stat. Emi itok welkam long ol Bod membas na itokim ol sapos oli gat sampela hevi orait oli mas autim ol dispela hevi long dispela miting.

10. MINIT BILONG LAS MITING

Motion

Mr Vilavilau imov bai dispela miting itokoraitim minit bilong meeting bilong namba 16/6/87.

Vilavilau/Lais

Olgeta iorait

11. BISNIS IKAMAP LONG MINIT BILONG LAS MITING

a) Logging and Marketing Agreement

Long dispela toktok Mr Micah Kusak itokim miting olsem despela agrimen istap pinis long Forestry na oli wok stretim bihain bai oli bringim ikam bai kampani ilukluk long en. Mr Marius itok ino hamamas long Forestry long oli slow tumas long bringim dispela agrimen.

Motion

Peter Lam imoa olsem bai yumi lusim dispela agrimen long han bilong Forestry Officers bai oli pinis wok long en na bringim ikam kwik long kampani.

Peter Lam/Vilavilau

Olgeta iorait

Motion

Vilavilau imoa olsem dispela bod i tokoraitim bisnis bilong minit i orait tasol.

Vilavilau/Ngumakiutas

Olgeta iorait

12. OL LETA

Manager - Micah Kusak i redim tupela leta na bodmembas itok behain dispela tupela leta iken kamap taem yumi toktok long wok bilong Gerard Sigulogo na Micah Kusak. Ibin nogat moa leta ibin kamap.

13. ACCOUNTS

Mr Micah Kusak ikliaim long olgeta bodmembas olsem ol accounts istat long 1984 inap nau istap pinis long han long kampani akaunter long Rabaul. Sapos akaunten iredi im pinis orait iken bringim ikam long dispela Bod miting bilong lukluk long en na tokoraitim.

Mr Marius i askim Mr Kusak sapos inap long stretim liklik piksa bilong mani tete long hai bilong ol Bodmembas.

Mr Kusak itok - nogat olgeta ripot bai kamap sapos akaunten ipinisim wok bilong en.

Motion

Mr Vilavilau imuv bai dispela Bod i orait long larim olgeta toktok bilong moni bai istap inap ripot ikam long akaunten.

Vilavilau/Peter lam

Olgeta i orait

14 TOKTOK LONG KOT (COURT INJUNCTION)

Long toktok long dispela kot ol Bodmembas ibin askim Mr A. Marius long husat tru i tokim em long go putim dispela kot?

Mr Marius itok em ol landowners ibin tokoraitim em.
Mr Lais i askim Mr Marius we stap minit bilong dispela landowners miting na bilong wonem yu no bin laik kam pastem na kisim tokorait long ol Bodmembas.

Mr Anania Passingan itok olsem em ino save long wanpela miting yumi long Bod ibin holim bilong tokoraitim wanpela kot.

Mr Marius i singaut bikpela igo long Bodmembas na itok oli nogat save long wanpela samting.

Mr Gerard Sigulogo ikliaim olsem Mr Marius iet i sainim ol pepa long kot aninit long naem bilong Mamirum Timbers Pty Ltd na tu sapos MOI ilusim bikpela long dispela sip bai kampani bilong yupela bai baem bikpela moni tru.

Mr Vilavilau itok yumi mas stopim dispela kot na ol offisas bilong kampani na kontrekta iet bai i mas stretim ol hevi istap namel long yumi olsem oli istatim pinis.

Motion

Mr Vilavilau i muv olsem dispela Bod miting ino bin tokoraitim Mr Siaman (Alphonse Marius) bai i kirapim dispela kot. Na Bod i tokorait olsem bai oli noken baem moni igo long Lawyer (Henao Cunningham) ibin holim dispela kot. Na Bod i tokorait bai i askim Lawyer (Henao Cunningham) inoken go het long dispela kot.

Vilavilau/Anania Passingan
Olgeta i orait

000083

15. COMPANY APPOINTMENT

i) Director -

Em toktok long senisim Mr Joseph Malpo husat isanap makim Noipuos village.

Mr Micah Kusak itok bai Mr John Lapan ikamap olsem wampela Bodmembra bikos Mr Malpo iet ilaik pinis long stap long Bod of direkta.

Ibin gat planti toktok ibin kamap; long John Lapan olsem wampela bodmembra.

Motion

Peter lam imuv bai dispela Bod miting i oraitim Mr John Lapan i kamap wampela memba bai kisim ples bilong Mr Joseph Malpo na Bod i tokorait tu bai Mr Malpo bai ibringim wampela leta ikamap long Bod long toksave long pinis bilong em.

Peter lam/Kavalpak

Olgeta i orait

ii) Chairman

Long dispela taem Mr A. Marius ikirap na i askim Bod of dairekta bai em igo autsait na igo na ino laik sindaon long miting.

Motion

Mr Vilavilau i muv long dispela miting i tokorait bai chairman Marius igo aut long dispela miting na Mr Siriwan (Vice - Chairman) bai i ronim miting.

Vilavilau/Ngumakiutas
Olgeta i orait

Long dispela hap taem Mr Siriwan ikam na kisim sia na ikolim nomineisen bilong nupela siaman.

Nomineisen

1. Mr Vilavilau - Anania/Peter Lam

Em Anania i nominetim Vilavilau na Peter Lam i sekonim.

2. Mr A. Marius - Nguma/Vilavilau

Em Mr Ngumakiutas i nominetim Marius na sekon em long Mr Vilavilau.

Motion

Mr Anania Passingan imuv long nomineisen iklos

A. Passingan/John Lapan

Olgeta i orait

Orait dispela eleksen ibin kamap long sekeret balot na tupela ofisa bilong Provincial Gavman ibin lukautim.

Nupela Siaman

1. Mr Vilavilau Posopilak - 7
2. Mr Alphonse Marius - 2

Dispela miting ibin tok hamamas long Mr Vilavilau olsem nupela siaman bilong kampani nau.

Mr Peter lam itok orait bikos siaman bipo, nau tasol i askim strong yumi bai em i mas stap iet long sia inap kot ipinis.

Mr Kavalpak itok nogat em Mr Marius inoken stap moa long siaman bikos ino save laik wok bung wantaim ol offisa bilong kampani na nambatu em igo kamapim kot hia na ino kisim tokorait long yumi.

Mr Lam i tok ken, iorait olupela siaman (Alphonse marius) imas pinis long nambawan de bilong September 1987 na nupela siaman (Vilavilau Posopilak) bai imas istatim wok bilong en.

Motion

Peter Lam i mov olsem dispela Bod of Dairekta i tokorait bai yumi appointim nupela siaman bai em kisim wok bilong en long 1st September 1987.

Peter Lam/Silawin
Olgeta i orait

16. KAMPANI - SALIH OL MAN BILONG MAKIM LONG KOT

Motion

Mr Lais i mov olsem dispela Bod i oraitim Manager - Micah Kusak na tupela Bodmembas long go long Port Moresby na sanap makim kampani long dispela kot.

Lais/Kavalpak
Olgeta i orait

17. APPOINTMENT - MANAGING DIRECTOR

Motion

Lais i mov dispela miting bilong Bod itok orait bai Mr Micah Kusak i kamap olsem wanpela Managing Director bilong Mamirum Timbers Pty Ltd

Lais/Ngumakiutas
Olgeta i orait

18. NOTICE BILONG FINIS WOK - SECRETARY MT

Mr G. Sigulogo i givim toksave bilong en bai em i pinis olsem Secretary bilong kampani long namba 30 November 1987.

Mr Siriwan itok em i bikpela samting tru na yumi olgeta ibin lukim pinis bikpela wok bilong Mr Sigulogo yumi olgeta iken tok tenk yu long en behaien sapos em pinis tru.

Mr Peter Wapela (Forest) em i tok behain iet, yupela ol Bod
imas lukluk gut na kisim wanpela man save bilong wokim ol
dispela wok bilong yupela.

Motion

Mr Lapan i muv long ol Bod of Dairekta i tokoraitim dispela
tripela mun bai G. Sigulogo istap wantaem kampani inap em ipinis
long namba 30 dei bilong mun Novemba 1987.

Lapan/Kavalpak
Olgeta i orait

19. FORESTHILL - TRAINING

Motion

Peter Lam i muv long dispela Bod of Dairekta i tokorait
long Mr Vincent Pasinganvung na Kaiga Bupalau bai tupela igo
kisim skul long opratim Forestmill. Bod tu i tokorait bai
kampani iet i baiem olgeta expenses bilong tupela.

Peter Lam/Anania Pasingan

GENERAL BISNIS

Gavman - Bodmemba - MT Mr Kuaisombi itokim bod miting olsem
igutpela bai kampani imas gat wanpela gavman man istap long
Bod of Dairekta.

Daitekta Kos

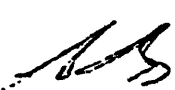
Mr Kuaisombi itok ken bai oli statim wanpela kos na oli laikim
tru ol dairekta imas kamap long dispela kos.

Motion

Mr Vilavilau i muv bai Bod of Dairekta i lukluk long tupela
tingting hia na mekim disesen long en long narapela miting.

Vilavilau/Ngumakiutas
Olgeta i orait

Miting i klos 5:00pm


GERARD SIGULOGO
Company Secretary
Mamirum Timbers Pty Ltd

ATT - BRYAN PRESTLY

000086

MAMIRUM TIMBERS PTY LIMITED

RESOLUTION OF THE BOARD OF DIRECTORS OF MAMIRUM TIMBERS PTY LTD LIMITED


- on the Court injunction against M.O.I.
it was resolved on the 27/8/87

as:-

"That, this Board did not authorise and endorse Alphonse Marius Soiat - to instruct Henao Cunningham Lawyers to take M.O.I to Court and that this Board withdraws those instructions completely it further resolved that Henao Cunningham Lawyers discontinue the action completely forthwith and that the company MAMIRUM Timbers will not pay for legal expenses to Henao Cunningham Lawyers".

Moved by Vilavilau/seconded by Anania Passingan

Voted 7 for and 2 against


GERARD SIGULOGO
SECRETARY

C/ A.O. Box 130

Karing

New Ireland Province

PN6

5-10-87

Mr. Francis Sia
 Malaysian Overseas Investment Pl
 A.O. Box 236
 Karing, New Ireland Province

Dear Mr Sia,

Firstly I would like to thank you and wife for the privilege you have given me to travel to see Singapore. Then I had the golden chance of having to go up to Thailand again. Very grateful indeed for the fine opportunity.

As I discussed in detail with you about the project at Mamiam and I assured you that you'll continue to operate as long as I am a member of Parliament.

The only problem I have which is quite serious in my own personal involvement with the company is that — as from November 30th 1987 the little money I get from the Mamiam Timbers Pl will cease. This is to avoid being caught by the Leadership requirements as a member of Parliament.

I would like to leave a proposal with you for consideration. If it is possible to look at some kind of payment for me out of your administrative fund. As you know Francis I have to have some incentives

To put my weight behind the operation, and at least I knew I am getting something out of it. Therefore I would like to propose that you make provision for me for about K30,000.00 to be payable at K3000.00 each shipment. This looks quite a lot but comparing the amount of work put in during the recent recent court case, I would have made more during those two weeks.

Please consider it and do discuss it with me.

Once again thank you for the trip and every assistance you've given me. Anyway my wife is very grateful for the watch you've bought for her. She thank you very much for it.

With Thanks

- Gerard Sigulaga

- 25



000083
EX 199.

**OMBUDSMAN COMMISSION
OF
PAPUA NEW GUINEA**

TELEPHONE: 259955

P.O. BOX 852
BOROKO
PAPUA NEW GUINEA

Mr. Gerard Sigulogo, MP
Member for Kavieng Open
C/- National Parliament
Post Office
WAIGANI

Date: 20 October 1987
Our Reference: L. 904/56n
Action Officer:
Designation:
Your Reference:
Date:

Dear Mr. Sigulogo

RE: OVERSEAS TRAVEL

The Ombudsman Commission has been informed that you undertook an overseas visit in early September 1987 and returned from Singapore in late September.

The Members of the Commission in their endeavours to enforce the Leadership Code expect and require leaders to advise the Ombudsman Commission about trips taken within Papua New Guinea or abroad pursuant to Section 12 of the Organic Law on the Duties and Responsibilities of Leadership; and therefore request you to furnish the following information in detail for consideration:-

1. The reasons for your travel.
2. The itinerary of the whole travel.
3. The flight details including the E.T.D. from Port Moresby, stop-over ports and E.T.A. at your destinations *and vice versa*.
4. Who funded your travel?
5. Which hotel/motel did you stay whilst abroad?
6. How were these hotel bills funded (we require copies of such bills please)?
7. Full particulars of people, companies and/or individuals you stayed or dealt with.
8. Full particulars of any gift you received whilst abroad.

.... /2

- 2 -

9. Any other matters you may wish to inform us.

We thank you in anticipation.

Yours sincerely



CHARLES MAINO AOAE
CHIEF OMBUDSMAN

C/- P O Box 130,
Kavieng. NIP.

22nd October, 1987

The Chief Ombudsman Commissioner,
Ombudsman Commission
P.O. Box 123,
KONEDOBU. PNG.

Dear Sir,

RE : ELECTION GIFTS

I am furnishing to the Leadership Section what could be regarded as election gifts for the purposes of declaration.


The following are:-

- (1) CLEMENT TONG donated K200.00 towards my campaign fund.
- (2) MORGAN SEETO donated K200 to the fund.
- (3) KAMESCO donated K20.00 to my campaign fund.

I hope this could clear the way as I learned of late that a declaration on the above should be made.

Thanking you in advance.

Yours faithfully,

.....

GERARD SIGULOGO MP.
KAVIENG OPEN

Schedule 22

5. 8. 1987.

Mr. Fevin

Dear Sir ,

This serves to inform you that if our Rugby Team Tarikam can win the FINAL game, we will sponsor another Kina 1,000 to the Club.

Please inform all our dear players to try their top skill to 'kill' all their competitors. We want to see that our team gets the top.

Thank you.

Yours faithfully,

Francis Sia

Managing Director.

APPENDIX 2

TABAR LOCAL FOREST AREA
TABAR TIMBER DEVELOPMENT CORPORATION PTY LTD
RASIRIK SURALIL LOCAL FOREST AREA
SANTA INVESTMENTS PTE LTD
LONBDA PTY LTD
BYRON CONSULTANTS PTY LTD

C O N T E N T S

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INTRODUCTION

The Commission's initial involvement with Tabar LFA was quite dramatic. Irregularities in the LFA declaration had been noted in hearings in Port Moresby and according to DOF files no operation should have commenced. During the Commission's first week of sittings in New Ireland it received information that equipment had been landed on Tabar Island and operations had commenced. Provincial Forestry officers had no knowledge of what was happening despite the full-time presence of an officer on the mainland at Konos who had no (other) active project in his area.

On Sunday 13 December 1987 the Commission and media representatives accompanied Mr Johnson Mantu (FAS Resource Development DOF) travelling by helicopter to Tabar Island to assess the position. After overflying the Tabar Island coastline (seeking to locate an unloading point) and then the forest area, a bulldozer was seen through a break in the forest canopy, clearing a road. On closer inspection a camp was located and the party landed at the camp site. Initial inspection disclosed a camp with three sleeping dormitories and a road under construction. Further inspection showed that over 2 km of road had been bulldozed and disclosed other equipment hidden under the tree cover including another bulldozer, two front end loaders, a tow truck, a powerful generator and a large shipping container holding snigging

cables, chain saws, axes, spare parts, tool kits and other logging equipment. Evidence was taken on the spot from the Camp Manager Harry Phillopo of Lihir Island and a Hong Kong citizen WAT KWONG WAH. Two other Hong Kong citizens were located named LAM TAK MAN who claimed to speak no English and CHUNG CHIEN MAN who was too ill to speak at all.

As a result of these discoveries I decided to make a full investigation of the apparently illegal attempt to exploit Tabar Island timber. Hearings were therefore conducted in Kavieng and Port Moresby with the result that the operation stopped, the equipment was removed and some time later that equipment was advertised for sale.

The investigations showed that there had been blatant disregard for, and abuse of, forestry policy and legislation. There was evidence that the Tabar operation was linked with widespread corruption involving the Premier, a provincial minister, lawyer/consultant Sebulon Watt and the timber company Santa Investments Pte Ltd. To understand the significance of "behind the scenes" activities regarding the Tabar Island resource involved studying some evidence regarding the Rasirik Suralil LFA application which had been processed by the National and Provincial governments more or less contemporaneously with the Tabar application. In particular it involved studying the files of Santa Investments Pte Ltd where records of what appeared to be correspondence from, and payments, to Premier Robert Seeto were discovered. The documents are evidence that these payments were related to the allocation of two timber resources in which Santa was to be the logging and marketing contractor. The two timber areas concerned were Rasirik Suralil LFA in West Coast Namatanai and Tabar LFA. I directed that all available records relating to both these areas be studied.

As a result of that study information was extracted from DOF and Provincial Forestry office files and from the files of Sebulon Watt and other sources.

From these records it was possible to construct a chronology of events relating to Rasirik Suralil and Tabar LFAs which shows the activities of Premier Seeto, Provincial Minister Sampson Gila, Sebulon Watt, Francis and Michael Sia (of Santa Investments Pte Ltd), Provincial Secretary C. Rangatin, DOF Secretary Mamalai and National Ministers E.R. Diro and P. Torato (Schedule 1).

When this chronology of events (as disclosed in the files) is studied it provides further evidence that Premier Seeto was, firstly, asking for and receiving payments from Santa Investments Pte Ltd for giving his support for the declaration of the Rasirik Suralil LFA and for the dealing between the Santa sponsored Sopathin Development Corporation and for the logging and marketing agreement between Sopathin and Santa.

Secondly, it provides evidence that, during those continuing negotiations, Provincial Minister Sampson Gila joined Seeto in seeking and receiving payments from Santa in return for supporting the declaration of the Tabar LFA, and for supporting the dealing between Tabar Timber Development Corporation (TTDC) and the landowners and the logging and marketing agreement between TTDC and Santa.

Although the two LFAs involved separate timber areas the applications and approvals and the secret negotiations and payments involved the same parties and overlapped in time. The true significance of what happened in relation to Tabar can only be understood if the activities in relation to Rasirik Suralil (which preceded and then

continued on after the Tabar application) are also taken into account.

For this reason although this Appendix is devoted to Tabar LFA, some detailed description of, and comments about, Rasirik Suralil LFA are included in the text. Relevant correspondence between Premier Seeto and Santa Directors Francis and Michael Sia is included as Schedules 2-8 and this aspect is discussed in some detail under the heading "Improper Benefits" below.

BACKGROUND TO TABAR LFA

The Tabar Island group, consisting of Simberi, Tatau and Tabar Islands, lies offshore to the north of Konos in Central New Ireland. Exploitation of the timber resource on the Tabar group was very largely an initiative of Sebulon Watt (a New Ireland lawyer and timber consultant) and his consultancy companies, Niubils Enterprises Pty Ltd and Byron Consultants Pty Limited. He was assisted in his initiatives by former New Ireland Provincial Government Minister Sampson Gila who is himself from Tabar.

The Tabar group had apparently been forest surveyed in the early 1970's but no exploitation followed. In 1983 another survey was conducted on Tabar Island. The report, quite importantly, noted the peoples' wish to exploit their timber area, but concluded that on the results of the survey:

"the area be considered under one of the small scale timber business ventures such as would operate under NTA or the Private Dealing Ordinance. The reason being that there is very little resource available to cater for a larger scale timber development that would really benefit the people of the area. An establishment of a forest mill sawmill would be recommendable".

In 1984 a patrol visited the Tabar Group and a similar view was expressed. It was said that New Ireland would soon run out of timber resources and that the outer islands were the reserve which would serve to supply sawn timber for the Province's domestic needs. Assistance to supply a "small portable forest mill" was suggested.

Tabar Timber Development Corporation Pty Ltd (TTDC) was incorporated on 19 July 1985. It was formed as a land-owner company with landowners as directors and shareholders. The shares were held by clan representatives in their own names but they were understood to hold the shares on behalf of their respective clans. The company was formed to promote the exploitation of the Timber Resource and to manage the "development" expected to flow from that exploitation. Provincial member Sampson Gila was a director and held a share on behalf of his clan, the Natitau.

THE SANTA CONNECTION

Apparently the procedures to gain approval to exploit Tabar commenced on 10 January 1986 when a receipt was issued for an undated LFA application. The proposed Tabar LFA was referred to by Premier Seeto when he wrote to Santa seeking benefits on 23 January 1986 (see Schedule 4) and the application was actually dated 24th January. It was discussed by the Provincial Government in accordance with normal New Ireland practise and on 26th February the PEC resolved to support TTDC LFA application for Tabar. On 27 February 1986 the PFO Kavieng forwarded the LFA application, the proposal and the PEC decision to the DOF. The size of the LFA to be declared was stated as being 4890 hectares but there was no map and the area was not defined by any metes and bounds description.

Acting Secretary Kari opposed the application but on

2 April 1986 Provincial Minister Sampson Gila visited Minister Diro pressing for the exploitation of Tabar timber. On 24th April, Sebulon Watt's consultancy company Niubils Enterprises Pty Ltd was incorporated and Santa Investments was, by then, definitely interested in Tabar timber and its lawyer had rewritten the Watt prepared Logging and Marketing Agreement. On 28th April the Dealing between TTDC and the landowners was signed and the Logging and Marketing Agreement between TTDC and Santa was signed (but dated 29th April). Provincial Secretary Rangatin issued the Certificate of Authority on the same day, without any investigation whatsoever. (The certificate had been prepared by Watt who brought it to his office as he and Sampson Gila were about to fly to Moresby with the LFA application and the other documents. Gila assured him it was in order.) All these documents were addressed to the Minister by a Niubils letter dated 28th April. On the same day Seeto wrote to Michael Sia requiring, amongst other things, that 5% of the FOB price to be received from the Sopathin and Tabar operations should be paid to the Peoples Progress Party (Schedule 7).

Before and during this same period there had been extensive dealings between Watt, Seeto, Santa Investments and Minister Diro over the declaration of the Rasirik Suralil LFA and the Dealing between Sopathin Development and the landowners and the Logging and Marketing agreement between Sopathin and Santa. Large sums of money were being paid out by Santa to Sopathin, Seeto and Watt during this process. (See chronology Schedule 1 and the "Santa Correspondence" Schedules 2-7). Rangatin had also issued a certificate of authority to cover the Dealing in that area once again without any investigation.

On 5th June Minister Diro purported to assent to the Tabar Dealing although the LFA had not yet been declared.

On 9 June 1986 it is recorded in Niubils Corporate Register that a Board Meeting of Niubils was held at which Watt, Seeto and Gila were present. Gila was elected Chairman of the Board and Seeto was appointed as a Director. It is evidence of the close relationship of the three in connection with these timber applications and Mr Watt was unable to offer any innocent explanation for that meeting.

By 10 September 1986 Santa had commenced funding TTDC (as it had previously done for Sopathin) and it advanced TTDC K1,200. Then, on 14th October, Secretary Mamalai briefed Minister Diro on the Dealing which Mr Diro had already signed. Mamalai pointed out that the LFA had not yet been declared and that no plan or description of the area had been provided. Although Mamalai's clear duty was to advise the Minister to defer approval, he advised the Minister to communicate his approval of the Declaration to the applicants so that formal documents could be prepared for his signature. DOF sought a map of the area from the PFO Kavieng and on 28th October Santa sent its proposal to DOF indicating that it wished to commence roadworks in November.

On 11th December Mr Torato unexpectedly replaced Mr Diro as Minister for Forests. Meanwhile there is strong documentary evidence that Santa was paying out large sums of money to Premier Seeto. Watt also was seeking K2.00 per m3 from Santa's share of the Sopathin log sales in payment for Niubils' bill for negotiating Rasirik Suralil for Santa. Santa also was making large payments to a person referred to in its files by code as "Lucy".

By 30 January 1987 Sampson Gila had come into a source of income which enabled him to apply his savings to pay K4,800 deposit on a K48,000 house which was to be

financed out of virtually his whole Provincial Political salary. (His explanations for the source of his payments and everyday living expenses was unbelievable - see below under "Improper Benefits".)

On 2 March 1987 Minister Torato finally signed the Tabar LFA declaration over an area of 24,688 ha. (more than 5 times the size of the area originally requested) and the LFA declaration was published in the gazette on 19 March 1987. The Dealing and the Certificate of Authority referred of course only to the landowners of the original 4890 hectares (and not even all of them were represented).

THE LOMBDA CONNECTION

By this stage however Santa had lost interest in exploiting the limited resource on Tabar (possibly because its Sopathin operation had commenced) and Watt was negotiating, on behalf of TTDC, with Lombda Pty Ltd to take on the role of contractor. (Lombda had been involved as a contractor for Leytrac in the Kamdaru area of Namatanai District - see Appendix 5 to this Interim Report.) These negotiations lasted from May to September 1987 and were complicated by the fact that DOF kept pointing out that Lombda did not have the necessary NIDA registration nor experience in the timber industry. In any event, while those negotiations were continuing, it appears that Watt had already decided to become involved as the contractor himself through his (by then inactive) company, Byron Consultants Pty Ltd. The application for approval of Lombda was allowed to wither and Mr Watt found a financier and set about restructuring Byron Consultants.

THE BYRON CONSULTANTS CONNECTION

Ascertaining the true facts began with the visit to Tabar Island on 13 December 1987 and proceeded as outlined in

the Introduction to this Appendix. Having discovered an illegal operation in action and having interviewed witnesses on Tabar Island, I returned to Kavieng and immediately summoned Sebulon Watt. When he commenced giving evidence he was not aware that the Commission had flown to Tabar Island.

The early part of Mr Watt's evidence was evasive about the true ownership of Byron Consultants and about the nature of the operations which had commenced on Tabar.

He said that he incorporated Byron Consultants on 10 May 1983. The directors and shareholders (each of one K1.00 share) were Sebulon Watt, David Carpenter and Silamita Tangurin. Byron Consultants had operated some years before but Watt said in evidence that he had ceased using it and now used Niubils instead. He swore that Byron Consultants was owned 50% by himself, 40% by his wife and 10% by David Carpenter. When acting for TTDC on the LFA application, the Dealing, and the agreements with Santa and Lombda he said that he had used Niubils.

Watt said that when negotiations with Lombda ceased he drew a logging and marketing agreement between TTDC and his own company Byron Consultants and had it signed.

Watt stated that the agreement had not been submitted for DOF approval but that Byron Consultants had not started operating yet. He said that steps had been taken by the company to obtain finance and that he had asked the financier - Benson Lee of Port Moresby, who is an Australian citizen, to put forward a proposal and background material for NIDA application for his consideration. He said no proposal had yet been put forward, that 50% equity in Byron Consultants was now owned by Benson Lee and that he was aware NIDA approval would be required. For this 50% interest Lee would

provide all the capital and had already provided K19,000 of which K14,000 had already been spent on expenses.

Watt said that he was aware Benson Lee had supplied a bulldozer which had been landed at Tabar to do roading work and to fill in a swamp while the proposal was being presented to NIDA and DOF. Byron Consultants was to supply the staff and he had sent Harry Labob (the proposed general manager of operations, also known as Harry Phillopo) and three employees to land the bulldozer. He said he had instructed TTDC directors to construct a logging camp and build workers' sleeping quarters.

After he was told that the Commission had just visited Tabar he reluctantly expanded on his evidence to some extent but still denied knowledge of what was happening on Tabar and he swore that he did not know of Suben (PNG) Pty Ltd. He expressed surprise that there was logging equipment on Tabar. Under cross examination he admitted that he knew all about the equipment and in fact helped load it onto the barge in Rabaul.

After an overnight adjournment Watt sought leave to tell the whole truth if he could be guaranteed he would not face perjury charges over his previous evidence. I granted that request but commented publicly that, as a lawyer, his conduct before the Commission amounted to disgraceful conduct and a gross breach of professional ethics.

In summary, the final version of Mr Watt's evidence was that he had entered an agreement with Benson Lee and June Kong to finance the Tabar operation. They agreed on condition that Elias Vuvu and Peter Au should become involved also and their group would hold 70 per cent of the equity in Byron consultants and the existing

shareholders, Watt, his wife and David Carpenter, would retain 30 per cent.

In anticipation of this restructuring the equipment was purchased/leased in Hong Kong and sent to Tabar with his full knowledge and participation. He had given instructions to commence logging as soon as possible and to have 2500 m3 of logs ready to ship out by January, 1988.

Watt conceded he had made payments to Sampson Gila totalling over K4,000 between September and November 1987. These (he said) were for labourers' wages, transport, "directors' allowances" and for landowners' meetings. (These were in addition to a sum of K2,000 he had given to Gila on behalf of Michael Sia - as to which see under "Improper Benefits" below).

Watt agreed that the operation had no chance of gaining legal approval and that he had created false expectations in the landowners and positioned the equipment in order to force the government to accept the operation once it had commenced. Even at the time of the public hearing no applications had yet been made for NIDA or DOF approval for this operation.

In making this investigation, evidence was taken from the following witnesses:

On Tabar Island:

Harry Phillopo (Labob).

A PNG citizen who described the illegal use of Asian labour and the environmental damage.

Wat Kwong Wah

In Kavieng:

Chris Rangatin (former Provincial Secretary)
Sampson Gila (former Provincial Minister for Works)
Sebulon Watt

In Port Moresby:

Benson King Fai Lee

Managing Director of Suben Pty Ltd which is a foreign company owned equally by himself and his PNG wife but controlled by him.

June Kong (Kong Wai Fan)

Elias Vuvu:

Director of the Post and Telecommunication Corporation who was to be figure-head Chairman of Directors with a 5% share of the equity.

In Port Moresby the Labour Department records and the files of Pannell Kerr Forster, Accountants, were also produced.

With the exception of Elias Vuvu, Harry Phillopo and possibly Mr Rangatin, all the other witnesses in this investigation indulged in deliberate evasion and false testimony from the witness box. After fully considering their changing testimony and after studying the documentary evidence I make the following findings of fact:

Sebulon Watt promoted the idea of exploiting the Tabar Island timber to the Australian citizen Benson Lee. Mr Lee and his Papua New Guinean wife each own 50 percent of Suben (PNG) Pty Ltd. Mr Lee agreed to help circumvent the labour laws by recruiting expatriate staff for Suben PNG Pty Ltd which had previously leased a service station near the Islander Hotel. He obtained Labour Department approval in mid 1987 for Lam Tak Man and Chung Chien Man to enter PNG as Workshop Manager and mechanic for his defunct service station but with the intention that they would work in the Tabar operation.

Suben Pty Ltd was to be shown as a 65% shareholder in Byron Consultants but in fact 30% would be held "by gentleman's agreement" for foreign interests who would in fact finance the operation and provide the machinery.

The foreign interests were June Kong (Kong Wai Fan - also known as Amin) and Hop Fat Trading Co of Hongkong. June Kong undertook to put up the cash for initial expenses and to buy the machinery from Hop Fat Trading Co. Hop Fat agreed to sell the equipment in Hongkong on credit. In return June Kong and Hop Fat Trading Co were to be undisclosed holders of 30% equity in Byron Consultants held for them by Suben Pty Ltd as part of its 65 per cent shareholding.

Elias Vuvu was brought into the deal for 5 per cent of the equity in order to present Byron Consultants as a company with a respectable chairman as its figure-head.

Thus at the time of the public hearing into Tabar LFA the true equitable ownership of Byron Consultants Pty Ltd was:

| | | |
|---------------------------------------------------------------------------------|-----|---------------------------------------------------------------------------------------------------------------------------------------|
| Elias Vuvu | 5% | Chairman of Directors |
| Sebulon Watt's Group (Mr and Mrs Watt and David Carpenter) | 30% | for providing the corporate vehicle, legal advice and political contacts and for negotiating the contract with Sampson Gila and TTDC. |
| Suben Pty Ltd (foreign Company) Divided as follows: 35% Mr and Mrs Lee | 65% | for help in managing finance and for help in circumventing the labour and NIDA laws. |
| 30% between June Kong (foreign citizen) | | for accepting responsibility for providing commencement capital. |
| and Hop Fat Trading Co (foreign company) | | for providing equipment on credit. |

After the equipment was purchased in Hong Kong it was shipped to Rabaul then loaded into a barge for Tabar Island. It was offloaded on the wrong side of the island

which meant that far more roading was necessary to gain access to the timber and at one stage an attempt was made to construct a road across a swamp. Although Harry Phillipo had been recruited as operations manager in fact Wat Kwong Wah took control and used the other foreigners as his operators.

The foreign ownership, lack of experience, lack of finance and lack of NIDA approval and DOF registration meant that the whole operation was illegal and, if forestry policy was properly applied, it had no chance of obtaining the necessary approvals. For this reason all those involved deliberately decided to commence the operation illegally before even seeking approval. Their hope was that if the local people could see the operation had commenced they would support it and make it politically impossible for the National Government to stop it. When the operation was planned Premier Seeto and Provincial Works Minister Sampson Gila were known to be supportive. Both had received payments from Santa Investments when it was seeking the contract. Gila had received further cash payments in connection with the Byron Consultants operation. Some of this cash was used to "gris" (sweeten) the landowners and directors of TTDC.

After this whole situation was exposed, operations were halted, the equipment was removed from Tabar and, later, advertisements were placed in the press for sale of the equipment with the contact disclosed as June Kong.

COMMENTS ON THE APPLICATION OF FORESTRY POLICY AS REVEALED IN TABAR LFA

The glimpse of the Suben bulldozer through the break in the forest canopy revealed a completely illegal operation in progress on Tabar Island under the very nose of the Provincial Forestry inspectors. My follow up investigations then revealed a history of illegality and

policy breaches which has been described above in connection with two of the three proposed contractors, Santa Investments Pte Ltd and Byron Consultants. The parties who remained constant throughout were Sebulon Watt (acting as a lawyer or through his companies, Niubils Enterprises Pty Ltd and Byron Consultants Pty Ltd) and Sampson Gila as a director of TTDC, a provincial Government Minister; a director of Niubils and as a landowner.

The following comments will relate specifically to Tabar LFA but will point to some similarities which occurred in relation to the Rasirik Suralil LFA which was being allocated and exploited at the same time and involved many of the same parties. (The Rasirik Suralil comments are typed in italics).

A LFA DECLARATION, DEALING AND CERTIFICATE OF AUTHORITY

The system operating in New Ireland is that any application for an LFA declaration is submitted for PEC endorsement before being forwarded to the DOF and that the PEC support for the declaration is conveyed to DOF with the application. Under the Forestry (Private Dealings) Act the Minister for Forests must consider various prescribed matters and come to a decision. The LFA declaration is only effective on and by virtue of publication in the National Gazette. The prescribed form of application must define the area to be declared.

Then before the dealing is approved there must be a Certificate of Authority by the Prescribed Authority that the persons signing the Dealing represent all the landowners of the declared area.

The procedures for approving the Tabar operation were incorrectly applied from the very beginning to such an extent that everything done was illegal and the result was a travesty of justice. The causes of this situation

seem to have been a combination of pressure applied by corrupt politicians in an attempt to earn bribes from Santa Investments, dereliction of duty by grossly negligent (and possibly corrupt) public servants and an overbearing willingness by Minister Diro to grant approvals outside the framework of the legislation, despite (in some cases) strong and correct advice from his department.

Thus, under corrupt pressure from Premier Seeto and Sampson Gila, Provincial Secretary Rangatin granted a Certificate of Authority without investigating whether the persons named in the Tabar Dealing included representatives of all the landowners. Under corrupt pressure from Provincial Minister Sampson Gila, Minister Diro ignored correct departmental advice and signed his approval to the dealing agreement with Santa before the LFA was declared. After disgraceful advice from Secretary Mamalai, Mr Diro indicated he would approve the LFA declaration for 4,890 ha. despite the absence of a map or a proper description of the area.

When the LFA was eventually declared by Minister Torato it was for 24,688 ha. although neither the Certificate of Authority nor the application were ever amended and it is quite apparant that many landowners were not represented.

The defects render the declaration and all subsequent dealings invalid. The defects moreover are substantive defects going to the very basis of the ownership of the resource and the consent by the owners to its exploitation.

The comparison with the declaration of the Rasirik Suralil LFA is interesting. That application was, as DOF advised Minister Waka and as Minister Waka advised Sopathin, defective as it also originally contained no map or definition of the LFA area. Minister Waka stood

Schedule 4

FIRST SHIPMENT
PART 3

(COMPARISON WITH STANDARD 75/25 SPLIT)

A If Mamirum bears export duty:

MOI Receipts

75% of gross FOB of K284,236.12 = K213,177.09

Mamirum Receipts

25% of gross FOB of K284,236.12

Less Expenses

Royalty K17,128.81

FIC Levy K 1,014.89

Export Levy K25,417.91

Total Expense K43,561.61

Mamirum nett receipt K27,497.42K284,236.12

B If MOI bears export duty:

MOI Receipts K187,759.18

Expense K 43,561.61

Mamirum Receipts K 52,915.33K284,236.12

Schedule 4

FIRST SHIPMENT
PART 4

COMPARISON USING DECEMBER 1987 AGREEMENT

The gross FOB price was K284,236.12 for a shipment of 4,720.441m³; i.e. at a rate of K60.213891 per m³.

| | |
|-------------------------------------------------------------------------------------------------------|--------------------|
| (1) Royalties | K 17,128.81 |
| (2) FIC Levy | K 1,014.89 |
| (3) Retention fees: | |
| 10% up to K50.00 per m ³ i.e. K5.00 x 4,729,441 = K23,602.205 | |
| 50% of excess above K50.00 per m ³ 0.5 x (K10,213891x4,720.441) = <u>K24,107.034</u> | |
| | K47,709.24 |
| (4) Contractor's fee | <u>K218,383.18</u> |
| | <u>K284,236.12</u> |

or put in different form:

MOI Receipts

| | |
|------------------|------------------|
| Contractor's fee | 218,383.18 |
| Less Export duty | <u>25,417.91</u> |

K192,965.27

Mamirum Receipts

47,709.24

Expenses

| | |
|------------------------------------|--------------------|
| (Royalties, FIC Levy, export duty) | <u>K 43,561.61</u> |
| | <u>K284,236.12</u> |

his ground however, despite clear pressure from Premier Seeto, Provincial Secretary Rangatin and the P.F.O, and accepted DOF advice to withhold declaration.

With the change of National Government Premier Seeto (allegedly then compromised by Santa Investments) pressured Minister Diro who apparently reconsidered the application and despite the defect (which DOF failed to point out to the Minister) decided to make an LFA declaration. Premier Seeto was advised on 12.02.86. Subsequently Secretary Mamalai advised Minister Diro that the declaration was in order.

The declaration was then sent to the Government Printer without being signed by the Minister (on 06.06.86). Minister Diro, ignorant of the true facts, authorised commencement of operations in a telex to Premier Seeto. The error made in June was detected two months later by DOF and eventually corrected.

Another similarity with the Tabar LFA was that in the case of Rasirik Suralil the dealing (dated 14.02.86) was signed before the LFA declaration. Though Provincial Secretary Rangatin referred the application for Certificate of Authority for investigation, he in fact issued the Certificate only a few days after the application was made and (as the PFO Kavieng pointed out to him) before any investigation was undertaken.

Minister Diro purported to assent to the dealing before the LFA declaration but after he had made the decision to declare and authorised operations to commence in a telex to Premier Seeto.

As indicated above Minister Diro was not properly briefed in these respects by DOF who must bear responsibility. Neither the DOF nor Minister knew of the situation regarding the Certificate of Authority.

B ENVIRONMENTAL CONSIDERATIONS

Like all small tropical islands Tabar no doubt has a delicately balanced and fragile physical environment. Its few fresh water streams and limited deposits of fertile soils are required to support a small population of subsistence gardeners and fishermen who also grow vegetables for sale on the mainland.

There is no evidence that these physical and social environmental questions were ever put to, or considered

by, the Minister when the decision to declare the LFA and to approve the scale of harvesting was being considered. The secret operation which later commenced, was already in the process of causing very substantial environmental damage when stopped in its first few days by the Commission. As the equipment had been dropped on the wrong side of the island the bulldozer was commencing to clear a much longer road than should have been necessary and its very first task was to try the difficult and environmentally devastating task of filling a mangrove swamp. The filling task was then abandoned and the road re-routed around the swamp leaving the first attempted road and swamp filling abandoned.

Inadequate consideration of the environment seems to have been a feature of LFA's declared on New Ireland.

C RESOURCE ASSESSMENT

Decisions were taken to permit exploitation of each of these two areas under the Forestry (Private Dealings) Act. In each case it does not seem that any proper resource assessment was made by the DOF though there is some evidence (unverified) that Santa Investments expended funds for survey in Rasirik Suralil and that Provincial Forestry staff and Santa Investments carried out some survey work on Tabar. The lack of proper or thorough survey is of serious concern if PNG's forest resource are to be harvested on a "sustained yield basis" and if the DOF and Minister are to responsibly assess what rate of extraction should be permitted and the duration of permitted exploitation. It is a matter of elementary logic that if a plan for exploiting the resource is to be approved the commercially harvestable resource must be sufficient to allow the approved rate of extraction for the approved number of years. If the policy is to insist upon sustained yield forest exploitation the rate of extraction should not exceed

that at which the forest can be replenished by natural regeneration or reafforestation.

With Tabar LFA all the indications from Provincial surveys were that a large scale logging operation could not be sustained and a small local milling operation was recommended to supply sawn timber for domestic consumption in New Ireland. Despite this, the "approved" Dealing was for a term of seven years with a maximum permitted harvest of 55,000m³, all of which was permitted to be exported in log form. All the evidence which came before me was that commercial exploitation of the Tabar resource was of very dubious viability and that there is no conceivable way the resource could sustain a seven year project at the maximum permitted cut rates. Under pressure for large scale development the possibility of a smaller more appropriate development by the people themselves was not even considered.

In the Rasirik Suralil LFA the "approved" Dealing was a gain for a term of seven years with a maximum cut of 55,000m³ per year this involving a resource of 385,000m³ to sustain the operation. A subsequent survey showed a resource of only 110,000m³ which would only sustain operations for two of the proposed seven years (Schedule 8).

Additional resource was thus sought and this request provoked a "letter of intent" from Minister Torato which created terrible problems in the Napanta Nubiu LFA (as to which see Appendix 7 to this Interim Report).

D LOGGING AND MARKETING AGREEMENTS

Normally Dealing agreements and Timber Permits require the prior written approval of the Secretary DOF to logging and marketing and management agreements.

In the case of both Rasirik Suralil and Tabar the agreement with Santa Investments was signed about the same time as the Dealing. The Rasirik Suralil agreement was only approved on 17.09.86 by the Secretary DOF. It had quite clearly been signed without approval by the

Sopathin Board as it was only on 26.09.86 (according to Sopathin board minutes and after explanation by Watt supported by Premier Seeto) that the Sopathin board accepted the agreement. The Secretary's approval and Board approval almost coincided with the first log shipment and it is clear operations commenced before approval was given.

Though the Santa Investments and Lombda logging and marketing agreements for Tabar were submitted to DOF, neither was approved. At the time the Commission sat in Kavieng in December 1987 no other logging and marketing agreement had been submitted to DOF for approval and yet an operation had already commenced.

The fact that operations can commence before approval of the logging and marketing agreement has frequently left the landowner companies with a very unfair agreement drawn up by lawyers working for the contractor. This was the case in both Rasirik Suralil and Tabar LFA's and is a sad reflection on the DOF and its Minister.

SECRET OPERATION ON TABAR

This operation by Byron Consultants involved several breaches of Policy:

(i) Firstly, Byron Consultants had previously been operating as a genuine national company. In preparation for the Tabar operation however it was completely restructured and control was taken over by the foreign company Suben Pty Ltd which, in turn, was a "front for foreign financiers".

The fact that even an approved national company can be "hollowed out" in this way and its ownership changed from within without external sign, is a standing weakness in our system of monitoring the suitability of participants in the timber industry.

(ii) The company which in fact began operating was controlled and managed by persons who had no track record or experience in the timber industry and it was neither pre-registered with DOF or approved by NIDA.

(iii) The true nature of the operator was not made known to the landowners or the T.T.D.C (nor of course to DOF). Throughout, it posed as the comparatively familiar Byron Consultants Pty Ltd which was believed to be under the control of the "trusted" New Irelander Sebulon Watt.

(iv) Byron Consultants and its financial backers were in blatant and deliberate violation of the laws and regulations governing the employment of foreign workers. Qualified PNG operators were being stood aside to enable the employment of (less skilled) foreign operators.

(v) The operation commenced before approval for the logging and marketing agreement was sought. This had been drawn up by Sebulon Watt acting for both TTDC and Byron Consultants. Watt had an acute conflict of interest but did not advise TTDC to seek independent legal advice.

IMPROPER BENEFITS

Generally

The documents studied during the Tabar LFA investigation disclose prima facie evidence of very substantial benefits being requested by and given to Premier Robert Seeto, Provincial Minister Samson Gila and Sebulon Watt (personally or through his Consultancy company Niubils). To understand the evidence it has been necessary to examine the records of Santa Investments Pte Ltd and the correspondence between its directors Michael and Francis Sia, Premier Seeto and Sebulon Watt in relation to Rasirik Suralil and Tabar LFA.

During my investigations into these matters I worked in close cooperation with the Commissioner for Police and his officers and as a result I delayed the Commission's public hearings into these aspects to allow the police to examine the evidence without the publicity which accompanies the Commission's public hearings and to allow

him to decide what charges to bring and against what persons.

As is noted in the chronology (Schedule '1) there are currently 27 police charges pending which relate to various alleged payments to Robert Seeto. Those charges also involve the six letters which are Schedules 2 to 7. These letters are alleged to have been found in police raids pursuant to warrant at the premises of Santa Investments and are alleged to be in the handwriting of Robert Seeto. All of those charges allege corrupt practices against Michael Sia, Francis Sia and Robert Seeto in connection with New Ireland forest resources. The two Sias have been committed to the National Court for trial on the charges. The committal proceedings against Robert Seeto however were discharged for want of sufficient evidence in January 1989. The Public Prosecutor, with the two Sias committed for trial will have to consider an ex officio indictment against Seeto so that all three are brought to trial together. In these circumstances although those matters fall squarely within the Commission's terms of reference I have refrained from further investigation into these activities of Premier Seeto and the Sias. To investigate further could be in contempt of the Court dealing with those criminal charges and could possibly interfere with the fair trial of the three men. The existence of such evidence which has led to criminal charges and to committal for trial must however be of the gravest concern.

There are other matters disclosed by the records of Santa Investments which "cry out" for investigation touching its timber operations in New Ireland and Gulf Provinces and generally (see Appendix 3 to this Interim Report).

These include:

- (a) the advances to Sopathin Development Corporation and recouping those advances;
- (b) the role of Sebulon Watt and his companies Byron Consultants and Niubils Enterprises; the advances to Watt and his companies and the accounting for and recouping of those advances;
- (c) the role of the person (who is identifiable) code-named "LUCY"; the advances to "LUCY" and the accounting for those advances to "LUCY";
- (d) Payments apparently made to or on account of National politicians, Provincial politicians, Labour officers, a NIDA officer, a Trade and Industry Officer, Customs Officers, Forestry Officers and a Ministerial Staff officer by Santa Investments.
- (e) The advance to Tabar Timber Development Corporation of K1200 on 10 September 1986.

The true facts surrounding the Niubils meeting of 9 June 1986 also need to be investigated. At that meeting Robert Seeto and Sampson Gila were appointed as directors and decisions were made about Tabar and Djaul LFA's and about some Provincial Government matters (including shareholding in Bruce Tsang's company Nationwide Consultants - see Appendix 7 to this Interim Report).

I refrained from having these additional matters publicly investigated by the Commission also to allow an unhindered opportunity for the police to complete their investigations. Those investigations are now complete and no further charges are proposed at this stage. The Commission is thus theoretically in a position to pursue these matters.

There are practical difficulties however as documents are still held by the police as "exhibits" necessary to prosecute the criminal charges against Seeto and the Sias and there are grounds to believe that the payments to

Watt and to "LUCY" relate to the letters which are Schedules 2 to 7. It is therefore difficult to pursue these matters without the possibility of interfering with the due process of the criminal law.

There is also little point in summoning the persons concerned to give evidence until the offence of committing perjury before a Commission of Inquiry is written back into the law. So far as the first three matters are concerned the position, as shown in chronology (Schedule 1) is this:

(a) Sopathin Development Corporation advances

The records of Santa Investments show the following payments to or on account of Sopathin DC:

| <u>Date</u> | <u>Voucher</u> | <u>Description</u> | <u>Amount (Kina)</u> |
|-------------|----------------|--------------------|----------------------|
| 07.04.86 | SP 13/4 | - | 400.00 |
| 01.05.86 | SP 1/5 | Air Ticket-Mr Watt | 223.00 |
| 01.05.86 | SP 2/5 | Loan | 1000.00 |
| 01.05.86 | SP 3/5 | Loan | 200.00 |
| 20.05.86 | SP 64/5 | Cash advance | 195.00 |
| 20.05.86 | SP 64/5 | Air ticket | 500.00 |
| 13.06.86 | SP 48/6 | Cash Advance | 1000.00 |
| 04.07.86 | SP 15/7 | Cash Advance | 1063.00 |
| 05.08.86 | SP 14/8 | Advance | 730.00 |
| 05.08.86 | SP 14/8 | Advance S.W | 2000.00 |
| 09.09.86 | SP 15/8 | Advance | 5000.00 |
| 29.09.86 | SP 23/9 | Advance | 5000.00 |
| | | | <u>13311.00</u> |
| 29.09.86 | SP 96/9 | Ag.Trust Fund | 5403.17 |
| 10.12.86 | SP 8/12 | Ag. Trust Fund | <u>8484.47</u> |
| 10.12.86 | SP 9/12 | Retention fee | <u>35,683.47</u> |

(b) Sebulon Watt/Niubils advances

The records of Santa Investments show the following payments on account of Watt/Niubils:

| <u>Date</u> | <u>Voucher</u> | <u>Description</u> | <u>Amount (Kina)</u> |
|-------------|----------------|------------------------|----------------------|
| 12.08.86 | SP 36/8 | - | 400.00 |
| 29.08.86 | SP 105/8 | Advance | 600.00 |
| 29.08.86 | SP 106/8 | Advance | 1,000.00 |
| 11.09.86 | SP 37/9 | Advance | 890.00 |
| 15.09.86 | SP 53/9 | T/T - cash advance | 3,000.00 |
| 29.09.86 | SP 97/9 | - | <u>4,513.17</u> |
| | | | 10,403.17 |
| 29.04.86 | SP 98/9 | - | 12,268.77 |
| 29.09.86 | SP 99/9 | - | 600.00 |
| 14.10.85 | SP 35/10 | Advance | 5,000.00 |
| 10.11.86 | J 25/11 | Company Mess Allowance | 600.00 |
| 10.12.86 | P 6/12 | Royalties | 11,697.36 |
| 10.12.86 | P 7/12 | Retention | 8,484.47 |
| 10.12.86 | P12/12 | Forest Compensation | 2,738.60 |
| 16.12.86 | P28/12 | - | <u>500.00</u> |
| | | | <u>52,292.37</u> |

(c) "LUCY"

The records of Santa Investments show the following payments to or on account of "LUCY":

| <u>Date</u> | <u>Voucher</u> | <u>Description</u> | <u>Amount (Kina)</u> |
|-------------|----------------|---------------------------------|----------------------|
| 02.09.86 | SP 10/9 | Advance | 6,000.00 |
| 06.10.86 | SP 13/10 | T/T allowance | 4,000.00 |
| 07.12.86 | J 16/11 | Payment of A/c (TT) | 2,730.00 |
| 10.12.86 | P 4/12 | Cash advance | 6,943.00 |
| 17.12.86 | P44/12 | Cash advance | 20,000.00 |
| 28.12.86 | J106B/12 | Payment of A/c on behalf of you | 35,000.00 |
| 28.13.86 | J106C/12 | Payment of A/c on behalf of you | 2,500.00 |
| 29.12.86 | P 69/12 | Payments of A/c (motor vehicle) | <u>3,000.00</u> |
| | | | <u>80,173.00</u> |

All these payments appear to relate to Santa Investments activities on New Ireland concerning timber and should as stated above, be thoroughly investigated; as should the whole history of the Rasirik Suralil LFA. That can only be fairly done by giving affected persons an opportunity (which they have not had) to be heard and to offer explanations.

Sampson Gila

Sampson Gila was and is the Member for Tabar in the New Ireland Provincial Government and was Minister for Works in the Robert Seeto Government. He comes from Wang Village on Tabar Island.

The letter attributed to Robert Seeto (Schedule 7) says Gila "already collected 2 Cabbages last time" and requests a further 3 Cabbages. ("Cabbage" refers to K1,000.) The Commission had other information Gila had received at least K2,000.00 from Santa Investments and that the K2,000.00 had been passed to him through Sebulon Watt.

Mr Gila was asked to produce his bank records and did so. Records of his purchase of the property Lot 15 Section 10 Kavieng from the National Housing Commission (Schedule 9) were also produced.

Mr Gila first gave evidence that he had no other source of income than his salary as a member (previously a Minister) and that his total savings were about K5,000.00 which had been invested in interest bearing deposit with PNGBC. He conducted one passbook account with each of PNGBC and Westpac. He said only his political salary went into the PNGBC account and that his copra, cocoa and market produce money went into the Westpac account.

Mr Gila said he supported a wife and five children - two schoolchildren in Kavieng (in grades five and six), one schoolchild at boarding school in Rabaul and two children undergoing tertiary education.

He said the deposit on the Kavieng property of K4,800.00 took the whole of his IBD savings and that the monthly payments of K540.00 came from his salary and proceeds of sale of his produce.

At the time he first gave evidence his December 1987 payment was overdue and the balance in his PNGBC account was K178.08 (after the salary due on 4 December 1987 was credited) and in his Westpac Account was K171.18 (after a deposit of K160.00 on 11 December 1987). He said he was waiting for some copra to arrive to provide the balance for the K540.00 payment and agreed all his money would then be gone.

Gila could see the difficulty which was confronting him and said he had additional income of:

- (a) K470 per month from copra
- (b) K40-60 per month from cocoa
- (c) K50-60 per fortnight from fishing
- (d) K80.00 per fortnight from kaukau
- (e) K180.00 per week for watermelons from June to September each year

He was later cross examined on this income and struggled pathetically to justify his earlier evidence of income which was clearly just not true.

He was then asked about the following deposits to his PNGBC passbook account:

| | | |
|----------|------------------|------------------|
| 24/09/87 | K1,035.00 | |
| 25/09/87 | K1,500.00 | |
| 01/10/87 | <u>K1,000.00</u> | <u>K3,535.00</u> |

He said this was received from Sebulon Watt and sent to pay the labourers "who cut the bush and built the house. It was not my money".

His passbook shows against these deposits he only withdrew the following:

| | | |
|----------|------------------|------------------|
| 25/09/87 | K1,500.00 | |
| 25/09/87 | K1,000.00 | |
| 15/10/87 | <u>K1,010.00</u> | <u>K3,510.00</u> |

The passbooks also show his salary of K290.58 per fortnight or K581.16 per month was barely covering the house payments.

It is quite clear Sampson Gila was absolutely dependent on the Tabar timber exploitation progressing promptly, that he was in anticipation of receiving benefits from that exploitation and that he had gambled on those benefits in buying the Kavieng property.

Over Santa Investments Gila said he had had no discussion over election campaign assistance but then added:

"But Sebulon Watt gave me some. Whether it was from him or Michael Sia I don't know."

Gila admitted receiving K2,000.00 from Watt in cash for the 1986 Provincial election and that Watt handed the money to him personally. He agreed he was a Provincial Minister at the time and that he was active in seeking a timber project on Tabar.

When he came to give evidence Watt had three attempts to explain this occurrence.

First he said:

"The money was given to me in a white envelope by Michael Sia of Santa Investments with instructions to hand it over to Mr Gila. I was only doing my job as a friend of Mr Gila".

After being warned about perjury Watt gave his second account:

"The moneys given by Michael Sia - K2,000.00. I drew out cash and gave it to him (Gila) at Westpac".

Overnight Watt had time to think and told me the next morning he would like to tell the truth and would do so if no proceedings were brought for perjury. This time he said:

"The money was paid to me by Mr Michael Sia to Niubils account at Westpac. I withdrew it in the middle of December (1986) and I handed it to Gila".

I have great trouble accepting the evidence of either Watt or Gila. Watt's statement that he gave the K2,000.00 to Gila in mid December 1986 is inconsistent with the letter dated 12 November 1986 attributed to Robert Seeto (Schedule 7) which clearly says K2,000.00 was already collected for Gila and asks for a further K3,000.00.

It is clear however Gila received at least K2,000.00 through Watt from Michael Sia of Santa Investments. It is equally clear that the money paid was related directly to Gila's influence and efforts in connection with the Tabar timber resource and was paid to assist Gila's re-election to the Provincial Assembly. I have no doubt Gila knew both that the money came from Michael Sia and that it was to "buy" his support.

The receipt of such a benefit by Gila was plainly improper.

FOOTNOTE - HISTORY REPEATS ITSELF

Notwithstanding public disclosure in Kavieng of all the above irregularities, the New Ireland Provincial Government "closed its eyes" to all the problems about irregularity of the LFA declaration, deficiencies in the dealing (with at least five clan leaders not being parties to the Agreement), deficiencies in the Certificate of Authority (no investigation) and deficiencies in the purported approval of the dealing (assented to before the LFA declaration) and on 29 August 1988 endorsed a new logging and marketing agreement between TTDC and Tovutogu Business Group Inc.

The deficiencies were clearly pointed out by Secretary Komtagarea who advised TTDC by letter of 11 November 1988 (Schedule 10).

By 15 November 1988 Minister Sabagas wrote to Minister Stack referring to new Dealings and a new Certificate of

Authority and recommending Assent. The problem of defects in the LFA declaration were again simply ignored. At the same time Provincial Secrerary Tomon was pressing for approval of a "new" Logging and Marketing Agreement (Schedule 11).

As late as mid February 1989 no assent appeared to have been given to the "new" dealing and no approval appeared to have been given to the Logging and Marketing Agreement but history had repeated itself (despite all the same defects) and an operation was underway. This time it had gone further however and not only had an operation been established but 1400m3-1800m3 of logs have already been cut.

The Commission has received evidence (very consistent with Mr Tomon's letter) (Schedule 11) that strongly suggests that the Tovutogu Business Broup is a "front" for its so-called financier PACIFIC RIM HOLDINGS. Search of Pacific Rim Holdings shows its directors and shareholders are Ian Raymond Shepherd, David Wong Cheak Hang and Mary Nash Hong Nee and its registered office is Second Floor, Credit House, Musgrave Street, Port Moresby.

Messrs Shepherd and Wong are directors of Santa (PNG) (see Appendix 3 to this Interim Report) and Mrs Nash was an employee of Santa Investments. The registered office is Santa's office. Mr David Wong is arranging the equipment and spare parts and paying the wages.

What will now happen is clear. The landowners and TTDC have an operation "on the ground" and will soon (if they have not already) have a "sponsored" delegation on the Minister for Forest's doorstep, with Provincial Government support, demanding that this totally illegal endeavour be "legitimated" so that it can continue to operate.

SCHEDULE 1

Chronology of Events Relating to Tabar LFA and Rasirik Suralil LFA derived from the Records of Santa Investments Pty Ltd and other Documentary Sources.

- 31.07.84 Sopathin Development Corporation (Sopathin) was incorporated.
- 16.09.84 Sopathin Chairman Martin Liu writes to Premier Seeto asking him as Premier and local Member to endorse a request for an LFA Declaration over the West Coast Area.
- 30.11.84 Premier Seeto advises Provincial Minister Sianot of formation of "Sopathin" Development Corporation and INSTRUCTS a forest resource survey and to make application for LFA Declaration of West Coast Namatanai.
- 15.01.85 Application for Declaration of LFA is signed by Sopathin Chairman MARTIN LIU.
- 16.01.85 Application for Declaration Rasirik Suralil LFA is lodged with PFD Kavieng.
- 24.01.85 Meeting of landowners and Sopathin at Pakinsela Village (attended by Premier Seeto) resolved to request Declaration of Rasirik Suralil LFA. The vote was said to be 102 to 14.
- 11.03.85 PEC submission for Rasirik Suralil LFA is prepared.
- 19.03.85 New Ireland PEC resolves to support Rasirik Suralil LFA Declaration.
- 21.03.85 Premier Seeto writes to Minister for Forests pressing for Declaration of Rasirik Suralil LFA.
- 06.06.85 PFD Kavieng telexes DOF asking for answer on Rasirik Suralil LFA Declaration.
- 07.06.85 Premier Seeto telexes DOF asking for answer on Rasirik Suralil LFA Declaration.
- 07.06.85 Santa Investments Cashbook Entry
"Survey Expenses for Mussau and Namatanai projects PU 22/6 K5,000.00".
- 21.06.85 DOF telephones PFD Kavieng asking for a map to accompany application.

- 26.05.85 Provincial Secretary Rangatin telexes DOF seeking answer on Rasirik Suralil.
- 27.06.85 PFO Kavieng writes to DOF enclosing maps for Rasirik Suralil.
- 04.07.85 Secretary Malalai instructs preparation of a Minute to the Minister advising against Declaration of Rasirik Suralil.
- 19.07.85 Tabar Timber Development Corporation (TTDC) was incorporated.
- 26.07.85 Santa Investments Cashbook Entry
"Philippine Airline (Mrs R.S. Pom - Taipei - Pom) BPV 1/7 K640.00".
 *(This is the subject of Police Charge No 1)
- 05.08.85 Santa Investments General Ledger Entry
"Entertainment (RS) J1/8 K245.00".
 *(This is the subject of Police Charge No 2)
- 14.08.85 Secretary Rangatin telexes DOF seeking progress on Rasirik Suralil LFA Declaration.
- 26.08.85 DOF draft letter and brief for Minister Waka. The draft is a letter to Premier Seeto (with a copy to Secretary Rangatin) advising Rasirik Suralil LFA application is defective and that no further LFA Declarations will be made until after the Forestry legislation is amended.
- (The draft letter was based on DOF advice to the Minister in written briefs).
 It seems clear this letter was signed by Minister Waka and sent some time later but the date was not changed.
- 12.09.85 Premier Seeto telexes DOF asking for "latest" on LFA Declaration.

At this stage DOF was concerned at regularising the appointment of the New Ireland Provincial Secretary as the "authority" for the purposes of Section 7 of the Forestry (Private Dealings) Act.

In November 1985 the Government changed and Mr Diro replaced Mr Waka as Minister for Forests.

- 02.12.85 Premier Seeto writes to Minister Diro referring to Minister Waka's letter of 26.08.86; says Minister Waka's decision was wrong and asks Minister Diro to reconsider the matter.

- 09.12.85 Santa Investments General Ledger Entry
"Entertainment RS New Ireland J9/12 K400.00".
*(This is the subject of Police Charge No 3)
- 26.12.85 Sebulon Watt writes to Premier Seeto referring
to previous discussions saying he is glad to
have been asked to provide legal services to
Sopathin and enclosing a copy of a proposed
consultancy agreement.
- 05.01.86 Santa Investments Journal Voucher JV 2/1
"Ent. Kwantung Village Rest. (Entertain Premier
New Ireland) K64.00".
*(This is the subject of Police Charge No 4)
- 06.01.86 Santa Investments writes to Sebulon Watt
accepting an offer by Watt on behalf of
Sopathin to be Sopathin's Managing and
Marketing Agent.
- 06.01.86 Premier Seeto writes to Francis Sia seeking
benefits. (Schedule 2)
- 10.01.86 Receipt was issued in Kavieng for Tabar LFA
application.
- 10.01.86 Premier Seeto writes to Francis Sia seeking
payment of AVIS account. (Schedule 3)
- 17.01.86 Santa Investments Cashbook Entry "Namatanai
West Coast (Survey) PV 17/1 K800.00".
- 23.01.86 Premier Seeto writes to Francis Sia referring
to successful discussions during which Minister
Diro promised approval for 5 LFA's including
Rasirik Suralil and Tabar. Seeto seeks
benefits. (Schedule 4)
- 24.01.86 Application for declaration of Tabar LFA is
dated.
- 10.02.86 PFO Kavieng telexed DOF asking for advice on
the Rasirik Suralil LFA Declaration.
- 10.02.86 DOF advised PFO Kavieng of Minister's decision
to declare Rasirik Suralil LFA.
- 12.02.86 DOF advised Premier Seeto that Minister Diro
had reconsidered the Rasirik Suralil
application and decided to declare the LFA.
The letter asked that a proper application and
dealing be submitted. Apparently Premier Seeto
had requested the reconsideration.

- 13.02.86 Santa Investments General Ledger Entry
"Entertain RHS - PV 27/2 K1,000.00" and
Cashbook Entry "Payment to RHS PV 27/2 K1,000".
- 18.02.86 Premier Seeto writes to DOF acknowledging
letter of 13.02.86.
- 19.02.86 Sebulon Watt writes to Secretary Rangatin
seeking a Certificate of Authority for Rasirik
Suralil LFA. Dealing dated 14.02.86.
- 21.02.86 Secretary Rangatin tells PFO Kavieng of
application for Certificate and asks for an
investigation of ownership and preparation of a
submission for the Provincial Management Team
and Provincial Executive Council.
- 24.02.86 Santa Investments Pty Ltd submit Rasirik
Suralil proposal and draft Logging and Market-
ing Agreement to Minister Diro, saying they
understand LFA approved in principle, and
requesting proposal be considered with the
Application and Dealing being separately
submitted by Sebulon Watt.
- 24.02.86 Dealing between landowners and Sopathin Devel-
opment is dated and so, QUITE AMAZINGLY, is
Secretary Rangatin's Certificate of Authority.
- 25.02.86 Premier Seeto writes to Santa Investments
thanking them for copy proposal advising it
will be screened and that Santa will be advised
of PEC decision.
- 26.02.86 New Ireland PEC resolved to support Tabar LFA.
- 27.02.86 PFO Kavieng writes to Secretary Rangatin refer-
ring to Memo of 21.02.82 saying, "However, your
request to prepare a submission to PMT and PEC
if to enable you to issue Certificate of
Authority then it is of no effect because I
believe you have already issued a Certificate
of Authority". He advises investigation will
be conducted and proposal evaluated.
- 27.02.86 PFO Kavieng submits Tabar LFA application, and
receipt and PEC decision to DOF. The applica-
tion is for an undefined area of 4890 hectares
on the three Tabar group islands. He asks for
maps to define the area to be declared.
- 03.03.86 Sebulon Watt submits Dealing for Rasirik
Suralil to PFO Kavieng for submission to PEC.

- 04.03.86 A/Secretary Kari refers to Tabar LFA documents; does not favour recommending declaration and instructs a letter to PFO Kavieng and brief to the Minister advising DOF will not recommend.
- 04.03.86 Santa Investments General Ledger Entry "*Payment to RS - SP 3/3 K1,000.00*" and Santa Investment Cashbook Entry "*Payment to R Seeto SP 3/3 K1,000.00*".
*(This is the subject of Police Charge No 5)
- 14.03.86 Minister Diro writes to Secretary Mamalai enclosing Santa proposal for Rasirik Suralil and seeking DOF views and recommendations.
- 18.03.86 Santa Investments write to Watt asking for advice on Sopathin's LFA application and present status of the Dealing.
- 27.03.86 Santa Investments Cashbook Entry "*Survey Expenses (West Coast Namatanai) SP 27/3 K1,000.00*".
- 02.04.86 Sampson Gila visits Minister Diro asking for a Timber Authority for Tabar.
- 04.04.86 Forestry Officer Toubu briefs Secretary Mamalai that the Minister wishes to declare Rasirik Suralil LFA to allocate to Sopathin Development. The LFA application has been lodged with the Minister. "*The LFA application was lodged by Premier of New Ireland who is leading a delegation to POM*".
- 04.04.86 Santa Investments General Ledger Entry "*Cash paid to RS - SP 12.4 K1,500.00*" and Santa Investments Cashbook Entry in the same terms.
*(This is the subject of Police Charge No 6)
- 05.04.86 Premier Seeto makes his "*Conditional Requirement*" to Santa, i.e. seeks benefits. (Schedule 5)
- 07.04.86 Sebulon Watt (through his other consultancy company Niubils) writes to the Minister for Forests enclosing in respect of Rasirik Suralil, the Dealing, the Certificate of Authority and the Logging and Marketing Agreement between Sopathin Development and Santa Investments Pty Ltd.
- 07.04.86 Sebulon Watt (through Niubils) writes to PFO Kavieng sending copy of Rasirik Suralil Dealing and Logging and Marketing Agreement.

- 07.04.86 Santa Investments Cashbook Entry
"Sopathin Development SP 13/4 K400.00".
- 15.04.86 Secretary Mamalai instructs evaluation of application for declaration of Rasirik Suralil LFA.
- 24.04.86 Sebulon Watt's consultancy company NIUBILS (NIUBILS ENTERPRISE PTY LTD) was incorporated.
- 28.04.86 PFD Kavieng sends a copy of the Rasirik Suralil LFA application to DOF (as DOF was having difficulty locating the original).
- 28.04.86 Dealing between Tabar landowners and TTDC in respect of proposed Tabar LFA is signed.
- 28.04.86 Secretary Rangatin QUITE AMAZINGLY signs the Certificate of Authority in respect of the Dealing over the proposed Tabar LFA.
- 28.04.86 Sebulon Watt (through his new consultancy company Niubils) writes to DOF enclosing in respect of Tabar LFA, the Dealing and the Logging and Marketing Agreement between TTDC and Santa Investments Pty Ltd (the latter is dated 29.04.86).
- 28.04.86 Secretary Mamalai sent Export Licence applications of the same date from Santa Investments for Vailala and West Coast Namatanai concessions to his inferiors and notes:
"On the latter I've advised F. Sia that until LFA Declaration is done, no logging".
- 28.04.86 Premier Seeto makes a request of Santa seeking benefits (Schedule 6). The benefits sought include the payment of 5% of FOB price received from both the Sopathin and Tabar operations. The payment was to be made to the Peoples Progress Party.
- 01.05.86 Santa Investments Cashbook Entries as follows:
"Sopathin Development - Airticket for Mr Watt SP 1/5 K223.00".
"Loan to Sopathin Development Corp P/L 2/5 K1,000.00".
"Loan to Sopathin Development Corp P/L SP 3/5 K200.00".

- 12.05.86 Secretary Mamalai receives from the Minister Nuibils letter of 07.04.86 with Rasirik Suralil documents.
- 12.05.86 Secretary Mamalai requests appraisal of Dealing and Logging & Marketing Agreement for Rasirik Suralil seeking approval before LFA Declaration made.
- 12.05.86 The Department of Prime Minister writes to DOF enclosing a copy of a letter from Michael Singan where he refers to Premier Seeto's role in West Coast Namatanai and says rapid declaration of the LFA is politically motivated.
- 16.05.86 Santa Investments General Ledger Entry
"Entertainment (Kayuman) SP 54/5 K5,000.00" and
Santa Investments Cashbook Entry
"Cash paid to Kayuman SP 54/5 K5,000.00".
*(This is the subject of Police Charge No 7)
- 20.05.86 Santa Investments Cashbook Entry
"Sopathin Development -
Cash Advance K1000.00 SP 64/5 K1195.00
Air Ticket K 195.00 SP 64/5 K1195.00"
- 22.05.86 Santa Investments Cashbook Entry "Entertainment Namatanai Project SP 69/5 K2,000.00".
*(This is the subject of Police Charge No 8)
- 22.05.86 Secretary Mamalai instructs DOF staff to evaluate Rasirik Suralil documents by 27/05/86 as Minister was told LFA documents will be ready by then.
- 29.05.86 DOF appraisal of Rasirik Suralil documents is completed and revision of the Logging and Marketing Agreement is recommended.
- 01.06.86 Declaration of West Coast LFA (Rasirik Suralil) is shown as being signed by Minister Diro.
- 02.06.86 Secretary Mamalai sends Tabar Dealings, Logging and Marketing Agreement and Certificate of Authority to his inferiors for evaluation.
- 03.06.86 Secretary Mamalai sends Rasirik Suralil LFA Declaration to Minister and advises that Declaration and Dealing are in order but that Logging and Marketing Agreement requires revision.

- 05.06.86 Santa Investments General Ledger Entry
"Entertainment - Kayuman - SP 13/6 - K3,000.00"
and Santa Investments Cashbook Entry in the
same terms.
*(This is the subject of Police Charge No 9)
- 06.06.86 DOF sends Rasirik Suralil LFA Declaration to
Government printer (but nothing happens as the
document is not signed by the Minister).
- 04.06.86 Francis Sia telexes Michael Sia in Singapore
concerning a log shipment from Gulf Province
and adds: "Re: Premier's wife has received a
cheque but she cannot cash out the money.
Do something on this matter".
- 04.06.86 Minister Diro purports to assent to Tabar
Dealing (date 28/02/86).
- 09.06.86 A Board Meeting of Sebulon Watt's company
Niubils was held at which Watt, Premier Robert
Seeto and Minister Sampson Gila were present.
At this meeting Gila was elected Chairman of
The Board of Directors and Seeto was elected a
director.

The meeting moved to ask Santa to advance
K5,000 to Niubils on account of Sopathin
Development Corporation.
- 12.06.86 Santa Investments General Ledger Entry
"Entertainment R.S. SP 31/6 - K1,000.00" and
Santa Investments Cashbook Entry in the same
terms.
*(This is the subject of Police Charge No 10)
- 13.06.86 Santa Investments Cashbook Entry "Sopathin
Development P/L Cash Advance SP 48/6 K500.00".
- 21.06.86 Watt telexes Santa saying Sopathin Board
resolved on 20.06.86 to give Santa 14 days to
move machine to Rasirik and are very concerned
about slowness in starting operations.
- 04.07.86 Santa Investments Cashbook Entry "Sopathin
Development P/L Cash Advance SP 15/7 K1000.00".
- 16.07.86 Watt writes to DOF confirming he acts for
Sopathin and will in due course send a revised
Logging and Marketing Agreement.
- 16.07.86 Sopathin obtains quotes from Ela Motors for two
Toyota Hilux vehicles.

- 16.07.86 Sopathin writes to Santa Investments authorising deduction of K2.00 per m3 from retention funds to pay Niubils consultancy fees.
- 21.07.86 Premier Seeto telexes Santa Investments:
"Please be advised that the National Minister for Forests has given his assent and approved in principle by telephone today and would confirm by telex to me. Could you therefore go ahead and commence operations on Rasirik - Kurumut LFA".
- 29.07.86 Premier Seeto telexes Santa Investments:
"RASIRIK SURALIL
Please be advised that Rasirik/Suralil is confirmed by the Minister for Forests and signed documents for declaration of area as LFA. A copy of his telex as follows:
"I wish to confirm that I did sign documents for the Declaration of the Rasirik Suralil area as a LFA a few weeks ago. Following that the documents were forwarded to the Government Printer for gazettal. However, to date such gazettal has yet to be made. In addition I did give my assent to the Dealings submitted to me. In accordance with the above, I have no objection to operations being commenced in the said area".
- 31.07.86 West Coast LFA (Rasirik Suralil) Declaration in gazette in National Gazette No 45 at p 637.
- 01.08.86 Santa Investments Cashbook Entry
"Motor Vehicle Expenses - Car Rental Fee for SW and RS SP 6/8 K80.00".
- 01.08.86 Santa Investments Personnel Ledger Entry
"(Kayuman) Robert Seeto Advance SP 7/8 K800.00"
and Santa Investments Cashbook Entry
"RS - Advance SP 7/8 K800.00".
**(This is the subject of Police Charge No 11)*
- 04.08.86 Watt writes to Santa Investments asking for a cash advance of K1,063 to keep Sopathin Office going for August.
- 05.08.86 Santa Investments Cashbook Entries
"Sopathin Development Corp P/L Advance SP 14/8 K1,063.00" and "Sopathin Development Corp P/L Advance S.W. SP 15/8 K730.00".

- 05.08.86 Santa Investments Personnel Ledger Entry "*Kayuman*) Robert Seeto - Advance SP 17/8 K5,000.00" and Santa Investments Cashbook Entry "*Cash Advance R.S. SP 17/8 K5,000.00*".
*(This is the subject of Police Charge No 12)
- 06.08.86 Martin Liu writes to Santa Investments authorising deduction of preliminary costs for establishment fees, consultancy fees, travel and out-of-pocket expenses aggregating K10,044.70 from the retention moneys due to Sopathin on the first shipment.
- 06.08.86 Santa Investments Personnel Ledger Entry "*Kayuman*) Robert Seeto - Advance J 1/8 K1,000.00".
*(This is the subject of Police Charge No 13)
- 06.08.86 Santa writes to Premier Seeto advising it is seeking an extension of activity from NIDA to encompass Rasirik Suralil and seeking telex to Mr Oda of NIDA to confirm Provincial Government approval.
- 11.08.86 Secretary Mamalai submits Declaration of Rasirik Suralil to Minister Diro explaining it was not published earlier because the copy sent to the Government Printer was not signed by the Minister.
- 12.08.86 Santa Investments Cashbook Entry "*Sebulon Watt SP 36/8 K400.00*".
- 13.08.86 Minister Diro signs Rasirik Suralil LFA Declaration.
- 15.08.86 Rasirik Suralil LFA Declaration submitted to Government Printer.
- 22.08.86 Santa Investment Personnel Ledger Entry "*(Kayuman)* Robert Seeto - Advance - J5/8 K50.00".
*(This is the subject of Police Charge No 14)
- 26.08.86 Premier Seeto telexes DOF enquiring about Tabar LFA which he says was to have been declared.
- 29.08.86 Santa Investments Cashbook Entries
"*Mr Watt - Advance SP 105/8 K600.00*"
"*Mr Watt - Advance SP 106/8 K1000.00*".
- 01.09.86 Santa Investments Personnel Ledger Entry "*(Kayuman)* Robert Seeto Hotel fee and Air passage (*Kavieng 'Pom*) J2/9 K415.00".
*(This is the subject of Police Charge No 15)

- 02.09.86 Santa Investments Personnel Ledger Entry
"Lucy - Advance SP 10/9 K6,000.00" and
like entry in Santa Investments Cashbook.
- 09.09.86 Sebulon Watt writes to Santa Investments with
Sopathin's September cash-flow and asks for a
funding advance.
- 09.09.86 Santa Investments Cashbook Entry "Sopathin
Development Corp. Advance SP 23/9 K2,000.00".
- 10.09.86 Santa Investments Cashbook Entry "Advance Tabar
Timber Development Corp. SP 32/9 K1,200.00".
- 11.09.86 Santa Investments Personnel Ledger "(Kayuman)
Robert Seeto for 3 air tickets POM/RAB/KUG
J23/9, J31/9, J37/9 for a total of K641.00".
*(These are the subject of Police Charges
Nos 16, 17 and 18)
- 11.09.86 Santa Investments Cashbook Entry
"Niubils Enterprises SP 37/9 K890.00".
- 11.09.86 Santa Investments Personnel Ledger Entry
"(Kayuman) Robert Seeto. Payment of A/c
(Niubils Enterprise) SP 38/9 K1,000.00"
and Santa Investments Cashbook Entry "Niubils
Enterprise (Kayuman) SP 38/9 K1,000.00".
*(This is the subject of Police Charge No 19)
- 15.09.86 Santa Investments Cashbook Entry "T/T to
Sebulon Watt: Cash Advance SP 53/9 K3,000.00".
- 17.09.86 Secretary Mamalia writes to Sopathin Develop-
ment Corporation advising Logging and Marketing
Agreement is approved.
- 22.09.86 Secretary Mamalai briefs Minister Diro on New
Ireland:

(a) RASIRIK SURALIL

Approval to declare the LFA was given by
the Minister's Office in June 1986 and a
Dealing was assented to at the same time.
The LFA Declaration has not been gazetted.

A Logging and Marketing Agreement was
recently approved by DOF. "Operations in
the LFA are now in progress".

(b) TABAR

The Department is processing documents which will be forwarded to the Minister for necessary consideration, approval and assent.

In September 1986 the first log shipment is made from Rasirik Suralil LFA aboard M.V. MITCHELL.

- 26.09.86 Sopathin Board Minutes for this date record:
"The Agreement was explained by the lawyer (Watt) and it was discussed by the directors and additional comments and explanation by the Premier on the Logging and Marketing Agreement resulted in the Agreement being accepted by the directors."
- 29.09.86 Santa Investments Cashbook Entries
"Sopathin Development Corporation - Advance SP 95/9 K5,000.00".
"Sopathin Agriculture Trust Fund SP96/9 K5,403.17". (This is the fund of K2.00 per m3 over the shipment volume of K2701.587 m3).
"Niubils Enterprise SP 97/9 K4,513.17".
"Niubils Enterprise SP 98/9 K12,268.77" (This is royalties or at least in part for royalties)
"S. Watt SP 99/9 K600.00".
- 29.09.86 Santa Investments Personnel Ledger Entry
"(Kayuman) Robert Seeto - Cash Advance - SP 100/9 K1,000.00" and
 Santa Investments Cashbook Entry
"Kayuman SP 100/9 K1,000.00".
 *(This is the subject of Police Charge No 20)
- 29.09.86 Santa Investments Personnel Ledger Entry
"(Kayuman) Robert Seeto - Hotel charge Inv. 15979 Islander Hotel SP 122/9 K340.30" and
 Santa Investments Cashbook Entry
"Islander Hotel SP 122/9 K340.30".
 *(This is the subject of Police Charge No 21)
- 06.10.86 Santa Investments Personnel Ledger Entry *"Lucy T/T to Lucy: Allowance SP 13/10 K4,000.00"* and
 Santa Investments Cashbook Entry
"Lucy SP 13/10 K4,000.00".

- 14.10.86 Secretary Mamelai briefs Minister Diro on Tabar LFA. The brief points out that no plan of the area or boundary description is available and says this is being pursued but will cause delays. The Dealing is said to be in order. The brief then proceeds in quite STARTLING terms:

"Please consider the attached LFA application and if you are satisfied in approving Declaration and as you have signed the Dealings, it is recommended, for formality, that you communicate your approval on the Declaration to the company and your assent on the Dealings, upon you effecting a formal Declaration. To this effect, and as indicated above, documents are to be prepared and this, upon finalisation will be immediately forwarded to you to effect formal Declaration. Hereafter TTDC can then be advised accordingly on the approval of Declaration and your assent on the Dealings."

It concludes saying amendments to the Logging and Marketing Agreement with Santa Investments will be promptly concluded. Minister Diro notes this brief "Approved" and signs it.

- 14.10.86 Santa Investments Personnel Ledger Entry
"(Kayuman) Robert Seeto - Advance cheque 490994 SP 34/10 K1,500.00" and
 Santa Investments Cashbook Entry
"Kayuman Advance SP 34/10 K1,500.00".
 *(This is the subject of Police Charge No 22)
- 14.10.86 Santa Investments Cashbook Entry *"Niubils Enterprise Pty Ltd - Advance SP 35/10 K5,000.00".*

There is a pencil note in the Cashbook for these two entries reading: *"Single Entry with care. Cancel."*

- 16.10.86 DOF write to PFD Kavieng saying it seems the Minister will approve Declaration of Tabar LFA and seeking a map of the area to be declared.
- 28.10.86 Santa Investments writes to DOF enclosing Tabar proposal and asking for an early response as landowners wish roadworks to commence in November.
- 07.11.86 Santa Investments Personnel Ledger Entry
"Lucy. Payment of Acct (1/1 on 7/11/86) J16/11 K2,730.00".

- 10.11.86 Santa Investments Personnel Ledger Entry "*Kayuman Robert Seeto Cash Advance J25/11 K1000.00*".
*(This is the subject of Police Charge No 23).

The voucher also shows a "*Company Mess Allowance for Mr Watt K600.00*" and notes "*to the above-named person for October allowance*".

- 12.11.86 Premier Seeto writes to Santa Investments seeking benefits. (Schedule 7)
- 26.11.86 Santa Investments Personnel Ledger Entry "*(Kayuman) Robert Seeto. Charge for 25 pieces of sawn timber J61/11 K150.00*".
*(This is the subject of Police Charge No 24)

- 10.12.86 Santa Investments Personnel Ledger Entry "*(Kayuman) Robert Seeto Cash Advance cheque 157614 P 11/12 K10,000.00*". (There is a similar entry in Santa Investments Cashbook.)
*(This is the subject of Police Charge No 25)

In December 1986 the second log shipment is made from Rasirik Suralil LFA aboard M.V. EASTERN GRACE.

- 10.12.86 Santa Investments Cashbook Entries as follows:

"*Lucy - Cash Advance P4/12 K6,943.00*"
(There is also a Santa Investments Personnel Ledger Entry in the same terms.)

"*Niubils Enterprise - Royalty for M.V. EASTERN GRACE P6/12 K11,697.36*"
(This represents base royalties of K3.71 per m3 for the shipment volume of 4242.238 m3.)

"*Niubils Enterprise Retention fee for M.V. EASTERN GLORY P7/12 K8,484.47*".
(This represents a retention of K2.00 per m3 over the volume shipped.)

"*Sopathin Development Pty Ltd Agriculture Trust Fund P 8/12 K8,484.47*".
(This represents a fund of K2.00 per m3 over the volume shipped.)

"*Sopathin Development Pty Ltd Retention fee for M.V. EASTERN GLORY P9/12 K8,484.47*".
(This represents a retention of K2.00 per m3 over the volume shipped.)

"*Niubils Enterprise - Forest Compensation F12/12 K2,736.00*".

- 11.12.86 Minister Diro ceases to be Forests Minister and is replaced by Minister Torato.
- 16.12.86 Santa Investments Cashbook Entry
"Niubils Enterprise Pty Ltd P28/12 K500.00".
- 17.12.86 Santa Investments Personnel Ledger Entry
"Lucy - Cash Advance P44/12 K20,000.00".
 There is a Santa Investments Cashbook entry in the same terms.
- 21.12.86 Santa Investments General Ledger Entry
"Entertainment for Kayuman - S. Arrow J72.12 K100.00".
- 23.12.86 Sebulon Watt writes to Santa Investments (M.Sia) seeking deduction of K2.00 per m3 from Sopathin Development Corporation and payment of that sum to Niubils. (Watt says this was for his K22,000 bill for negotiating the concession with the National and Provincial Governments; drawing the Dealing and drawing the logging and Marketing Agreement.)
- 25.12.86 Santa Investments Personnel Ledger Entry
"(Kayuman) Robert Seeto - Air Ticket for Wang Hsiu Chin Inv. 9006 J79/12 K1,448.00".
 *(This is the subject of Police Charge No 26)
- 25.12.86 Santa Investments Personnel Ledger Entry
"(Kayuman) Robert Seeto - Air Ticket for Seeto Junior Inv. 9028 J80/12 K725.00".
 *(This is the subject of Police Charge No 27)
- 28.12.86 Santa Investments Personnel Ledger Entry
"LUCY - Payment of Acct on behalf of you J106B/12 K35,000.00".
- 28.12.86 Santa Investments Personnel Ledger Entry
"LUCY - Payment of Acct on behalf of you J106C/12 K2,500.00".
- 29.12.86 Santa Investments Personnel Ledger Entry
"LUCY - Payment of Acct (motor vehicle) P69/12 K3,000.00".
 There is a Santa Investments Cashbook Entry
"Lucy P69/12 K3,000.00".
- 31.12.86 Santa Investments Personnel Ledger Entry
"(Kayuman) Robert Seeto - Cash Advance from Michael Sia J136B/12 K33,000.00".

(Police enquiries indicate that this entry does not appear to relate to any payment to or on account of Robert Seeto.)

- 07.01.87 DOF writes to First Legislative Counsel with F196-200 draft Declaration of Tabar LFA saying the Minister has decided to declare the LFA.

In January 1987 the results of the election of the New Ireland Provincial Government were declared.

- 30.01.87 Sampson Gila agrees to purchase Lot 15 Section 20, Kavieng, for K48,000.00 and pays deposit of K4,800.00.

- 10.02.87 Sopathin writes to Minister Torato seeking extension in East Coast Namatanai on the grounds that surveys show the West Coast will cut out after two of the expected seven years.
(Schedule B)

- 02.03.87 Minister Torato signs Tabar LFA Declaration covering 24,688 ha., less certain government land.

- 05.03.87 DOF writes to Government Printer seeking publication of Tabar LFA Declaration.

- 19.03.87 Tabar LFA Declaration published in National Gazette.

- 31.03.87 Minister's Executive Officer enquires about Tabar LFA Declaration.

- 01.05.87 Sebulon Watt faxes to DOF proposed Logging and Marketing Agreement between TTDC and LOMBDA.

000140

Coral Sea Hotels (Letter Head)

6/1/85
Rec. 9/1/86

Dear Francis,

As reference to our discussion this morning in regards timber Development in my electorate on the West Coast Namatanai, and including the national timber company of the Peoples Sopahatin Development Co-operation.

I as Member for West Coast I have also Supported Mr. Watt invitation acting on behalf of the land owner to invite your Company Santa Investment to be the management company for Sopahatin.

I have the confidence, when the Dealing agreement is finalised, the ventures should be benefited to the Peoples and Your Company as whole.

I also would like to ask you that, as prior to past discussion my Party would be most important with a support from your Companies could assist the Party for the coming election, thats I believe there is no problems at all.

I am also would like the following request be considered immediately :-

- (1) 2 vehicles be made available, one for Party and one for SOPAHATAN that can be deducted when the operation started.
- (2) Sapohatin should be given a cash advance for administration and meeting expenses.
- (3) Mr. Watt should be assisted with vehicles and Cash advance, that also be deducted as administration when timber operation commenced.
- (4) I am also would request you to help me with 10 cabbages presently I required 7 cabbages, because the one for Australia did not tested as good, with the one for Papua New Guinea produced. Please confirmed with me, your assistance would be highly appreciated.
- (5) The most important when the project is going a head, the top priorities on the West Coast would be agriculture on hybrid cocoa, my government is encouraging the people very heavily, which will be in line with my Government Policies.

000141

I would be appreciated, if you could have those Cabbages before I return back to Kavieng.

Once again I have the confidence the project would be successful through your management.

Cheers & Regards,

ROBERT SEETO



Coral Sea Hotels

6/1/85

000142

Dear Francis.

9/1/86

THE
GATEWAY
HOTEL

P.O. Box 1215
BOROKO, P.N.G.
TEL 26 3065

THE
BOROKO
HOTEL

P.O. Box 1033
BOROKO, P.N.G.
TEL 26 6677

THE
MELANESIAN
HOTEL

P.O. Box 758
LAE, P.N.G.
TEL 42 3744

THE
HUON GULF
MOTEL

P.O. Box 612
LAE, P.N.G.
TEL 42 4844

SMUGGLERS
INN

P.O. Box 303
MADANG, P.N.G.
TEL 82 2744

THE
HIGHLANDER
HOTEL

P.O. Box 34
MT. HAGEN, P.N.G.
TEL 52 1365

THE
LAMINGTON
HOTEL

P.O. Box 27
POPONETTA, P.N.G.
TEL 29 7152

As reference to our discussion this morning in regards timber development on my electorate on the West Coast Namatanai, and including the national timber company of the Peoples Separation Development Co-operation.

I as Member for West Coast I have also supported the Watt invitation acting on behalf of the land owners to invite the company to invest to be the management company for Separation. I have the confidence, via the dealing agreement is provided, the ventures should be benefited to the people and the company as whole. I also would like to ask you that, as prior to last discussion my Party should be most important a support from your company could assist the Party for the coming election, that I believe there is no problem at all.

I am also would like the following request be considered immediately:

- (1) 2 Vehicles be made available one to Party and one for Separation. That can be deducted from the operation started.



THE
GATEWAY
HOTEL

P.O. Box 1215
BOROKO, P.N.G.
TEL 25 3866

THE
BOROKO
HOTEL

P.O. Box 1033
BOROKO, P.N.G.
TEL 25 8677

THE
MELANESIAN
HOTEL

P.O. Box 756
LAKE, P.N.G.
TEL 42 3744

THE
HUON GULF
MOTEL

P.O. Box 612
LAKE, P.N.G.
TEL 42 4844

SMUGGLERS
INN

P.O. Box 303
MADANG, P.N.G.
TEL 82 2744

THE
HIGHLANDER
HOTEL

P.O. Box 34
MT. HAGEN, P.N.G.
TEL 62 1366

THE
LAMINGTON
HOTEL

P.O. Box 27
POPOWETTA, P.N.G.
TEL 29 7162

- (2) Sapetabin should be given a cash advance for administration and meeting expenses.
- (3) Mr. Watt should be assisted with vehicles and cash advance, that also be deducted as administration when timber operation commenced.
- (4) I would also request you to help me with 10 cabbages, presently I required 7 cabbages, because the one for Australia did not test as good, with the one for Papua New Guinea produced. Please confirmed with me, your assistance would be highly appreciated.
- (5) The most important - When the project is going a head, the top priorities on the West Coast would be agreement time on hybrid loan, my Government is encouraging the people very heavily, which will be in line with my Government policies. I would be appreciated, if you could have those cabbages before I return back to Kallang.
- Once again I have the confidence the project would be successful through your management.

Charles Rondo
Robert Suto

000144

Coral Sea Hotels (Letter Head)

10/1/86

Dear Francis,

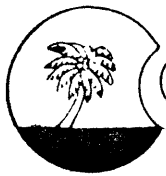
There are still about 7 apples to be given to AVIS Hire Car for last year, when I was in Goroka Meeting. John Thomas has kept the vehicles

I'll be appreciate if you could settle the amount of apples at AVIS. I have instructed John to brief you, and your early action would be highly appreciated.

AVIS did concern now and no longer releasing their vehicles because they are waiting for me and John to give the apples.

Cheers & Regards,

ROBERT



Coral Sea Hotels

10/1/86

000115

Dear Francis,

THE
GATEWAY
HOTEL

P.O. Box 1215
BOROKO P.N.G.
TEL 25 3856

THE
BOROKO
HOTEL

P.O. Box 1033
BOROKO P.N.G.
TEL 25 6677

THE
MELANESIAN
HOTEL

P.O. Box 758
AE P.N.G.
TEL 42 3744

GULF
MOTEL

P.O. Box 612
AE P.N.G.
TEL 42 4844

SMUGGLERS
INN

P.O. Box 303
MADANG P.N.G.
TEL 82 2744

THE
HIGHLANDER
HOTEL

P.O. Box 34
MT HAGEN, P.N.G.
TEL 52 1355

THE
LAMINGTON
HOTEL

P.O. Box 27
POPONDETTA, P.N.G.
TEL 29 7152

There are still about ~~6000~~ 7 apples
to be given to Avis Hire Car for last year,
when I was in Goroka meeting.
John Thomas has kept the vehicles.
It'll be appreciable if you could
settle the amount of apples at Avis.
I have instructed John to brief
you, and your early action
would be highly appreciated.
Avis did concern now, and no
longer releasing their vehicles
because they are waiting for me
and John to give the ~~apples~~ apples.

Chris Lindsay
RSL

000146

Kavieng

23/1/86

Dear Francis,

Just a short note, things went well and successful during the Minister visit. I have advise to declare 5 LFA including the West Coast.

The area are, Anir Island, Lihir, Tabar, Kabil and my West Coast Minister has been given the green light for all that 5 LFA.

The outstanding area, Mussau, Danfu and Ugana, he has ask me to give a little bit more time, before he tabled his decision, he has verbally giving the assurance of favourate answer towards Provincial Government recommendation.

Please Francis arrange, 5 Cabbages for me to collect when I arrive in Moresby on the 30th Thursday. I would like to collect on Thursday and some for Mr Watt also.

Wife departing on 1/2/86, I require the Cabbages for her to take it back to Taiwan, I cannot delay my project, because its important for me and the Party for the election.

You better advise MICHAEL to move fast, the Assurance I have given to you in words, is as good signing of the agreement.

Minister has mention to me your High Commissioner has ask him to give you a project in New Ireland.

Please get all arrangement finalise on Thursday.

Regards,

ROBERT SEETO

Dear Francis,

Just a short note. Things went well and successful during the month. Victor I have advise to ~~do~~ declare 5 lots including the West Coast.

The area are. Amir Island, Ichu, Tabor, and Kasil and by West Coast. Victor has been given the green light for all that 5 lots.

The outstanding area, Murre, Inup and Myra, he has ask me to give a little bit more time, before he told his decision. He has been giving the assurance of favorable ~~and~~ answer towards Provincial Government recommendation.

Please Francis arrange 5 cottages for me to collect when I arrive in territory on the 30th Monday, I would like to collect a Thursday and some for Mr Watt also.

Wife departing on 1/8/86. I require the cottages for her to take it back to town. I can not delay my project, because it is important for me and the Party for the election.

The letter advise Michael to move fast. The assurance I have given to him in words is as good signing of the agreement.

29/1/86 Hink has written to me, The high Commissioner has ask him to give for a project in New Zealand.

Please get all arrangement finalise on Thursday.

Respectfully,
Robert P. [Signature]

CONDITIONAL REQUIREMENT - 5/4/86PERSONAL

- (1) Salaries K1600 per month payable fortnightly in CASH - not banking possibly collected.
- (2) Require 1 vehicle after 2 shipment of logs.
- (3) 7.5% Commission on FOB Price every shipment, commission payable direct to overseas bank.

PARTY FOR PPP

5% Commission every shipment on FOB CASH payable to Kavieng Branch. CASH ADVANCE K6000 for S/Hand action sale vehicle in Kavieng immediately. New vehicle later on

SOPAHATIN

Require immediately 1 Diesel Vehicle Toyota, 2 tonner truck, Cash advance of K2000

WATT

1 New vehicle immediately Sophahatin will provide that comes out the company. Deduct from log shipment. Cash required immediately K3000.

NOTE: Francis see if you can at least K300
give it to Martin Liu for his travell
to-night.

The condition base on our discussion this morning with Michael.

Regards,

Conditional Requirement 5/4/16.

000143

- Personal Salaries \$1600 p. month Payable fortnightly
- (1) in Lth - net banking properly collected
 - (2) Require 1 Vehicle after 2 shipment of logs
 - (3) 7.5% Commission on FOB Price every shipment.
Commission Payable Direct to Overseas Bank.

Part 2r PPP

5% Commission every shipment on FOB
Lth Payable to Kasey Branch.
Lth Advance \$1600 to get hand action sale Vehicle
in Kasey immediately.
New Vehicle later on.

Sepakahi

Require immediately 1 DEET Vehicle Toyota
2 tonner truck.
Lth advance of \$3000

Watt: 1 New Vehicle immediately Sepakahi will
provide that takes out the currency
deduct for log shipment.
Lth request immediately \$3000.

Not Francis see if the car at least \$300 give at
working him for his travel to Ugar.

The condition has an air discussion this morning with
Michael.

Kavieng

000150

28th/4/86

Dear Michael,

I am glade that you have recovered back from your sickness, and I hope everything should be fine again, especially with your health.

Regarding your previous decision, when I meet you in Port Moresby, reference to the term and condition of timber concession Rasirik/Suralil, advising you to assist the Peoples Progress Party and myself. The main important I required 2 vehicles as I stated one for Sebulon Watt, and other one for Sapohatin to assist their movement. Presently theres no access transport to Mr. Watt and Sapohatin.

Here the following items which I required your assistance :-

1. Required one new vehicle for Sapahatin Development Co-operation to assist Board of Directors.
2. One new vehicle S. Watt Super Hilux Double Cabin 4-Wheel Drive Diesel.
3. Peoples Progress Party required 5 Cabbages for auction sales, 2 vehicles Second hand next week for election.
4. Peoples Progress Party 5% FOB price both SOPAHATIN & TABAR LFA.
5. For myself as Previously written to Francis to advise, my condition has laid very clearly.
6. The most important that all your machines must start immediately, and I hope the first shipment, should be going out at end of May. I have sent a telex to the Minister for Forest to give his assent immediately.
7. Please give at least 5 cabbages with Mr. Watt to bring so that I can obtain the request I made for the Party.

Yours faithfully,

Having
28th/4/86.

000151

Dear Michael,

I am glad that you have recovered back from your sickness, and hope everything should be fine again, especially ^{with} ~~in~~ your health.

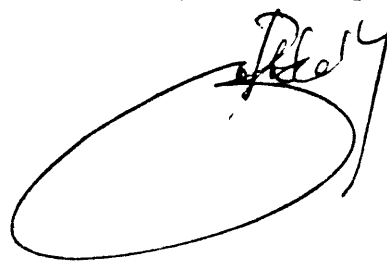
Regarding our previous decision, when I meet you in port Moresby, reference to the term and condition of timber concession Kaink/Suralit, advising you to assist the Peoples Progress Party and myself.

The main important I required 2 vehicles as I stated one for Solomon Watt, and other one for APottalini to assist their movement. Presently there is no access transport to Mr Watt and Sepalotini. Here the following items which I required Mr Anastane

- (1) Required ^{one} ~~one~~ New Vehicle for Sepalotini Dealership Co-operation to assist Board of Directors
- (2) One New Vehicle S. Watt Super Hilux Double Cabin 4 Wheel Drive Diesel.
- (3) Peoples Progress Party required 5 Cottages for set auction sales 2 vehicles before land next week to election.

- (4) People's Progress Party 5% For Bill
both Separation & TABAR LTA.
- (5) For myself as previously written to Francis
to advise, my condition has laid
very clearly.
- (6) The most important that all the machines
must start immediately, and I hope the
first shipment, should be going out
at end of May. I have sent a telex to the Minister
for Forest to give his assent immediately.
- (7) Please give at least ⁵ ~~3~~ cottages with UK
water to bring so that I can obtain
the request I made for the Party.

Yours faithfully.



Moresby

000153

12.11.86

Dear Michael,

I wish to request the following matters as prescribe as form of Assistance from your Company to me and the party for Coming Provincial Election already started. On the 10/11/86, and will be finished on the 14th/1/87, following after that the National Election commencing in March and finishes off in June.

Here the following request listed below :-

Party

1. 1 Four Wheel Drive Vehicle
1 Out Board Motor 25 HP.
Cash advance of 10 Cabbages, URGENTLY

2. **Minister Samson Gila TABAR**

Request additional 3 more Cabbages, already collected 2 Cabbages last time, this is the final request for Election

Self Personal

3. (a) Request 50 Cabbages as a form of Loan for 12 months, be deposite and obtain interest every month shall return back to you after 12 months.
(b) Request 8 Cabbages ready in Singapore, wife will collect on her way to Taiwan next month departing Moresby on 10/12/86.

4. **Favourable Return**

I will release additional concession on East Coast Namatanai immediately, which your company will have 3 Areas operated . West Coast Namatanai, Tabar and East Coast Namatanai. I'll be appreciate to discuss privately with you before I go back on Thursday, and have some of those item finalised.

Regards

John M. A. Co. Co.

I make a request the following motion be ^{presented} for the
its form of Amendment for the temporary to me and the
Party for becoming Provincial Election already started
in the 10/10/87, and will be finished in the
14/1/87, saying that the National Election
commencing in March 2nd French office June.
For the following request motion below.

Pa. ~~12~~

- (1) 1. Four Steel Live Canisters
1. Gull Guard motor 25 HP.
Both advised of ~~the~~ 10 CARRIAGES. UNBENTHUS.
2) North American Life Insurance
request additional information. Every collected
of the 10th last time, this is a final request for
return.

SELF PERSONAL

5. (a) Request to borrow a sum of loan for 12 months
b. Accrue and obtain interest every month, and
return back to you after 12 months.
6. Request 8 lakhs. Ready in Singapore, wife will
collect on her way to Taiwan. Taxi bank depositing
money on 10/11/86.

(9) - annual Return

I will release additional business in east-
Coast Forest in immediately. Which the company will have
3 Area operated. West Coast ^{IN} ~~TARAK~~ ^{MAHARAJ} and East Coast ~~MAHARAJ~~
I will be appreciate to discuss privately with you, before I go back
in Thursday, and have some of these items for field.

Handwritten:

Sopathin Development Corp. pty. limited.

OUR REF: ML:MN

YOUR REF:

10 February 1987

000155
P O BOX 52,
KAVIENG
NEW IRELAND PROVINCE
PAPUA NEW GUINEA

TELEPHONE 942249

The Honourable Mr Paul Torato, MP
Minister for Forests
Ministry of Forests
P O Box 5055
BOROKO

My dear Minister

WEST COAST LFA EXTENSION TO EAST COAST NAMATANAI, NEW IRELAND

We write to request your kind consideration for our application for an extension to our existing West Coast LFA for the following reasons -

- (a) Our current permit allows an annual cut of 55,000M3 over 7 years, unfortunately we have just completed a full timber survey of the West Coast LFA and there is only less than 110,000M3 commercially available timber for harvesting. This will only last us at two years instead of the permitted 7 years.
- (b) We have already committed our contractor a substantial equipment and infrastructure supply to cater for a production cut of 55,000M3 for 7 years (subjected to good weather condition).
- (c) The East Coast LFA of Namatanai, New Ireland (subject to this application) is approximately 30,000 hectares of mixed timber stands which we estimate to have approximately 275,000M3 and can sustain about 5 years logging operations.
- (d) In principle the landowners in the East Coast are related to the West Coast LFA and have agreed to the extension to be given to our company.

Your earliest consideration would be appreciated to enable us a long term planning.

Yours faithfully
SOPATHIN DEVELOPMENT CORP. PTY LTD



MARTIN LUI
Chairman of Board of Directors

APPLICATION FOR PERMIT

000153

To the Minister for
P.O. Box 5055,
BOROKO, PNG.

SOPATHIN DEVELOPMENT CORPORATION PTY LTD, P.O. BOX 8, PORT
MORESBY

(Full name, address and occupation of applicant)

hereby applies for a permit under the ~~Forestry Act (Amendment) 1972, as amended to date~~, to be ~~issued~~,
subject to that Act and the Regulations made thereunder, over an area of approximately

30,000

West & East Coa

hectares known as

EXTENSION AREA

MAVAN NEW IRELAND

(a plan of which areas accompanies this application) in accordance with the following

Species of timber applied for. See Letter to Forests Minister & map enclosed

Species of forest produce other than timber applied for. Rattan

Quantity proposed to be taken annually. 55,000M3 subjected to weather condition

Sawmills (if any) proposed to be erected: NUMBER: 1 or 2 units

LOCATION: Rasirik/Namatanai

CAPACITY: 1,000 M3 LOG INPUT PER ANNUM

Whether timber to be sold as log timber, down timber or sawn timber

Round log and sawn timber

Whether forest produce for export or local use. Export & Local Use

Period (not exceeding ten years) for which permit desired. 7 (seven) YEARS

Period within which operations to be commenced. 1 (one) YEARS

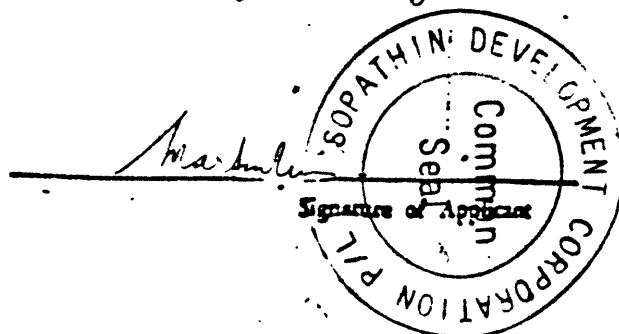
~~Application fee of One Hundred Kina is hereby paid with this application.~~

Dated at PORT MORESBY this 16th day of February 1987.

Received / / 19

Receipt No.

Credit to





SCHEDULE 9

NATIONAL HOUSING COMMISSION
Papua New Guinea

000157

Estate KAVIENG
Section 020 Lot 015
Tenant SAMSON. GILA
Postal Address

P. O. Box 130
KAVIENG.

Date Original Tenant
Commenced Rents 30 1 87
Date This Tenant
Commenced Rents 1 3 87
Monthly Rent/Instalments K 540.00
Cash or Salary Deductions
Capital Cost K 48,000.00
Interest Rate — %
Principal & Interest Component K —

Deposit Paid 124306 - K4,500.00 @ 30/1/87.

| Week No | Rent Week Ending | Receipt Number | Date Paid | Rent Dr | Cash Cr | Balance | Comments | Principal Outstanding |
|---------|------------------|----------------|-----------|---------|---------|-----------|--------------------------------|-----------------------|
| | | | | | B/F | 48,000.00 | | 48,000.00 |
| 1 | 3 - 87 | 138355 | 2.3.87 | 540.00 | 540.00 | NIL | 1st mths 10% deposit K4,500.00 | 43,200.00 |
| 2 | 4 - 87 | 138765 | 6.4.87 | 540.00 | 540.00 | NIL | | 42,660.00 |
| 3 | 5 - 87 | 139070 | 13.12.87 | 540.00 | 540.00 | NIL | | 42,120.00 |
| 4 | 6 - 87 | 137528 | 7.7.87 | 540.00 | 540.00 | NIL | | 41,580.00 |
| 5 | 7 - 87 | 137550 | 17.7.87 | 540.00 | 540.00 | NIL | | 41,040.00 |
| 6 | 8 - 87 | 137950 | 26.8.87 | 540.00 | 540.00 | NIL | | 40,500.00 |
| 7 | 9 - 87 | 165413 | 25.9.87 | 540.00 | 540.00 | NIL | | 39,960.00 |
| 8 | 10 - 87 | 165490 | 23.10.87 | 540.00 | 540.00 | NIL | | 39,420.00 |
| 9 | 11 - 87 | 165594 | 22.11.87 | 540.00 | 540.00 | NIL | | 38,880.00 |
| 10 | 12 - 87 | | | 540.00 | | | | |
| 11 | | | | 540.00 | | | | |
| 12 | | | | 540.00 | | | | |
| 13 | | | | 540.00 | | | | |
| 14 | | | | 540.00 | | | | |
| 15 | | | | 540.00 | | | | |
| 16 | | | | 540.00 | | | | |
| 17 | | | | 540.00 | | | | |
| 18 | | | | 540.00 | | | | |
| 19 | | | | 540.00 | | | | |
| 20 | | | | 540.00 | | | | |
| 21 | | | | 540.00 | | | | |
| 22 | | | | 540.00 | | | | |
| 23 | | | | 540.00 | | | | |
| 24 | | | | 540.00 | | | | |
| 25 | | | | 540.00 | | | | |
| 26 | | | | 540.00 | | | | |
| 27 | | | | 540.00 | | | | |
| 28 | | | | 540.00 | | | | |
| 29 | | | | 540.00 | | | | |
| 30 | | | | 540.00 | | | | |

000153

65

153-16-0

Mr Maris Memengah
Chairman of Director
Tabar Timber Development
Corporation Pty Ltd
P O Box 52
KAVIENG
New Ireland Province

11 November 1988

153-16-5
153-16-0

Dear Mr Memengah

NON APPROVAL - LOGGING AND MARKETING AGREEMENT

I refer to your undated Logging and Marketing Agreement between your company and Tovotugu Agriculture and Business Group (inc) which was forwarded to this Office for approval as required under Clause 37 of the Dealing assented on the 5th June, 1986 by the former Minister for Forests Mr Ted Diro.

I have not considered your company's Logging and Marketing Agreement for approval because I consider it to be null and void because the Dealing is invalid for the reason that it was assented to prior to the declaration of the Local Forest Area. The Dealing as I said was assented to on the 5th June, 1986 whilst the area was later declared a Local Forest Area on the 2nd March, 1987. The reverse process should be the case.

There is also no record of a Certificate of Authority being issued prior to the assent was given to the Dealing.

The Minister will be requested to consider the 2nd March 1987 declaration null void as the Declaration did not specifically cover the area (4890 hectares) initially applied for by your company. Instead a total area of 24688 hectares was declared which covered the whole three (3) islands of the Tabar Group of Islands - Tabar, Tatau and Simberi.

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2.

In the event that the 2nd March 1987 declaration is revoked, your company's application for a 4,890 hectares will be recommended for consideration by the Minister for declaration as LPA. It is strongly requested that you define both by map and description of the area as this was not provided in the original application.

On declaration of the new area I would advise that you consider submitting a new Dealing for Ministerial consideration and approval and a Logging and Marketing Agreement to the Secretary for Forests approval. Until these are submitted and approved there should not be any logging operation on the islands.

Yours sincerely



M. KOMTAGAREA
Secretary

c.c. Minister for Forests

c.c. Provincial Minister for Forests

c.c. Assistant Secretary for Forests

c.c. Chairman of Directors
Tovutugu Agriculture and Business Group (Inc)

Photo Copy is placed on 153-16
ATC @ 19-11-87



000160

DEPARTMENT OF NEW IRELAND PROVINCE
office of the secretary

The Secretary
 Department of Forests
 PO Box 5055
 BOROKO NCD

P.O. BOX 103
 KAVIENG NEW IRELAND PROVINCE

Date:
 Our Reference:
 Action Officer:
 Destination:

Your Reference:
 Date:

Logging and Marketing Agreement - Tabar Timber Development Corporation and Tovutogu Business Group.

I write to advise you that Tabar Timber Development Corporation and Tovutogu Business Group have now executed new Logging and Marketing Agreement. This follows an advice from your office that the previous agreement (LMA) is null and void on technical grounds. It was further advised that the dealings was assented to before the actual declaration of Tabar LFA. This technical problem on the date of actual declaration and assentment has invalidated the previous agreement between the two parties.

As you are aware the PEC has endorsed the LMA which was sent to you together with the PEC decision. The PEC decision No. 65/8/88 still remain to effect the newly executed LMA to satisfy the dealings now before the Forest Minister for his assent.

Secretary, for further clarification I wish to advise also that Tovutogu Business Group is a local company. Some local people of from New Hanover got together and formed Tovutogu. As, the Managing Director, Mr. Peter Soi, is an experience logger, the company held discussions with TTDC and executed the LMA to harvest and market timber resources of Tabar.

Following PEC's endorsement of LMA Tovutogu has approached number of financiers, including Hui Ling. Finally it has secured a K1.6 million loan from Malaysia. Mr. David Wong who is involved in Koiari Timbers is the financier.

Tovutogu has also entered into a loan agreement with the financier on the terms and conditions for lending and repayment. It is purely business arrangement between Tovutogu and its financier and does not affect local company's (TTDC) share of proceeds. Unfortunately a copy of their financial agreement is not available for enclosure.

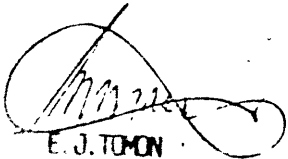
Tovutogu has already purchased equipments (list attached) at the cost of about K300,000.00 soon after the PEC's endorsement and loan arrangement. It is also in the process of finalising work permits, etc for employing three (3) overseas expertise as mechanic, surveyor and a carp manager

000161

I believe the chairman of TTDC and his delegation will be travelling to Port Moresby to meet with you and the Minister for Forest on this matter. As you can see, my secretary, the landowners of Tabar have waited patiently for both Governments to properly screen and give its final approval before any operation can commence.

In light of what I have already said I seek you and your Ministers assistance in considering the respective documents submitted and subsequent approval.

I look forward to receiving your response in due course.



E. J. TOMON

Administrative Secretary

c.c. Provincial Minister for Economic Services

Assistant Secretary
Forests

MACHINES DESCRIPTIONSCOMMENTSA. BOUGHT (AT TABAR NOW)

| | | |
|-------------------|---------------|-----------------------------|
| 1 x D7 (Dozer) | - with much | |
| 1 x D7 (Dozer) | - with ripper | |
| 2 x D6 (Dozer) | - with winch | Bought from channel Timbers |
| 1 x Skidder | | |
| 1 x Tipper truck | | |
| 1 x Daihatsu | | |
| 8 x OBO Chainsaws | | |

B. NOT YET PURCHASE

1 x Bucket Loader 979
1 x Log Loader 966
1 x Jinker 6 x 4 UD Nissan
1 x Toyota L/Cruiser Ute
1 x 19 Footer Dinghy
1 x 25 HP Outboard Motor
1 x MW Malo (workboat)

NOTE: Apart from two D6 from Kaut, all other machineries are new machines from Hasting Deering, Lae.

APPENDIX 3HINDAI TIMBERS PTE LIMITEDSANTA INVESTMENTS PTE LIMITEDSANTA (PNG) PTY LIMITEDC O N T E N T S

| | |
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| Performance | |
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INTRODUCTION

The activities of Santa Investments and its corporate associates remains to be dealt with in detail in public hearing before the Commission. The company and those associated with it thus have yet to be afforded an opportunity to answer allegations against them and to explain what seems to be clear documentary evidence. The essential difficulty in dealing with the questions which this company has to answer and which should be reported upon is that it's PNG principals, at relevant times, Michael Sia (Sia Sung Chuang) and Francis Sia (Sia Sung Ho), presently stand charged and committed for trial in the National Court on:

- (a) One count of cheating and defrauding the landowner timber company Ahia Developments Pty Limited.
- (b) One count of cheating and defrauding the State of export duty on a log shipment.
- (c) Twenty seven counts of corruptly offering payments to former New Ireland Premier Robert Seeto in connection with timber activities in New Ireland Province.

Relevant documents are held by the police in relation to those charges and committal proceedings have only recently been concluded against Robert Seeto.

With the police investigation concluded, for the moment, and the subject matter of the charges pending trial clearly defined, it is now possible to make final preparations for a public hearing regarding this company.

In the meantime as Santa Investments and its corporate associates are actively seeking further involvement in the PNG timber industry, it is appropriate to report on some aspects at this time.

CORPORATE BACKGROUND(a) Hindai Timbers Pte Ltd

Hindai Timbers Pte Limited is a company incorporated in Singapore on 28 October 1971. A Singapore company search as at 24 August 1987 disclosed:

Directors

| | |
|---|---------------------------------------------------------|
| 1 | Sia Sung Chong |
| 2 | Sia Sung Chuang @ Sia Sung Chong - Managing Director |
| 3 | Sri Siswani |
| 4 | Wong Lay Ngee |
| 5 | Lew Chin Hwa |
| 6 | Wong Nai Sung |

Secretaries

| | |
|---|---------------|
| 1 | Lee Seng Suwi |
| 2 | Lee Seng Hua |

Shareholders

| | | |
|---|----------------------------------|---------|
| 1 | Sia Sung Chuang @ Sia Sung Chong | 500,000 |
| 2 | Sri Siswani | 250,000 |
| 3 | Sia Sung Chong | 180,000 |
| 4 | Wong Nai Sung | 180,000 |
| 5 | Lew Chin Hwa | 180,000 |
| 6 | Hindai Timber Sdn Bhd | 120,000 |
| 7 | Chua Keng Loy Roy | 100,000 |
| 8 | Wong Lay Ngee | 15,000 |

Registered Office

10 Anson Road # 34-08 International Plaza (0207)

Auditors Lee Seng Chan & Co.

(b) Santa Investments Pte Ltd

Santa Investments Pte Limited is a company incorporated in Singapore on 19 September 1981. A Singapore company search as at 24 August 1987 disclosed:

Directors

| | |
|---|---------------------------------------------------------|
| 1 | Hii Yu Kun |
| 2 | Sia Sung Chong |
| 3 | Sia Sung Chuang @ Sia Sung Chong - Managing Director |
| 4 | Lloyd Roger Ling |

Secretaries

| | |
|---|------------------|
| 1 | Lee Seng Suwi |
| 2 | Lloyd Roger Ling |
| 3 | Lee Seng Hua |

Shareholders

| | | |
|----|----------------------------------|-----------|
| 1 | Hii Yu Kun | 1,175,000 |
| 2 | Hindai Timber Pte Ltd | 1,000,000 |
| 3 | Sia Sung Chuang @ Sia Sung Chong | 700,000 |
| 4 | Sia Sung Chong | 250,000 |
| 5 | Chua Keng Loy Roy | 200,000 |
| 6 | Yong Seng Lem | 150,000 |
| 7 | Hii Bui Foom | 150,000 |
| 8 | Hu Yu Siang | 100,000 |
| 9 | Sia Sung Ho | 100,000 |
| 10 | Kui Chiong Kuon | 60,000 |
| 11 | Msiao Yi Shiung | 55,000 |
| 12 | Giam Kim Soh | 40,000 |
| 13 | Lloyd Roger Ling | 10,000 |
| 14 | Yu Chuen Teck | 10,000 |

Registered Office

10 Anson Road # 34-08 International Plaza (0207)

Auditors

Lee Seng Chan & Co.

(c) Foreign Registration in PNG

Hindai Timber Pte Ltd was registered as a foreign company in PNG on 28 September 1981. The relevant declaration was made by Sia Sung Chuang i.e. MICHAEL SIA.

Santa Investments Pte Ltd was registered as a foreign company in PNG on 28 March 1983. The relevant declaration was made by its agent Sia Sung Ho - i.e. FRANCIS SIA.

(d) Foreign Corporate Interrelations

As is plain from the August 1987 Singapore Company searches there is a close relationship between Hindai Timbers Pte Ltd and Santa Investments Pte Ltd. They share:

- (a) Common directors in Sia Sung Chong and Sia Sung Chuang (MICHAEL SIA).
- (b) A common managing director in Sia Sung Chuang (MICHAEL SIA).

- (c) Common secretaries in Lee Seng Siwi and Sia Seng Hua.
- (d) Common shareholders in Sia Sung Chuang (MICHAEL SIA), Sia Sung Chong and Chua Keng Loy Roy.
- (e) A common registered office.
- (f) Common auditors.

(e) Local Company

Santa (PNG) Pty Limited was incorporated on 19 November 1986 in circumstances described below. Search at 27 February 1989 disclosed:

Directors

| | | |
|---|-----------------------------|--|
| 1 | Hii Yu Kiing | |
| | (identical with Hii Yu Kun) | |
| 2 | Sia Sung Chuang | |
| 3 | David Wong Cheak Hong | |
| 4 | Ian Raymond Shepherd | |

Secretary Ian Raymond Shepherd

Shareholders

| | | |
|---|---------------------------|--------|
| 1 | Santa Investments Pte Ltd | 99,998 |
| 2 | Sia Sung Chuang | 1 |
| 3 | Ian Raymond Shepherd | 1 |

Registered Office 2nd Floor, Credit House,
Musgrave Street, Port Moresby.

(f) Local Corporate Interrelations

Santa (PNG) Pty Limited is clearly a wholly owned subsidiary of Santa Investments Pte Limited.

Francis and/or Michael Sia also appear to be involved with other companies in PNG including:

Bisini Investments
Chimbu Lodge
West Gulf Marine
Amanda Investments
Karina Service Station
Malaysia Overseas Investments (PNG)

but only the last seems to have any direct involvement in the PNG timber industry.

(g) Local Agencies

Santa Investments was involved in timber and also in PNG's other problem industry - fishing. It was local agent for a Thai fishing company CHAINAVEE FISHERY CO. and its principal WANCHAI SANGSUKIAM. This company had two vessels fishing in PNG which were held by the Fisheries Department and the Taxation Office and later released. This relationship of Santa Investments is very relevant to improper benefits (dealt with below).

OUTLINE OF TIMBER ACTIVITIES

As far as is known, the timber activities of the Santa group are confined to Gulf, Central and New Ireland Provinces.

At first Santa Investments sought involvement in 1984 with a local landowner company Ahia Development Pty Limited in the Vailala area of Gulf Province.

Later in 1984 it sought involvement with the local landowner company Mussau Timber Development in New Ireland Province (see Schedule 4 to this Interim Report).

These early efforts in New Ireland failed however when, to Santa's surprise, United Timbers (PNG) Pty Limited became contractor to Mussau Timber Development.

It ultimately became contractor to Ahia Development in Gulf Province and began exporting logs from that concession area in April 1986. Its operation was terminated less than a year later and its machinery and equipment was conveniently shifted (by arrangements with Michael Cowan of FIC - see Interim Report No 3) to the Bonua-Margarida - Gadaisu area of Central Province. It logged there as contractor to Angus (PNG) Pty Limited until that operation was terminated. Since that time it has retained this machinery and equipment at Gadaisu and has lobbied to be appointed contractor to Maisi Trust - a landowner company - in the West Gadaisu Timber Rights Purchase Area. Whilst its failed efforts in the Papua

region were still proceeding Santa continued its interest in New Ireland, supported by the then Premier Robert Seeto. It sought involvement in:

- (a) the Danfu Extension Area through the local company Kamdaha where it again failed (see Appendix 6 to this Interim Report).
- (b) the Rasirik Suralil LFA in West Coast Namatanai where it succeeded in becoming contractor to the local company Sopathin Development Corporation (see Appendix 2 to this Interim Report).
- (c) the Tabar LFA in the Konos District where it succeeded in becoming contractor to the local company Tabar Timber Development but the project did not become operational (see Appendix 2 to this Interim Report).
- (d) the Napanta Nublu LFA in East Coast Namatanai where it succeeded in becoming contractor to a breakaway group of landowners - Dahanamalit for which it became contractor (see Appendix 7 to this Interim Report).

It has also been lobbying for support to become involved in the (previously abandoned) Central New Ireland timber area.

CONTRACTING FOR AHIA DEVELOPMENT

Logging and Marketing Agreement

Ahia Development was granted a five (5) year timber permit from 1 October 1985. Ahia originally entered a five (5) year marketing agreement with Santa in May 1985 and a subsequent five (5) year Logging and Marketing Agreement with Santa on 5 September 1985. The latter was a "retention fee" type agreement with Ahia's returns increasing according to FOB prices obtained for log sales. Royalties and FIC levies were to be deducted from FOB proceeds; Ahia was to retain its "retention fee" and the balance was to be paid to Santa, which was to bear export duties.

Santa had clear obligations to obtain the best available prices.

Performance

The logging operation at Vailala ended after approximately twelve months when operations were suspended and Ahia purported to terminate the agreement with Santa. This operation should be investigated in detail because:

- (a) Santa controlled Ahia's finances and it is likely there were irregularities in its accounting to Ahia.
- (b) Timber permit conditions were not fulfilled.
- (c) There is evidence that most of Ahia's receipts benefitted directors rather than the landowners.
- (d) There are outstanding royalties, yet shipments were permitted contrary to forestry policy (See Interim Report No 3).

Marketing for Ahia - Transfer Pricing

During 1986 Santa disclosed exports of an aggregate 8887 logs with a volume of 32,055.069m3 on behalf of Ahia in seven shipments. All shipments were made through its related company Hindai Timbers Pte Limited to six Korean and one Japanese buyers. Four of the shipments were at below minimum export price (by 13.8%, 1.8%, 12.1% and 6.9%) and three were above minimum export price (by 6.5%, 13.1% and 20.2%). In aggregate 1986 exports were at 0.8% below MEP.

The only 1987 shipment was a "salvage" shipment of 2,588.576m3 through FIC which is detailed in Interim Report No 3. This was sold at 14.8% above MEP.

Two of the charges against Michael Sia and Francis Sia relate to the second shipment of Vailala logs by Santa on MV "Ocean Star". Santa disclosed export of 1478 logs with a volume of 5790.243m3 for an FOB price of

USD260,560.94. It is alleged Santa in fact exported 2162 logs with a volume of 8,463.281m3 for an FOB price of USD430,988.20. The police case is based on verified documentary evidence.

Both men have been committed for trial on these charges, which means a prima facie case has been found for understating exports on this shipment by 684 logs with a volume of 2,673.038 and understating the FOB price to Ahia and the PNG authorities by a massive USD170,427.26. There is thus evidence of transfer pricing by Santa (found sufficient to justify criminal trial) on this one sale through its related company Hindai of USD170,427.26. The charges allege that by this conduct Santa defrauded Ahia of its proper retention fee and the State of its proper export duties on this log shipment.

The Commission has also obtained destination end invoices for two other shipments and one other part shipment of logs by Santa through Hindai from the Vailala resource during 1986. All other end invoices obtained from the same source have been admitted as genuine and there is no reason to expect these invoices are not genuine. If they are genuine (as seems almost certain) they are evidence of further large scale transfer pricing.

As detailed below Santa has accepted large scale understatments of log sales income during 1986 for tax purposes.

CONTRACTING FOR ANGUS (PNG)

Santa's performance as contractor for Angus is dealt with in part in Interim Report No 2 and to the extent of FIC's involvement in Interim Report No 3.

Santa's logging as contractor for Angus was characterised by careless and haphazard logging practises with unplanned operations seeking pockets of valuable rosewood. The operation was conducted on poorly

constructed roads and resulted in wastage and environmental damage of significant proportions.

With Angus failing, Santa set up its own tradestore and occupied the pastor's house in Sabiribo Village (when the pastor was absent) as its site office.

Significantly, when Mr Parker became Official Manager of Angus in February 1987, Santa accepted without question a very substantial reduction in its logging contract price and then, with John Kasaipwalova, concocted various schemes to gain financial backing for Angus so as to bring Parker's management to an end.

These schemes failed; the Permit in favour of Angus was cancelled and Santa then set about seeking a more direct involvement in exploitation of this resource area.

CONTRACTING FOR SOPATHIN DEVELOPMENT

PROPOSED CONTRACTING FOR TABAR TIMBER DEVELOPMENT

CONTRACTING FOR DAHANAMALIT

Part of the history of Santa's efforts to obtain rights as contractor for Sopathin and Tabar is dealt with in Appendix 2 to this Interim Report. It involves among other things the 27 charges against Michael and Francis Sia for corruptly offering payments to former New Ireland Premier Robert Seeto in connection with timber activities in New Ireland Province.

By December 1987, when the Commission studied New Ireland operations, Santa had abandoned its involvement with Tabar but was contractor for Sopathin in the Rasirik Suralil LFA. It was known at the time that Santa was logging illegally for Dahanamalit in Napanta Nubiu LFA. The logs from this enterprise were seized and disposed of by the State. The operation was "legitimated" at a much later stage in 1988. The details of this operation appear in Appendix 7 to this Interim Report. The Commission studied the marketing of Santa from Rasirik Suralil LFA in 1986 and 1987.

During 1986 Santa exported two shipments from Rasirik Suralil aggregating 2016 logs and 6,943.825m3 through Hindai Timbers; one each to a Korean and a Japanese buyer. The prices were 18% and 6% respectively above MEP. From the Ahia experience where Santa transferred price through Hindai Timbers, one could reasonably surmise there was transfer pricing on these two shipments.

During 1987 Santa exported 8987 logs with an aggregate volume of 31,066.948m3 in ten shipments. One shipment was sold through FIC and all others to Sumitomo Forestry Co Ltd in Japan through its Hong Kong Company. The FIC shipment was sold at 17% above MEP and those to Sumitomo at prices 19%, 22%, 15%, 17%, 18%, 1.3% and 27% above MEP with two shipments at 2.9% below MEP. In aggregate 1987 shipments were at an average price 9.05% above MEP.

FINANCIAL SITUATION

The general financial position of Hindai Timbers Pte Ltd and Santa Investments Pte Ltd is not known. Company searches show that in August 1987 the latter had registered company charges aggregating S\$1.5 million in Singapore. Santa Investments had substantial disclosed operating losses in each year of operations in PNG (see below).

In November 1986 a Malaysian heavy machinery company U.M.W. (Sarawak) Sdn Bhd succeeded in registering a Judgment in PNG against Santa for a sum of K1,517,272.10 (M\$3,437,000 plus interest). The amount was said to represent the unpaid sale price of 14 Komatsu heavy machines and accessories, payment for which was overdue.

Attempts were made to collect the debt by execution and by garnishee notice.

In this context there appear significant changes in Santa's marketing with letters of credit changing to the

names of the landowner companies (Ahia and Sopathin) and the local company Santa (PNG) Pty Limited being hurriedly incorporated. These steps seem like devices, to avoid the Judgment but the matter was compromised and the proceedings to enforce the judgment were discontinued.

Tax Position in PNG

Preparatory work on the marketing practices of Santa Investments and on its wages practices was carried out by the Commission with assistance from Mr Roe of the Taxation Office. Whilst the resultant calculations were known to me, Mr Roe, due to secrecy provisions in the tax legislation, was not able to disclose the financial results to me.

To ascertain the financial position I summoned the company and Group Tax records of Santa from its Tax Consultant. The position is as follows:

A Company Tax

1985

In its original return (which was its first return) Santa Investments claimed a loss of K251,440.16 for tax purposes.

The Taxation Office disallowed certain deductions and assessed a loss of K160,983.

Santa Investments through its tax consultants made detailed representations asserting an allowable loss of K533,637.

The Taxation Office reappraised the position and finally allowed a loss for tax purposes of K521.120.

1986

In its original return Santa Investments claimed a loss of K630,849 for tax purposes.

The Taxation Office added undisclosed income (from transfer pricing) of K1,273,024 and disallowed deductions of K503,021 aggregating K1,776,045 and thus assessed a profit of K1,125,196.

Santa Investments through its tax consultants made detailed representations asserting an allowable loss of K1,050,125. The representations asserted that the undisclosed taxable income (from transfer pricing) should be reduced by K410,241 because of additional allowable expenses and by K37,383 because of a calculation error to give aggregate undisclosed income (from transfer pricing) of K825,400.

The Taxation Office reappraised the position and finally allowed a loss for tax purposes of K277,344.

POSITION AT 1 JANUARY 1987

After these (later) adjustments were made and agreed the accumulated losses of Santa Investments to 31 December 1986 were accepted by Santa Investments and the Taxation Office at K798,464.00. No appeals or objections have been lodged.

Very significantly Santa Investments had on its own figures (accepted by the Taxation Office) admitted additional undisclosed income (through transfer pricing) of K1,235,641 of which gross income (after deduction of allowable expenses of K410,241) the sum of K825,400.00 was brought to account for tax purposes.

In 1987 Santa Investments opted to operate through Santa (PNG) by means of Santa Investments hiring equipment to Santa (PNG) at commercial rates. Original tax returns were filed on this basis. This decision was later altered and the equipment was transferred to Santa (PNG) as at 1 January 1987 and amended tax returns were lodged.

1987

In its amended return Santa Investments was shown as not trading and lodged a "NIL" return.

Its accumulated losses as at 31 December 1987 thus remained at K798,464.00.

In its amended return Santa (PNG) was shown in its first year of operation to have incurred a loss of K875,576.

These returns have yet to be assessed by the Taxation Office.

POSITION AT 1 JANUARY 1988

In three years of operations Santa Investments and its subsidiary Santa (PNG) have not paid one toea in company tax and between them claim accumulated losses for tax purposes aggregating K1,674,030 which are available to be carried forward as losses. Any future profits would thus have to exceed K1,674,030 before a toea in company tax was payable.

B GROUP TAX (PAYE DEDUCTIONS)

Initial persual of Santa records by Commission staff indicated that tax instalment deductions were not being remitted to the Taxation Office and that part of expatriate employees' salaries was being paid out of PNG and not disclosed to PNG authorities.

With this evidence the Taxation Office undertook a thorough investigation of the Group Tax position.

In the result Santa's records show the following amounts (which were unpaid) were assessed and paid as additional Group Tax and penalties:

| | | <u>Kina</u> | <u>Kina</u> |
|-------------|----------------------|------------------|-------------|
| <u>1984</u> | Additional Group Tax | 9,925.02 | |
| | Penalties | <u>5,955.00</u> | 15,880.02 |
| <u>1985</u> | Additional Group Tax | 44,404.32 | |
| | Penalties | <u>27,761.00</u> | 62,165.32 |
| <u>1986</u> | Additional Group Tax | 71,930.24 | |
| | Penalties | <u>8,309.00</u> | 80,239.24 |
| <u>1987</u> | Additional Group Tax | | 97,898.01 |
| | | | ----- |
| | | | 256,182.59 |
| | | | ----- |

Plainly, in view of Santa's trading results, these moneys were not disclosed and not paid so that they could be retained as working capital.

IMPROPER BENEFITS

Whilst the operational and marketing activities of Santa Investments; its preparedness to understate income and avoid group tax liabilities and its preparedness to exploit landowner divisions (as in Danfu Extension TRP and Napanta Nubui LFA) are of great concern, these matters are dwarfed by the enormity of the evidence which exists in relation to improper benefits conferred by Santa. That evidence is found in documents obtained in police raids on the office of Santa in Port Moresby and in the system of financial books - vouchers, cashbooks and ledgers - maintained by Santa as well as some limited evidence given by witnesses before the Commission.

In Interim Report No 1 I touched upon the discoveries involving Santa in part. In particular I referred to the first two criminal charges mentioned above; to payments to or for a large number of politicians and public officers totalling approximately K165,000 and I referred to Mr Diro seeking substantial political campaign funds from Santa. Mr Diro gave evidence admitting the request but swore that he did not in fact receive any funds from Santa. The payments alleged to have been made to or for the benefit of former New Ireland Premier Robert Seeto have resulted in criminal charges being laid.

The payments to Sebulon Watt (or his company Niubils) and to the person codenamed "Lucy" are detailed in Appendix 2 to this Interim Report but are not yet explained.

The payment to former Provincial Minister Samson Gila is also dealt with in Appendix 2 to this Interim Report and partially explained.

The "offer" to a former Executive Office of a Minister for Forests over allocation of the Mussau Island resource is documented in Appendix 4 to this Interim Report.

Mr Diro gave evidence of Santa's support for the late Sir Iambakey Okuk and the National Party in times gone by. Even if such support was given I can find no timber "nexus" with it and that aspect has not been investigated.

This still leaves to be explained cashbook and ledger entries which suggest moneys were expended in 1986 alone for the benefit of:

- (a) A former National politician and former National Minister from Gulf Province (on a number of occasions)
- (b) A former Premier of Gulf Province (once)
- (c) A former National politician and former National Minister from New Ireland Province (twice)
- (d) Provincial politicians from Gulf Province (once)
- (e) Migration Officers (twice)
- (f) Customs Officers (sixteen times)
- (g) A NIDA Officer (once)
- (h) Forest Officers (six times)
- (i) A Labour Officer (once)
- (j) FIC Officers (twice)

There is also clear documentary evidence that the person described in (a) above at the time he was a Minister wrote on Ministerial letterhead seeking further funds from Santa (bringing the aggregate "borrowed" to K4,000.00) and that a former Gulf Provincial Minister sought K5,000.00 from Santa to fund his campaign in the 1987 Gulf Provincial elections.

Finally there is clear documentary evidence that Santa, by means of payments (corroborated by its cashbook as to one such payment) and by means of a "set off" of debts with Chainavee Fishery Co. funded the 1987 election materials of a major National political party to the extent of over USD50,000.00 and that contributions of significant sums were made to other candidates in the 1987 National elections.

These matters are of significant concern and of direct relevance to the Commission's terms of reference

but I take the view that no person should be publicly named regarding such serious charges unless he can be given an early opportunity to offer an explanation. At this stage, while I am struggling to meet a deadline to present the Commission's final report to the Prime Minister, I am unable to give those persons that opportunity to explain.

CONCLUDING COMMENTS

Unfortunately through lack of time and other circumstances it has not yet been possible to make a full investigation into the Santa Group. The matters which are reported upon here however are based on very clear and very strong documentary evidence. Santa is convicted from its own tax records of transfer pricing in excess of K1,000,000 and of evading group tax to the extent of over K250,000 (including penalties). It is also convicted from its own records of conducting a deliberate campaign of bribing politicians and officials for its own corporate goals. Its directors face criminal charges in relation to official corruption, fraud and smuggling. Its logging techniques are unsatisfactory, it has a proven reputation for cheating the landowner companies for whom it is contracting and it has been guilty of failing to pay royalties.

In its PNG operations up to 1 January 1988 Santa has, by its own ineptness as an operator, made such losses that it has avoided paying any company tax and has accumulated losses to offset against future profits exceeding K1.6 million. On this record it would be hard to justify approving any further operations by the Santa group.

APPENDIX 4

MUSSAU ISLAND TIMBER RIGHTS PURCHASE AREA
MUSSAU TIMBER DEVELOPMENT PTY LIMITED (MTD)
UNITED TIMBER (PNG) PTY LIMITED (UNITED)
MARKETING OF MUSSAU LOGS

C O N T E N T S

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INTRODUCTION

Mussau Island lies to the North of the New Ireland mainland. It has a population of approximately 5,300 and a valuable timber resource consisting almost exclusively of Pencil Cedar and Calophyllum. A permit was issued to Mussau Timber Development Pty Ltd (MTD) on 22 April 1985 after a good deal of controversy.

No investigation was made by the Commission of the acquisition of timber rights but it seems clear from other evidence that there would have been "absentee owners" who did not sign the TRP documentation.

The position was summarised by Secretary Mamalai to Minister Diro in a brief in January 1986 as follows:

"The previous Minister for Forests (Lucas Waka) issued a 'Conditional Approval' for commencement of operation by the above company, with effect from 1 January 1985, with a company known as United Timbers Pty Ltd to be engaged as Management/Marketing Agent. This decision caused considerable dispute at Provincial level, partly due to the lack of consultation, and the preference by some Mussau people to establish an alternative landowner's company with Santa Investments to be engaged as contractor. By this stage, however, legal requirements allowed little scope to manoeuvre, and there was little choice but to allocate a Permit to Mussau Timber Development as originally planned by the Minister. A Permit of 5 years duration, commencing 1 January 1985, was accordingly issued, and the matter is now closed, and the project operational".

ALLOCATION OF RESOURCE

It seems clear that there was quite a bitter struggle between the United Timbers interests (represented by lawyer Rod Patterson), and the Santa Investments group (with Francis Sia and lawyer Ian Shepherd).

Both companies submitted proposals for the area and after initial screening the New Ireland Provincial Government recommended Santa Investments.

In late 1984, the struggle between the two landowner groups with their rival companies reached significant heights. It would seem from documents obtained in police raids on the offices of Santa Investments that during this critical period Stephen Raka, Executive Officer to Minister Waka, saw the opportunity for personal reward in supporting Santa Investments. He apparently telexed Santa on 29 November 1984 regarding a Toyota utility and making a "request". No copy of that telex was located. Santa Investments replied by its letter of 12 December 1984 (Schedule 1) indicating that the request would be met "when our timber project at Mussau keeps off the ground". Mr Raka pursued his request in a further letter of 19 December 1984 (Schedule 2) where he described his role in allocation of the Mussau resource.

In December Ian Shepherd prepared an informal report for Francis Sia in which he said, while speaking of an area in the Gulf Province where Santa eventually became involved,:

"Incidentally, I got the impression that Forestry staff held a dim view of Santa's intentions in PNG. It seemed that this was because we had made attempts to log in New Ireland at the same time as the Vailala project was being looked at. It is apparent that Forests do not like developers to be interested in more than one province. I sincerely hope that our adventures in New Ireland have not prejudiced our chances in Vailala".

Of the Mussau project he said:

"On the Mussau project, I had a call from (Rod) Patterson yesterday, who threatened to take out an injunction to restrain your attempts to "influence" the directors. He claimed that Julius Chan and Noel Levi would be contacting

you in this regard. He seemed to suggest that if we gave up Mussau he would arrange for another TRP in New Ireland for us. Patterson seemed obvious to the fact that our proposal was the best and did not seem to know that it was our second option and not the first that was accepted. I am inclined to doubt anything that this man says ..."

The point of decision was reached and despite Santa's hopes and the recommendation of the Provincial Government Minister Waka decided in favour of United Timbers.

On 4 December 1984 Minister Waka wrote a "letter of intent" to the landowner company Mussau Timber Development (MTD) foreshadowing issue of a Timber Permit on terms set out in the letter and also purporting to approve the agreement between MTD and United (Schedule 3). He also authorised commencement of operations. The letter was signed, accepting the conditions imposed, by MTD Managing Director Terry Girire one day later.

The furore which resulted caused Minister Waka to review his decision on 26 February 1985 (Schedule 4) after earlier representations from Premier Seeto.

By 19 April 1985 Minister Waka decided to permit operations to proceed and so advised MTD (Schedule 5) and Premier Seeto (Schedule 6).

It is interesting to note, in view of what occurred, that in his letter to MTD of 19 April 1985 Minister Waka said of United that "due to the demonstrated managerial and financial capacity of that company, (the Logging and Marketing Agreement) will give a fair and reasonable return to both parties".

Some few days later on 22 April 1985, Minister Waka signed the Timber Permit in favour of MTD. The permit was prepared within the constraints of the conditions laid down by Minister Waka in the "letter of intent".

Operations then commenced and continued until the second half of 1987 when MTD and United became locked in arguments and National Court battles which saw United discontinue operating on Mussau Island.

CORPORATE AND LEGAL BACKGROUND

(a) Mussau Timber Development Pty Limited (MTD)

Tamekala Logging Pty Limited was incorporated on 12 August 1980 with three West Mussau Islanders - Terry Girire, Rini Balang, and Kore Kiriri as first directors and shareholders. In October 1984, the company resolved to change its name to Mussau Timber Development Pty Limited. The change was registered on 20 December 1984. Further shares were allotted - one each to a total of eighteen (18) individuals in June 1984 resulting in a total of twentyone (21) shareholders each holding one share. By April 1985 the directors were Terry Girire, Mailon Are, Roniwan Balanga, Nathaniel Belo, Joseph Boto, Samuel Smithy and John Taili. In 1986 Rova Kinamara was added as a director and Prashant Shastri became company Secretary (he was also Secretary of United). The company has all the appearances of a landowner company where each clan group or village has one share held by its representative and where the Directors are selected to represent different areas.

(b) United Timbers (PNG) Pty Limited (United)

This company was incorporated on 17 August 1984. The first substantive shareholders were SOEMANTRI BATARANATA (6500 shares) and SOEKIMAN ADMOSUDARJO (3500 shares) both men being shown as residing in Singapore.

Both men were also directors. Roderick Stuart Patterson was Secretary until replaced by Christopher John Coady in March 1985. In June 1985 Prashant Shastri became an additional Secretary. In July 1985 Samuel Piniau became a further director and in November 1985 Mr Coady was replaced by Randhir Varma as a Secretary of the company.

(c) Advisors

At all material times until the 1987 court battles both MTD and United had:

- the same lawyers - Kirkes
- the same accountants - Touche Ross & Co.
- the same consultant - PNG Forest Resources

They also had in and from 1986 the same Company Secretary
- Prashant Shastri

(d) Timber Permit

The Permit was granted to MTD for a period of five

(5) years. It required:

- (i) construction of 35 km of roading (at an export rate of 3900m³ of logs per km) and up grading of 37 km of roading (at an export rate of 1950m³ per km) according to a time program and specifications scheduled to the Permit and maintenance of roads constructed.
- (ii) a minimum cut of 20,000m³ per year and annual maximum cut of 60,000m³ with an export maximum of 58,000m³ per year.
- (iii) a portable sawmill with 2000m³ per year log input capacity.
- (iv) timber stand improvement by line planting and opportunity planting according to a Schedule which is left in blank.
- (v) an agriculture trust fund contribution of K1.50 per m³ controlled by MTD and to which Mussau people could seek access.

On the marketing side there were standard clauses requiring the employment of sound marketing practices to establish the highest return for MTD and other clauses requiring that the best arms length prices be obtained. The Logging and Marketing Agreement with United which Minister Waka had approved was specifically recognised and no alteration to it was permitted without the approval of the Secretary DOF.

(e) Logging and Marketing Agreement

The agreement (dated 13 December 1984 and drawn by Kirkes who were acting for both parties) appoints United sole contractor for MTD.

The agreement recites that the shareholding of United is controlled by United Kalimantan Timber Pte. Limited of Singapore which has experience in logging and marketing.

The agreement is in the standard percentage split format with United receiving 65% for its logging and 5% for its marketing and MTD receiving 30%. MTD is obliged to bear royalties, export duty and FIC levies out of its 30% share.

United is also obliged to employ a qualified SEALPA log grader.

In terms of marketing United is obliged to:

- promote and extend sales to all potential purchasers
- obtain orders
- obtain the best prevailing prices

SCOPE OF INQUIRY

The Mussau basis of operation and actual operation was not studied in detail. This was due largely to the then current National Court proceedings and to the remoteness of Mussau Island. Relations between MTD and United were

obviously not good. During a period of expressed landowner discontent three of United's bulldozers were burnt (allegedly by landowners) and the landowners felt cheated on marketing - this feeling led to court proceedings and finally to MTD terminating the agreement. United withdrew its equipment rapidly for fear of attacks on it by landowners. The inquiry focussed on United's marketing because both DOF and FIC were convinced United had been cheating by selling at undervalue and by falsely downgrading logs and because MTD contended it was cheated by logs being sold at undervalue and being undermeasured. The inquiry set out to examine these aspects.

THE MUSSAU ISLAND RESOURCE

The resource composition of Mussau Island is unique and in marketing terms this is very significant. It has been said for many years that PNG logs are regarded in the market as comparable with the mixed light hardwoods from Malaysia and other earlier exporting countries in the South Seas Log Market. This was the explanation for the price differential between average prices for PNG logs and average prices for Sabah and Sarawak logs. It was said PNG prices should not be compared with those obtained for the homogeneous species which comprise the bulk of Sabah and Sarawak exports but with the rump of exports from those resource areas which are the lower priced mixed light hardwoods.

In his report Ashenden (1983) tended generally to confirm this market conception of PNG log exports. He explained that with regular, consistent and major supplies of one or two species (as seems to be the case with Sabah and Sarawak logs) a producer could command premium prices because little or no sorting of species was necessary and he (or the importer) could sell direct to large plymills, veneer mills or sawmills. Ashenden

showed quite convincingly for the Japanese market that where there is a diverse species mix, the logs are directed through a different market structure to the homogeneous species mixes. In short, mixed species logs are sold into a wholesaling structure where they are sorted into smaller marketable lots for specific uses and distributed into sub markets where uses for those lots are established and species accepted. This wholesaling sorting process involves a number of steps and a chain of organisations which are both traditionally and financially interrelated. The cost of the sorting and distribution process and added profit margins constitutes a substantial part of the end buyer price and thus, by virtue of market forces, imposes limits on the price which the Japanese trade buyer, who imports the logs from PNG to Japan, will pay for mixed species logs.

(FIC has done some analysis work on PNG log exports which tends to suggest this conception of PNG logs has been exaggerated and that the substantial part of a shipment volume, from New Guinea Islands at least, tends to consist of a less varied mix of species than previously believed).

The fact that there is a better market in Japan for more homogeneous parcels of logs is important for the Mussau Island resource as it consists of only two species - Pencil Cedar and Calophyllum. Ashenden found both of these species were very well known and accepted in the Japanese market and were well regarded. High prices are thus available for both species. Mussau Island logs should thus be able to be sold at premium prices direct to plymills, veneer mills and sawmills and not through the wholesaling sorting process.

MINIMUM EXPORT PRICE (MEP)

The Minimum Export Price arises under the Exports (Control and Valuation) Act and is the minimum price at which given grades and species of logs may be exported from PNG at a given point of time. The MEP is fixed periodically after discussions between DOF, FIC and the Department of Trade and Industry and is fixed according to species or groups and according to grade (in accordance with Sealpa log grading rules).

The process of fixing MEP involves two basic steps:

- (a) ascertain the market price by virtue of export prices from PNG and known end buyer prices.
- (b) discount the market price by about 15% to enable the producer with the poorest quality resource and poorest species mix to sell at or above the MEP fixed.

There are two clear defects in the system. First the fixing of a market price will be falsely low to the extent PNG export prices are regarded if those export prices are falsely low by virtue of transfer pricing. Second the discounting concept, whilst assisting the poorest quality exporter, provides a mechanism and encouragement for producers with a good quality species mix and a good resource area to transfer price.

Quite clearly MEP is fixed having regard to the mixed species prices - i.e. the lower prices for mixed sales parcels and is not fixed having regard to parcels which consist only two species and thus command premium prices. Given the foregoing sales prices obtained by United for MTD should be very substantially above MEP.

UNITED'S MARKETING FOR MTDINITIAL INQUIRY

United's marketing was examined against this background of resource composition and MEP.

The examination began with United being sent a standard questionnaire and requested to provide marketing tables for the 1986 and 1987 years. The answers were verified by statutory declaration. The relevant questions and answers in the questionnaire were as follows:

"C. Log Sales Procedures

Explain in short simple terms the procedure by which you negotiate sales of your logs.

- (1) UT (PNG) HAS HAD LONG MARKETING ASSOCIATION WITH MITSUBISHI CORPORATION OF TOKYO
- (11) AT EACH SHIPMENT MITSUBISHI WAS GIVEN FIRST OPTION TO PURCHASE
- (111) IF THEIR PRICE WAS ABOVE MEP AT THE TIME, APPLICATION WAS MADE FOR EXPORT LICENCE
- (1V) IF LICENCE WAS APPROVED (AS IN ALL CASES!) THEN STATE ASSUMED TO BE IN AGREEMENT WITH SALE"

"D. Fair Market Price

By what means or method do you decide whether the price obtained is a fair market price for a shipment or part shipment?

AS TRADE INDUSTRY & FORESTS CONTROL LICENCE AND AS BOTH SIT ON MEP COMMITTEE TO CONSIDER CURRENT MARKETS THEN - IF LICENCE IS APPROVED PRICE MUST BE FAIR AND REASONABLE"

"E. Relationship with Purchasers

Do you have a relationship with any person or company which was a purchaser of logs from you in 1986 or 1987? Yes/.

If yes, supply full details of such relationship; eg:

- Member of the same company group;
- Purchaser or his company group supplies financial assistance (giving details);
- Long term sales and purchase agreement.

MITSUBISHI CORPORATION HAS LONG TERM PURCHASE AGREEMENT
M.C. PROVIDES FINANCIAL ASSISTANCE AT TIMES THROUGH
"RED CLAUSE" IN LETTER OF CREDIT"

"I. M.E.P.

- (a) Explain in short simple terms the relevance to you
of MEP in relation to your log sales.

MITSUBISHI IS KEPT AWARE OF MEP LEVELS THEN THEIR
OFFERS ARE ALWAYS IN LINE WITH THE MARKET VALUE
EXPECTED BY PNG GOVT.

- (b) Did you, in 1986 or 1987 sell logs below the
prevailing MEP? /No.

If yes:

- (i) did you obtain dispensation? /No

NOTE - ONLY SHIPMENT 13 FROM MUSSAU WAS BELOW MEP
- THIS WAS ARRANGE BY DEPARTMENT OF FORESTS!"

"J. Letter of Credit

Are letters of credit for your sale of logs to overseas
buyers routinely established in the name of, and
with the bankers of, the PNG producer company? /No.

If not, then why?

MITSUBISHI OPENS LCs TO UNITED TIMBER (PNG). THIS
WAS AGREED TO BY MUSSAU TIMBER DEVELOPMENT BECAUSE
THEIR FINANCIAL & MANAGERIAL CAPACITY WAS UNKNOWN
TO MITSUBISHI."

The marketing tables for 1986 and 1987 were provided and are Schedules 7 and 8 respectively. Those tables show that all eight (8) shipments in 1986 were sold at exact MEP prices and that the first two (2) shipments in 1987 were at less than expected margins above MEP. DOF marketing section then intervened and eventually sold the fifth 1987 shipment and the court disputes arose by that time.

Close examination was obviously required. There was a clear close relationship between United and Mitsubishi Corporation including financial assistance; sales were made to Mitsubishi Corporation only and United considered itself free to invoice out of PNG at exact MEP prices because it considered that was the price the Government regarded as a fair and reasonable price.

EXAMINATION OF RECORDS

(a) Invoiced prices

The United operation in Mussau Island began in 1985 and two shipments were exported during 1985. United's operation ceased in 1987 as a result of the court proceedings and after a total sixteen (16) log shipments had been exported. The DOF log export files for these shipments were examined.

In the two 1985 sales and eight 1986 sales all invoices were by species and by grade at exact MEP prices. This lead to DOF attention being focussed on United (as detailed below). The first 1987 shipment was sought to be made by United at exact MEP prices but DOF intervened and forced the price by species and by grade

to exactly USD3.00 per m3 above MEP. The second 1987 shipment was again scrutinised by DOF and prices again fixed by reference to MEP at fixed margins per m3 above MEP as follows:

| | | | |
|--------------|----------------|---------|-----------|
| Pencil Cedar | - peeler grade | USD9.00 | above MEP |
| | - SS1 | USD8.00 | above MEP |
| | - SS2 | USD7.00 | above MEP |
| | - SS3 | USD6.00 | above MEP |
| Calophyllum | - peeler grade | USD7.00 | above MEP |
| | - SS1 | USD7.00 | above MEP |
| | - SS2 | USD6.00 | above MEP |
| | - SS3 | USD5.00 | above MEP |

On the third and fourth shipments in 1987 though United's invoices show the MEP prices by species and by grade (which is odd) the sales prices are "across the board" prices for each of the two species well in excess of earlier prices.

At this point United's marketing role ends.

(b) Letters of Credit

Letters of credit for the two 1985 shipments and first 1986 shipment were not able to be obtained. The letter of credit for the second 1986 shipment was a transferred letter of credit from Mitsubishi Corporation which had been transferred through Hong Kong. The letters of credit for all other United shipments form a clear pattern.

They are all established by a Hong Kong company Sheng Kee Enterprises Co Limited and they are all clearly back to back letters of credit. The notify party to be shown in the bill of lading is Mitsubishi Corporation, Tokyo. The transfer pricing structure is quite clear.

The true buyer Mitsubishi Corporation establishes its letter of credit to Sheng Kee Enterprises which then establishes its own letter of credit to United. United invoices Sheng Kee which then reinvoices Mitsubishi Corporation. Mitsubishi Corporation pays Sheng Kee the true price of which the invoiced price from PNG is remitted to PNG and the balance is retained in Hong Kong. A Hong Kong company search of Sheng Kee Enterprises was obtained but does not assist as the shareholders and directors all appear to have Chinese names.

(c) Grading

After the allegation of undergrading, detailed analysis of log grades according to invoices were prepared and working tables created on a shipment by shipment basis. From these working tables a grading summary was compiled for each shipment (Schedule 9) and year by year summaries were compiled (Schedule 10).

The tables disclose a clear pattern. There is plainly correct grading on the first shipment in September 1985, significant undergrading from December 1985 to May 1986, absolutely heavy undergrading from July to December 1986 and a return to more acceptable grading levels in 1987.

The reason for the change in early 1987 is quite clear. United received detailed attention from the Provincial Forestry Office, was found to be severely undergrading and was given a warning that unless logs were graded at acceptable levels the grader's certificate was in jeopardy (Schedule 11).

A simple comparison of United's grading on a shipment basis (Schedule 9) and the model provided (Schedule 11) illustrates the magnitude of the undergrading. Undergrading has a very serious financial impact, particularly where a marketing agent sells at MEP prices.

This is illustrated by reference to a relevant selection of MEP data from September 1985 to 1987 (Schedule 12). Thus if a pencil cedar log is graded SS3 but should have been graded SS1 the MEP price differential is in the order of USD20.00 per m3. The same undergrading for calophyllum yields a differential in the order of USD10.00 per m3. If a marketing agent undergrades in this way and sells at MEP he is significantly understating the MEP value of a shipment and thereby being permitted to export at far less than the true value of the log shipment.

After finding evidence of clear abuses and cheating by United the Commission then examined the action taken by DOF and FIC.

ACTION BY DOF AND FIC

(a) Under grading

FIC, which was on the eve of its launch into marketing, began querying MTD in August 1986 on the July and August 1986 shipments where about 80% of the shipment was graded SS3. DOF at the same time asked the PFO to check the position. The consultant to MTD and United, Peter Connell of PNG Forest Resources, replied that "genetic butt sweep" affected calophyllum and produced short logs and that the operation involved cutting over earlier cut areas.

(b) State Purchase Option

In December 1986 careful attention began to be directed to the Mussau operation by DOF with a call upon MTD as Permit holder to make an offer of logs to the State for sale through the State Marketing Agent - FIC, pursuant to State Purchase Option obligations in the timber permit. Attention was then focussed on the price levels obtained for recent shipments which DOF asserted were well below market prices obtainable. By 9 January 1987 DOF was beginning to get answers from United (Schedules 13 and 14) which were considered unsatisfactory.

By mid January FIC joined DOF in the assault on United and Acting Secretary Kari advised United that its explanations were not acceptable (Schedule 15) and demanded a State Purchase Option offer from MTD (Schedule 16). After considerable debate and hesitance DOF eventually forced United to offer a March shipment of 3600m3 (United having committed earlier shipments to Mitsubishi Corporation).

At the same time DOF rejected explanations that were previously given and indicated export permits would not be recommended unless sales were at known market prices (Schedule 17). In early March 1986 DOF pursued a State Purchase Option offer and pressed for a copy of the letter of credit for the December shipment which was earlier said to be "direct" (Schedule 18). (The document was, for obvious reasons, not produced.)

By this time DOF had compiled comparisons as at December 1986 of prices obtained by seven other producers with diverse species mixes (including pencil cedar and calophyllum) and compared them with United's prices. For all grades United's prices were significantly lower, for both species, than those of the

seven other companies (Schedule 19). United sold its shipment in December 1986 at exact MEP whereas the other producers' December shipment prices were all above MEP and individually were the following percentages above MEP:

| | |
|------------------|--------|
| Wavoi Guavi | 29.47% |
| Gaulim Logging | 19.47% |
| Open Bay Timbers | 17% |
| Leytrac | 17% |
| Weco | 14.28% |
| Unevulg | 8.9% |

In short, the position was very clear. Suspicions were confirmed and strong pressure was then exerted. The underpricing on United's December shipment alone was estimated by DOF at over USD100,000.00. Under pressure from DOF an acceptable (but still less than market) price of 10% above MEP was obtained for the March 1987 shipment. (This was DOF's offer). The grading was, however, to be checked (Schedule 20). United was chastised over the manner of the March shipment (Schedule 21) and advised as to procedures to be adopted. Peter Connell replied to the chastisement (Schedule 22) saying his client felt harrassed and was roundly attacked for his troubles by DOF (Schedule 23).

By late April 1987 the next shipment was planned with suggested prices of USD60.35 per m3 for calophyllum and USD80-90 for pencil cedar. DOF advised these prices were too low and, after consulting with Holdcrown Limited in Hong Kong, advised on 6 May 1987 that it would take the shipment at a price of USD70.00 per m3 for calophyllum (5,225m3) and USD100.00 for pencil cedar (275m3). Holdcrown telex confirmed its offer on 7 May 1987 imposing a very relevant condition (Schedule 24).

(c) Under measurement

The condition was that measurement must be the same as it had previously been for Mitsubishi Corporation without change. The telex noted that measurement on United's last 4-5 shipments had been "7-16 PCT OVERAGE". This is a very significant condition in terms of measurement when it is known that PNG logs are remeasured on entry into Japan for import duty purposes. There are two differences between Japanese measuring and measuring in PNG according to the Brereton rules:

- (a) Under the Brereton rules the "short diameter" measurement of a log must be made at right angles to the "long diameter" measurement whereas under Japanese rules the second measurement need not be made at right angles.
- (b) Under the Brereton rules there is no volume deduction for hollows or defects whereas under the Japanese rules such a deduction is permitted.

Ashenden covers this in his report and concludes that 1.00m³ correctly measured according to PNG rules is reckoned to equal about 0.95m³ according to the Japanese system, i.e. that on remeasurement in Japan the volume is about 5% less than the correctly measured volume in PNG. In this case it is most significant that what is being said (as the basis of a condition of sale) is that United's recent shipments have not undermeasured on remeasurement in Japan but have in effect overmeasured by 7% to 16%.

(d) Forced renegotiation and Sale by State

In these circumstances United renegotiated with Mitsubushi Corporation to match the prices offered by DOF and then obtained an ex parte injunction' from the National Court to export to Mitsubishi Corporation. According to Holdcrown Mitsubishi's Tokyo manager also warned Holdcrown to "step out of Mussau" (Schedule 25). Acting Secretary Tagamasau telexed Mr Komtagarea (then Acting Secretary of the Prime Minister's Department) seeking intervention (Schedule 26). Thereafter there was an involved wrangle over the shipment as a result of which that particular shipment was permitted to Mitsubishi Corporation with a future shipment from Mussau being made available to the State to satisfy its commitment to the Holdcrown buyer.

In its marketing table and answer to its questionnaire United, quite dishonestly, sought to suggest DOF had (unlike United) sold this shipment at 9.14% below MEP. At the time the sale was concluded the price was, in fact, 39.48% above MEP - a far better margin than United had ever been able to obtain (or more accurately willing to obtain).

The last shipment of logs was sold by MTD, again through Holdcrown, and, quite ironically, in view of my findings, United commenced National Court proceedings in which it alleged the best available price had not been obtained and sought from MTD its share of what it said the price should have been. In the course of this argument DOF also obtained from Holdcrown a price history of prices on the Japanese market for pencil cedar and calophyllum on a monthly basis from 1985 to May 1987 which discloses prices significantly in excess of those obtained by United (Schedule 27).

NOTICE TO SHOW CAUSE

Whilst all this argument was occurring DOF, on 15 May 1987, gave MTD notice to show cause why its Timber Permit should not be cancelled. Peter Connell of PNG Forest Resources Pty Ltd, in his capacity as consultant to MTD, replied on 10 June 1987. The reply was evaluated and cancellation was recommended by DOF. In the period immediately prior to the 1987 National election documents advising cancellation of the Permit; notifying MTD (Schedule 28) and instructing preparation of statutory instrument were prepared. These were not actioned, probably because attention was being concentrated on the election and lobbying to form the new Government.

In September 1987, after Minister Horik had been appointed to the Forests portfolio, DOF was advised that MTD had terminated its agreement with United and its consultancy arrangement with PNG Forest Resources. MTD indicated it wished to exploit the resource under a new arrangement and cancellation action was abandoned.

COURT PROCEEDINGS

With relations between MTD and United reaching an all time low by September 1987 both parties went to the National Court.

MTD arrived first with a writ alleging that, in breach of the Logging and Marketing Agreement, United had sold MTD's logs to Mitsubishi Corporation through Sheng Kee Enterprises at an undervalue of USD960,474.72 thereby depriving MTD of its share (30%) of such lost price, amounting to USD288,142.41. United in its claim alleged

MTD had wrongly repudiated the Logging and Marketing Agreement and had sold a shipment of logs for USD504,252.24 which was below the available price by USD96,646.95 thus depriving United of its (70%) share of the price deficiency amounting to USD67,652.82; which it claimed.

(There were many interlocutory steps and the proceedings were ultimately compromised after the Commission's hearing. The financial result is not known from the Court files.)

PUBLIC HEARING BY THE COMMISSION

Mr Soemantri Bataranata was called before the Commission and appeared represented by Counsel. His evidence was that he is a Singapore resident of Indonesian/Chinese extraction and Managing Director and the main shareholder of United Kalimantan Timbers Pte. Limited (UKT) which is in turn the main shareholder of United.

He was originally involved in timber in Indonesia through a subsidiary of UKT - Baltimur Lumber Co. between 1969 and 1981 when he sold out the Indonesian operation because of the Indonesian Government's insistence on local processing of plywood. He then moved to PNG.

In the Indonesian operation Baltimur first sold to Sumitomo Shogi, Mitsubishi Corporation and C. Itoh and in his words "found Mitsubishi the honest one of the three". From 1972 he sold only to Mitsubishi.

He came to PNG in 1982 and applied for pre-registration with DOF which was given in 1983. In September 1983 he returned to PNG and saw lawyer Rod Patterson, seeking advice on a "good area". Patterson "offered" five different areas and after overflying the Mussau resource it was selected. Negotiations began, through Patterson, with Peter Connell in November 1983. In December 1983, right at the outset, he arranged marketing with

Mitsubishi Corporation. On marketing he said that in the initial period in Indonesia Mitsubishi Corporation opened its letter of credit through Singapore but that this later switched to Hong Kong. On each shipment he discussed price with Mitsubishi Corporation before the ship was booked. For PNG logs he reached an agreement to sell all logs to Mitsubishi Corporation subject to price negotiation on each shipment. He had many dealings with Mitsubishi Corporation over 25 years and a trust relationship had developed.

He said he never conveyed the MEP prices to Mitsubishi Corporation. When he offered a shipment to Mitsubishi and they offered a price he then checked MEP and if the price was at or above MEP he would accept it. When he had a shippable quantity he would tell Mitsubishi the species and volume; they would offer and he would accept it because there was "no point to suspect any foolish thing". He said sometimes price was negotiated and Mitsubishi Corporation would "come up USD1.00 or so".

He said that he knew nothing of Sheng Kee Enterprises; that Mitsubishi Corporation organised everything; that he heard letters of credit were opened through Sheng Kee Enterprises and that he did not know why this was done because that was Mitsubishi Corporation's business. On the first Mussau shipment he said the letter of credit was not established by Mitsubishi Corporation so the first letter of credit was opened by UKT from Hong Kong but that he then learned "that in PNG there was an arms length restriction so we did not do it from our company".

He said he was not aware of alleged undergrading until told it was a ground for a notice to show cause why the Permit should not be cancelled in mid 1987. He then gave an outline of matters involved in the Court proceedings. After this evidence was given Mr Bataranata faced cross examination and his further evidence bears detailed description.

Mr Bataranata conceded United was, for tax purposes, a loss operation in PNG and had shown tax losses in 1985, 1986 and 1987. He said that the Taxation Office had recently raised amended assessments for tax and 200% penalties aggregating K1.5 million and that he had agreed to pay the base tax of K385,000.00 as a compromise. He agreed these amended tax assessments were raised as a result of alleged transfer pricing. (Unbeknown to Mr Bataranata these assessments were made on the basis of the preparatory work on United carried out by this Commission in conjunction with Mr Tony Roe who was made available to assist the Commission by the Taxation Office. This K385,000.00 in tax revenue is one example of a direct revenue return to the State from the work of this Commission).

This K385,000 tax was, as Mr Bataranata agreed, levied at the company tax rate of 35% and the assessment was based on an alleged price transfer of K1.1 million. He said the tax had been paid by a loan from a commercial bank which was guaranteed by Mitsubishi Corporation. Mr Bataranata said Mitsubishi Corporation was prepared to give the guarantee because of the special relationship and confidence generated over a 20 year business association. The questioning then turned to UKT's Indonesian operations.

In marketing terms Mr Bataranata admitted that Mitsubishi Corporation opened its letter of credit to UKT Singapore and that UKT Singapore opened its letter of credit (back to back) to the subsidiary Baltimur Lumber in Indonesia. He further admitted that the sale price from Baltimur Lumber to UKT was always at the guideline price set by the Indonesian Government (the equivalent of PNG's MEP). He said the price from UKT to Mitsubishi was the same price but that S\$10.00 per m3 (for equipment and spare parts) and 2% (handling fee) was deducted from that price by UKT and the balance remitted to Baltimur Lumber with the deductions disclosed to the Indonesian authorities.

Mr Bataranata's knowledge of the Japanese market was then tested. He agreed that pencil cedar and calophyllum had been well known in the Japanese market for many years and claims made by Peter Connell that he had promoted sales of these species in the Japanese market were nonsense. Clear evidence to prove the facts from the Ashenden report was quoted and agreed to.

He agreed that United introduced Mitsubishi Corporation to PNG. He described clearly how the calophyllum and small pencil cedar went straight to the plywood mill and the large pencil cedar logs went straight to the sawmill. In doing so he confirmed the Commission's view about the Mussau logs being sold direct at the "top end" of the market and not through the mixed light hardwoods wholesaling structure. When this was pointed out he said: "My duty is to put logs on the ship". He then agreed his duty under the agreement with MTD was to obtain the best available price and then he became deliberately vague and evasive saying quite relevantly on

price; "Why should I worry if I am making a profit?". It was then pointed out that according to PNG disclosed figures he was not making a profit. He then said he had never looked at Japanese market prices but only at the MEP scale to check MEP prices and that he had never offered Mussau logs to any buyer other than Mitsubishi Corporation.

Of United's early marketing of Mussau logs Mr Bataranata said that on the first three shipments (for which the Commission did not have letters of credit) UKT opened the letter of credit to United through Hong Kong at exact MEP prices. He said Mitsubishi Corporation telegraphic transferred the MEP price to Hong Kong; that there was no price differential and that the telegraphic transfer was credited to an account at the Bank of America Hong Kong Trust under his own name. He was then shown the letter of credit on the fourth shipment (transferred through the same bank in Hong Kong) and agreed that a similar arrangement was used for that shipment. He said it was then that he found out about the arms length pricing requirements (not after the first shipment as he had earlier said) and that the system then changed. At this stage Mr Bataranata started to falter.

He tried to say the prices were identical from Mitsubishi Corporation to Hong Kong and from Hong Kong to PNG; that recourse to Hong Kong (which he arranged) was at Mitsubishi Corporation's insistence and to cover a slip when he spoke of his having "to avoid all this income" by saying he was referring to exchange fluctuation gains made in Hong Kong. He denied he was in fact referring to transfer pricing income reposed in Hong Kong.

After some further cross examination about the way he negotiated price with Mitsubishi Corporation I had formed the opinion Mr Bataranata was not being truthful and I cautioned him about perjury. This was followed almost immediately by an admission that UKT had transfer priced timber out of Indonesia but not out of PNG. He then quickly agreed that the transfer pricing system employed in Indonesia was used on the first four shipments from Mussau Island and that "it was about USD55,000 per shipment extra. Then I found out about transfer pricing and stopped doing it".

In context it was quite clear that the USD55,000.00 figure was based on USD10.00 per m3 over the approximate shipment volume of 5500m3.

He was then cross examined about the change in system to Sheng Kee Enterprises and said Mitsubishi Corporation, not he, arranged the Sheng Kee Enterprises connection. He said he was aware from the first four shipments that Mitsubishi Corporation would pay higher than MEP prices and that to progress United in PNG he needed the support of Mitsubishi Corporation. He said he did not benefit in direct terms (in cash) from selling to Mitsubishi Corporation at less than market prices but that "if I get more areas I get backing from Mitsubishi".

The evidence proceeded:

Q. So you say Mitsubishi got the benefit of the extra USD55,000 on these (1986) shipments as their price for backing you.

A. Yes the price for the financial assistance.

(He then complained of the effect of the 25% State's Purchase Option on his relations with Mitsubishi Corporation. He said the Option should not apply to limited capacity operations such as that on Mussau Island).

Mr Bataranata then admitted that the support he had received from Mitsubishi Corporation was:

- (a) a guarantee for the bank loan (to pay tax) of K270,000.00.
- (b) an advance purchase price for logs of USD450,000.00.

On the latter advance he said Mitsubishi Corporation did not receive any logs to offset the USD450,000.00 advance. He agreed the logs could only be supplied from a future concession area to fund this advance. He denied the K270,000 guarantee and USD450,000 advance was United's share of the balance proceeds of transfer pricing on Mussau Island log sales.

When the cross examination returned to undergrading Mr Bataranata agreed with the remarks made by Counsel Assisting but maintained that grading was not within his control. (The grader was provided by MTD as he had not been allowed to bring his own grader from Indonesia.) He said he was not aware of any problem with calophyllum logs from Mussau Island and knew nothing of a "genetic butt sweep" defect (described by Peter Connell) as affecting log quality.

Mr Bataranata was then asked about differences between his evidence and the declaration made in answer to the Commission's questionnaire. His answer was that the answers were completed by, he thought, Peter Connell. He said the questionnaire was "filled ... in after I signed a blank declaration. I will accept responsibility. Either my manager Mr Fong or Peter Connell or David Woodley of Touche Ross filled in the details".

Mr Bataranata was finally asked about log measurement and remeasurement of logs in Japan. He said he knew nothing of this aspect and made no monetary gain from it. He said he would ask Mitsubishi Corporation for copies of remeasurement summaries for all shipments and produce them to the Commission. No documents have ever been produced.

SUBSEQUENT ACTIONS

After evidence was taken Mr Bataranata gave a written authority to obtain banking records from his Hong Kong Bank and himself undertook to produce copies of his banking records. Though the authority was forwarded no reply has been received and Mr Bataranata has not produced any records to the Commission.

In an endeavour to obtain Japanese remeasurement records and prices of importation of Mussau logs into Japan by Mitsubishi Corporation a request was made to PNG's Ambassador to Japan to approach Mitsubishi Corporation direct and request copies of Japanese Customs stamped invoices and remeasurement summaries of each of United's shipments from Mussau Island (Schedule 29) and to enquire about ownership of Sheng Kee Enterprises. The documents requested would show the precise extent of transfer pricing and the precise extent of undermeasurement. The relevant executive of Mitsubishi Corporation met with the Ambassador but was not co-operative and refused to supply any documents (Schedule 30).

The remeasurement records were then sought through other channels. (Schedule 31). However Mitsubishi Corporation refused release of the information and it proved impossible to obtain. (Schedule 32).

UNITED'S OTHER INVOLVEMENTS

At the time of the Commission hearings United had one other actual and one other prospective involvement in timber in PNG.

(a) PNG Logging

PNG Logging Pty Ltd was apparently a logging sub-contractor to Central Pomio Logging Company in East New Britain where the operation was managed and the marketing conducted by Timbersales Pty Limited. The (expatriate) proprietor of PNG Logging apparently wished to sell out his shares in the company.

Mr Bataranata said he had agreed to purchase the shares (i.e. take over the company) in his own name for a price of K500,000. The purchase had been completed in July 1987 and was financed by a loan from Niugini Lloyds Bank supported by a guarantee from Timbersales. Though marketing had been discussed Mr Bataranata said he was not able to secure marketing rights.

(b) West Coast Manus

Mr Bataranata said he had been involved in negotiations with landowners from the Kali Bay area of West Coast, Manus Island over a proposed Local Forest Area near the recently completed TRP area operated by S.E.A.L. He said he had both a Dealing Agreement and a Logging and Marketing Agreement with the local landowner company. He said he did not have a Certificate of Authority and that he was aware the Manus Provincial Government opposed the LFA declaration. He denied he paid landowners' airfares and accommodation to lobby the Minister for Forests for the LFA declaration and said a businessman in Lorengau had lent them the money. He said he had not provided any dinghies or outboard motors for local people and had not paid "gris meni" to directors of the local company or to landowner groups. His advisors in this enterprise were Peter Connell (consultant) and Christopher Coady

(lawyer). He said Coady formed the landowner company and Connell drew up the agreements.

He said all the lobbying was being done by local Manus people and that a businessman Phillip Pokasin was providing the money.

This resource on West Coast Manus was doubtless very important for United for two reasons. Firstly it is another unique resource as it consists of a very unusually high percentage of good quality calophyllum. Secondly marketing would enable the supply of logs from which Mitsubishi Corporation could recoup its USD450,000 log sales advance.

With the Commission hearings well publicised Minister Horik acted quickly in writing to United indicating that United had no future in the forest industry in PNG.

CONCLUSIONS

(a) Operations

Attention focussed on the marketing activities of United as contractor for MTD. Reports indicate that its operation as a logger was less than satisfactory and that its relations with landowners were not good resulting in three bulldozers being burned during operations; a rapid withdrawal of equipment when operations ceased (for fear of more damage) and very bitter Court proceedings over log sales proceeds and marketing practices.

(b) Grading

I find that the evidence of undergrading is irrefutable and as only United could benefit from undergrading that it was active in that area despite Mr Bataranata's denials. The magnitude of the undergrading was extensive with up to 80% of logs downgraded reaching enormous proportions in the second

half of 1986 when on four successive shipments 73.7%, 85.9%, 85% and 77% of the total shipment was graded into the lowest sawlog category (SS3). (See Schedule 9.)

During this period United was exporting at MEP prices and the magnitude of the cheating in foreign revenue earning terms can be simply appreciated by reference to the MEP scales operative at the time (see Schedule 12).

(c) Measuring

Though the evidence of undermeasuring is indirect (see Schedule 24) the failure of Mr Bataranata to obtain and produce Japanese remeasurement records coupled with the refusal of Mitsubishi Corporation to provide or permit to be provided copies of those records enable me to infer that there was significant undermeasuring of logs exported from Mussau Island by United. Taking into account the different measuring procedures used in the two countries the indication is that the logs were undermeasured by between 10% to 20% according to PNG measuring techniques. In other words the volume of logs exported was understated to PNG authorities by 10% to 20%.

(d) Transfer Pricing

Mr Bataranata admitted transfer pricing on the first four shipments (two in 1985 and two in 1986) about USD55,000.00 on each shipment. The total price transfer on those four shipments was therefore about USD220,000.00. Although the market improved in 1986 (Schedule 27) United continued to export the remaining six (6) 1986 shipments at exact MEP prices. I do not accept his evidence that neither United nor Mr Bataranata gained direct financial benefits from these shipments.

Price indications (Schedule 27) and the other evidence suggest that United transfer priced at least USD55,000 on each of these shipments and DOF marketing experts contend the price transfer on the last of these six shipments (in December 1986) was in the order of USD105,000.00.

On these six shipments he would thus have transfer priced in aggregate between USD330,000 and USD600,000. Even in early 1987 when the DOF Marketing Section focussed its attention on United's activities the DOF Marketing experts suggest price transfers occurred as follows:

| | |
|----------------------|----------------------|
| 1987 first shipment | USD69,770.00 |
| 1987 second shipment | <u>USD34,800.00</u> |
| | <u>USD104,570.00</u> |

If these figures are aggregated the total on the twelve shipments ranges between USD655,000 and USD925,000. In addition, on its third 1987 shipment the price at which United originally proposed to sell to Mitsubishi Corporation was USD41,000.00 less than the price which it renegotiated after DOF intervention.

I believe that the above figures would take account of grading malpractices. I do not believe that they take account of the price premium obtainable when the two species are sold direct to plymills and sawmills. The prices used in the calculations by DOF Marketing experts are, I believe, prices obtainable for these two species as part of a mixed light hardwood shipment. If I am correct, a further dimension would be added to the magnitude of the transfer pricing but I do not have evidence which would permit the "premium" to be calculated. The aggregate transfer pricing alleged in the Court proceedings by MTD was USD960,474.72. On Mr Bataranata's own evidence the Taxation Office based its revised tax assessment on an illegal transferred price of K1.1 million. I thus consider that total transfer

pricing of in the order of USD1 million would not be an overstatement. None of the above calculations take into account the effect of undermeasuring.

Between 1985 and 1987 a total of 78,722.38m³ of logs was exported from Mussau Island of which 20,323.302m³ was pencil cedar and 58,245.946m³ was calophyllum. The residual 152.580m³ was other species. Of these totals United exported 17,084.156m³ of pencil cedar and 50,230.439m³ of calophyllum.

As I have found that there was at least 10% undermeasurement then an additional 1700m³ of pencil cedar and 5000m³ of calophyllum was exported with no return to PNG.

If an average price (see Schedule 27) of USD80.00 for m³ for pencil cedar and USD65.00 for calophyllum is assumed the additional revenue loss is about USD460,000.00. Should the undermeasurement be 20% the loss would be double that. I therefore find the loss from undermeasuring to be in the order of USD450,000 to USD900,000.

Financial Result

The involvement of United in marketing for MTD over a period of less than two years has, as a result of malpractices involving undergrading, undermeasurement, and transfer pricing, cost PNG in the order of USD1.5 million in export earnings. (It matters not whether United or Mitsubishi Corporation obtained the benefit of this transfer pricing or in what manner they shared it. The result from a PNG point of view is the same.) In doing so it has:

- (a) defrauded the Government of about USD150,000.00 in export duties (which no action has been taken to recover),

(b) attempted to defraud MTD of approximately USD300,000.00 (its 30% of additional log sales proceeds of USD450,000.00 less the additional export duty of SD150,000.00 which MTD is obliged to pay) but has failed, at least in part, because it has compromised the Court proceedings with MTD.

(c) attempted to defraud the Government of not less than K385,000.00 in company tax but has failed in such attempt as the tax has been assessed and collected.

I recommend referral to the Comptroller of Customs so that an attempt can be made to recover the additional export duties.

SANTA INVESTMENTS PTE LTD 000215

Our Ref:

Your Ref:

12/12/1984

MR. STEPHEN RAKA
SENIOR EXECUTIVE SECRETARY
MINISTRY OF FOREST
P. O. BOX 5055
BOROKO.

Dear Sir,

RE: TOYOTA UTILITY

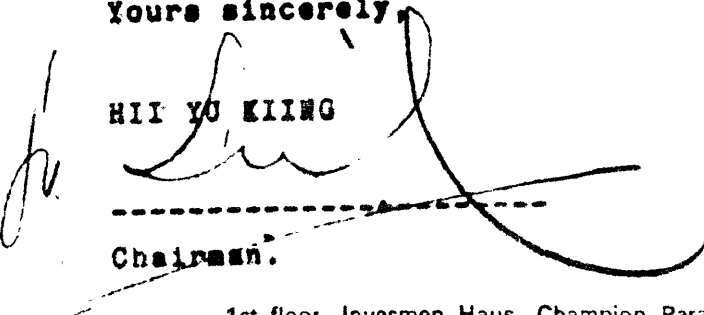
With reference to your telex dated 29th November, 1984 I would like to confirm with you that the Company's top level management had agreed to your request. Please convey my important message to Mr. Stephen Raka urgently.

Your request shall be met when our timber project at Mussau keeps off the ground. Our office at Port Moresby in charge of overall operations, Mr. Francis Sia will keep close in touch with you shortly.

On behalf of the Company, Santa Investments P/L (SINGAPORE) I would like to say "Thank you" for your kind assistance rendered to our company. You will have our blessings.

Thank you.

Yours sincerely,


HUI YU KIING

Chairman.

Schedule 2

Ministry of Forest
P O Box 5055
BOROKO

000216

19 December 1984

The General Manager
Santa Investment Pty Ltd
First Floor Investment Haus
P O Box 88
PORT MORESBY

Dear Sir

RE: TOYOTA UTILITY

This serves your letter of confirmation to me re the above subject.

Sir, you are aware of my unquestionable assistance rendered to you and the company, in particular, the MUSAU project and your future proposals in the Timber Industries at Ministerial level. You are aware that I can only give advice, whether my advice is taken or not is the prerogative of the Minister.

Sir, the classic example is the conflict surrounding the MUSAU project. I have counselled and advised the Minister in your favour and also advised him to accept the New Ireland Provincial Government Provincial Executive Council resolution. It appeared that the Minister opted for another. Consequently the people are not happy about his decision. This act of stupidity unnecessarily delayed the project. However, the Minister now has seen his mistake and from the copy of the telex I gave you, the Minister has altered his position and I am deadly sure it will be my advice.

Sir, when I spoke to you re the subject of this letter and your confirmation to me dated 12/12/84, I expressed my deepest need of your assistance. I have informed you why there is an urgent need for it.

Sir, with greatest respect to you and your company, the unexpected delay in getting the MUSAU project off the ground will add more wounds to my concern.

Sir, due to the above, I would like to know at your earliest possible if there can be other arrangements to accomodate this delay. Please inform me for further discussion.

I await with profound hope.

Yours faithfully



STEPHEN IPA RAKA
Executive Officer
Ministry of Forest



000217

Office of the Ministry of Forests

TELEPHONE: 258556
TELEGRAMS: FORESTS BOROKO
TELEX: NE 22360

P.O. BOX 5055
BOROKO
PAPUA NEW GUINEA

OUR REF LJW:bmw
151-16-29

4th December, 1984

The Managing Director,
Mussau Timber Development Pty. Ltd.,
P.O. Box 109,
PORT MORESBY, N.C.D.

Dear Sir,

CONDITIONAL APPROVAL FOR OPERATIONS - MUSSAU ISLAND TIMBER AREA

I acknowledge receipt of your application for a Timber Permit over the above area and wish to advise that both the Development Proposal and Management/Marketing Agreements with United Timber (PNG) Pty. Ltd. have been approved.

I am prepared to allow immediate commencement of operations provided that Mussau Timber Development signifies in writing (by signed endorsement of this letter) that it accepts and will abide by the following terms and conditions, which will be formally incorporated in a Timber Permit in due course.

1. PERMIT NUMBER - 16-29
2. PERMIT AREA - All of the Mussau Island T.R.P.
Approximate area being 35,500 Hc.
3. COMMENCEMENT - 1/1/1985
4. DURATION - 5 years from commencement date
5. ROYALTY - K4.46 per cubic metre all species plus
premiums on selected species.
6. GUARANTEE - K44,600 to be lodged within 60 days of
commencement date. This guarantee covers
two months royalty at maximum production.
7. MAXIMUM CUT - 60,000 m³/annum
8. MINIMUM CUT - 20,000 m³/annum
9. LOG EXPORT - 58,000 m³/annum
- LIMITATION - This will be closely tied to the road
construction and upgrading schedule as
detailed in Clause 12.

We will perpetuate our forests

10. CONVERSION FACILITIES

- A small portable sawmill with 2000 m3 input capacity installed, maintained and operated within three months of commencement date.

0002*2

11. WORKING PLAN

- A full working plan, covering the whole of the Timber Permit Area, shall be submitted for approval to the Director of Forests within 90 days of commencement date.

12. ROAD CONSTRUCTION

The Permittee shall construct or upgrade the following roads in accordance with the location, export quota, schedule and standard specified.

a) LOCATION

- i LOLIENG TO TAVOL moving clockwise
Approximately 35 Km at 3900 m3/Km constructed
- ii LOLIENG TO TAVOL moving anticlockwise
Approximately 37 Km at 1950 m3/Km upgraded

b) SCHEDULE

| <u>PERIOD</u> | <u>DISTANCE</u> | <u>ALLOWANCES</u> | <u>ROUTE</u> |
|---------------|-----------------|-------------------|------------------|
| JAN-DEC 85 | 9 Km | 35,100 m3 | LOLIENG-LOVERANG |
| JAN-DEC 85 | 10 Km | 19,500 m3 | LOLIENG-ALAMUI |
| JAN-DEC 86 | 9 Km | 35,100 m3 | LOVERANG-MAGIEN |
| JAN-DEC 86 | 9 Km | 17,550 m3 | ALAMUI-BOLIUI |
| JAN-DEC 87 | 8 Km | 31,200 m3 | MAGIEN-ETALAT |
| JAN-DEC 87 | 9 Km | 17,550 m3 | BOLIUI-TASITEL |
| JAN-DEC 88 | 9 Km | 35,100 m3 | ETALAT-TAVOL |
| JAN-DEC 88 | 9 Km | 17,550 m3 | TASITEL-TAVOL |

c) STANDARD

- Shall be Access Class I as defined in "Manual of Rural Road Design" issued by Works & Supply.

13. AGRICULTURAL DEVELOPMENT

- The Permit Holder shall, upon commencement, establish an Agriculture Trust Fund to operate as follows:-
 - a) Within 7 days of clearance of each log ship, an amount equal to K1.50/m3 for all logs exported on that vessel shall be deposited in the Fund.
 - b) The Trust shall be controlled and operated by the Board of Directors of Mussau Timber Development.
 - c) The people of Mussau and Emira Islands may then seek financial assistance from the Fund.

000219


14. EQUITY - The Permit Holder, is to retain its present shareholding structure of 100% ownership by landowners from the Mussau Island TRP Area throughout the period of this Permit.
15. FORM OF PERMIT - The Timber Permit, documentation of which shall commence upon receipt of signed acceptance of this Letter, will include all the above principal terms and conditions as well as all other standard conditions of PNG Timber Permits.

The circulation of this Letter, when executed, shall be:-

- Original - Director of Forests
- First Carbon - Provincial Forest Officer, Kavieng
- Second Carbon - Retained by Company.

I trust these conditions will be acceptable to your Company and that the Project will be of mutual benefit to Mussau Timber Development, the traditional landowners of Mussau Island and both the Provincial and National Governments.

Yours faithfully,

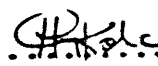


 LUCAS J. WAKA, M.P.,
 MINISTER FOR FORESTS

DATE 4/12/84

ACCEPTANCE

I, PETER TERRY GIRIRE, Managing Director of Mussau Timber Development Pty. Limited, hereby declare that I have read and understood the contents of this Conditional Approval and that I accept them as the principal operating terms and conditions of Timber Permit 16-29 and that my Company will abide by them until such time as a formal Permit document is issued.



 PETER TERRY GIRIRE
 MANAGING DIRECTOR
 MUSSAU TIMBER DEVELOPMENT PTY. LTD.

DATE 5/12/84



000220

Office of the Ministry of Forests

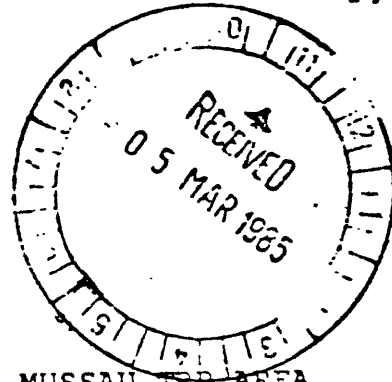
TELEPHONE: 258855
TELEGRAMS: FORESTS BOROKO
TELEX: NE 22360

P.O. BOX 5055
BOROKO
PAPUA NEW GUINEA

REF 151-16-29

26th February, 1985

The Managing Director,
Mussau Timber Development Company
Pty. Ltd.,
P.O. Box 109,
PORT MORESBY.



Dear Sir,

CONDITIONAL APPROVAL FOR OPERATIONS - MUSSAU TRP AREA

This is in reference to my letter, ref: 151-16-29 dated 4th December 1984.


During my discussions with the Premier of New Ireland on the 18th January 1985, the commitment of the Mussau TRP area to your Company as per the above referred letter was confirmed. It was, however, decided that the issuance of a Timber Permit and the commencement of any logging operations in the area is to be deferred pending a number of important matters. These include:-

1. An evaluation and if necessary a restructure of Mussau Timber Development Company Pty. Ltd. to ensure the Company is truly owned by the majority of landowners of the TRP area, and
2. The Department of Forests, in consultation with the Department of New Ireland, to draw up guidelines and seek proposals for a Management Contract from interested companies which includes United Kalimantan and Santa for the management of the development of the Island's forest resources.

Mussau Timber Development Company

In light of the above matters, I regret to advise that your Company cannot be allowed to commence any operation until further notice from me.

Yours faithfully,


Lucas J. Waka, M.P.,
MINISTER FOR FORESTS



Office of the Ministry of Forests

TELEPHONE: 258855

TELEGRAMS: FORESTS BOROKO

FAX: 22360

P.O. BOX 5055

BOROKO

PAPUA NEW GUINEA

OUR REF 151-16-29
1-6-12

19/4/85

The Managing Director
Mussau Timber Development Pty Ltd
P O Box 817
RABAU. ENBP

Dear Sir,

SUBJECT: CONDITIONAL APPROVAL FOR OPERATIONS, MUSSAU ISLAND
T.R.P.

REF: MY 151-16-29 OF 26/2/83

In view of the fact that your Company has -

- (I) Submitted a formal reply to my above letter.
- (II) Given detailed explanations about my queries to Mr. Gordon Mc Neil, a Senior Officer in the Department of Forests.
- (III) Submitted the Five Year Forest Working Plan as required under Clause II of the Conditional Approval.

- I am now satisfied that -

- (I) The Company is truly representative of the Landowners of Mussau Island.
- (II) The Logging & Marketing Agreement with United Timber (PNG) Pty Ltd has been negotiated in a proper manner and, due to the demonstrated managerial and financial capacity of that Company, will give a fair and reasonable return to both parties.

I now, therefore, withdraw my restrictions of 26/2/85 and advise that Logging Operations may commence whenever your Contractor is ready.

-10-

000224

1-6-12

19/4/85

Mr. R. Seeto CBE MPA
The Premier
New Ireland Provincial Government
KAUJENG. NIP

Dear Premier,

CONDITIONAL APPROVAL FOR OPERATIONS - MUSSAU ISLAND

I write this letter to officially inform you as a process of consultation that I have now decided allowing operations on Mussau Island to commence as per my original Conditional Approval.


The structure of the Landowners Company if not properly representative can be sorted out during the process as long as there is a provision in the Timber Permit allowing for this.

The lawyers representing Mussau Timber Development Company will take the state to Court if I as Minister continue to breach the approval I originally gave for work to go ahead which they had accepted.

I also consider the selection of United Kalimantan as fair because during the time of my decision I did not have proposal from any other possible management Contractor. The only time I heard about Santa Investments was in your PEC Decision.

In view of the above I now withdraw my letter 151-16-29 of 25/2/85 to Mussau Timber Development Co. and approve work to start.

Yours faithfully,


LUCAS J. AUA MP
Minister for Forests

- cc .Secretar:
Office of Forest
- cc Managing Director
Musau Timber Dev. Co.
- cc Managing Director
United Timber (PNG) Pty Ltd
KAVIENG

000226

Schedule 7

MARKETING TABLE

| SHIPMENT NO. | VESSEL | MONTH OF SHIPMENT | NO. OF LOGS | VOLUME OF LOGS | F.O.B PRICE TO PRODUCERS (USD) | FREIGHT RATE (\$) | NAME & COUNTRY OF PURCHASER | NOTIFY PARTY | M.E.P. PRICE (USD) | M.E.P. COMPARISON | BREAKUP OF PROCEEDS (KINA/USD) | | | |
|--------------|---------------------|-------------------|-------------|----------------|--------------------------------|-------------------|------------------------------|------------------------------|--------------------|--------------------|--------------------------------|-----------|-----------|------------|
| | | | | | | | | | | AMOUNT ABOVE/BELOW | % | ROYALTIES | PRODUCER | CONTRACTOR |
| 1986 | | | | | | | | | | | | (5) | | |
| 1 | KOYU MARU V-50 | FEB | 1664 | 5483.126 | 263956.07 | FOB | MITSUBISHI CORPORATION JAPAN | MITSUBISHI CORPORATION TOKYO | 263956.07 | - | 0 | 86259.55 | 173856.64 | |
| 2 | SHIOHARU MARU V-109 | MAR | 1507 | 5425.653 | 282299.54 | " | " | " | 282299.54 | - | 0 | 89212.44 | 181034.10 | |
| 3 | TAIYO MARU V-73 | MAY | 1430 | 5422.236 | 274406.50 | " | " | " | 274406.50 | - | 0 | 84321.94 | 168960.87 | |
| 4 | SEISHO - MARU V-106 | JUN | 1986 | 5453.210 | 278762.13 | " | " | " | 278762.13 | - | 0 | 89035.12 | 179761.56 | |
| 5 | SHIOHARU MARU V-114 | AUG | 1960 | 5740.894 | 287581.08 | " | " | " | 287581.08 | - | 0 | 92647.03 | 187471.93 | |
| 6 | TAIYO MARU V-83 | SEP | 1643 | 5652.422 | 288720.89 | " | " | " | 288720.89 | - | 0 | 93164.07 | 188367.82 | |
| 7 | SHIOHARU MARU V-117 | OCT | 1591 | 5434.727 | 286231.32 | " | " | " | 286231.32 | - | 0 | 85067.67 | 189630.84 | |
| 8 | OCEAN TREASURE V-75 | DEC | 1670 | 5731.980 | 336483.66 | " | " | " | 336483.66 | - | 0 | 99772.84 | 225851.71 | |
| 1987 | | | | | | | | | | | | | | |
| 9 | LA VIE EN ROSE V-5 | FEB | 1880 | 6385.776 | 464662.93 | " | " | " | 445505.61 | +19157.32 | +4.30 | 131846.87 | 304825.52 | |
| 10 | MIYAGI MARU V-4 | MAR | 1777 | 5543.337 | 372854.88 | " | " | " | 339388.51 | +33466.37 | +9.86 | 103663.47 | 236866.73 | |

Schedule 8;

MARKETING TABLE

| SHIPMENT NO. | VESSEL | MONTH OF SHIPMENT | NO. OF LOGS | VOLUME OF LOGS | F.O.B PRICE TO PRODUCERS (USD) | FREIGHT RATE(S) | NAME & COUNTRY OF PURCHASER | NOTIFY PARTY | M.E.P. PRICE (USD) | M.E.P. COMPARISON | BREAKUP OF PROCEEDS (KINA/ USD) | | |
|-------------------------------------------------------------------------------------------------------|-----------------|-------------------|-------------|----------------|--------------------------------|-----------------|------------------------------|-------------------------------|--------------------------------|--------------------------|---------------------------------------------|--------------|---------------------|
| | | | | | | | | | | AMOUNT ABOVE/BELOW | % | ROYALTIES | PRODUCER CONTRACTOR |
| 1987 | | | | | | | | | | | | (5) | |
| 11 | KOYU MARU V-100 | JUN | 1820 | 5748.813 | 453679.44 | FOB | MITSUBISHI CORPORATION JAPAN | MITSUBISHI CORPORATION TOKYO | 393226.20 | +60453.24 | +15.37 | 121679.05 | 283917.88 |
| 12 | TAIYO MARU V-97 | AUG | 1563 | 5505.820 | 616072.11 | " | " | " | 573729.80 | +42342.31 | +7.38 | 173602.80 | 377544.19 |
| (1) 13 | HELIOS-2 V-53 | SEP | 1750 | 5739.039 | 504252.24 | " | HOLDCROWN LTD HONGKONG | SANYO KOKUSAKU PULP CO. TOKYO | (2) 361520.45 (3) 554964.65 | +142731.79 - 50712.41 | +39.48 - 9.14 | (in dispute) | 289459.18 |
| (4) 14 | MERMAID | NOV | 1724 | 5636.667 | 656030.45 | " | " | " | 609294.62 | +46735.83 | + 7.67 | (in dispute) | 370196.68 |
| (1) SOLD BY MUSSAU TIMBER/DEPT OF FOREST. DOCUMENTS SUPPLIED BY MUSSAU TIMBER DEVELOPMENT CORPORATION | | | | | | | | | | | | | |
| (2) MEP PRICES SUPPLIED BY MUSSAU TIMBER | | | | | | | | | | | | | |
| (3) CALCULATED FROM MEP NO.10/87 (VESSEL ARRIVED ON/OR ABOUT 22 AUGUST 1987) | | | | | | | | | | | | | |
| (4) ALL DOCUMENTS FROM MUSSAU TIMBER DEVELOPMENT CORPORATION | | | | | | | | | | | | | |
| (5) ROYALTIES PAID BY MUSSAU TIMBER DEVELOPMENT CORPORATION | | | | | | | | | | | | | |

000227

SCHEDULE 9

MUSSAU

SPECIES MIX + GRADING PERCENTAGES
SHIPMENT BY SHIPMENT

| 1 | MONTH | SPECIES MIX | | | TOTAL SHIPMENT | | | | | | PENCIL CEDAR | | | | |
|----|-------|-------------|-------|-----|----------------|-----|------|------|------|--|--------------|------|------|------|------|
| | | PC | CAL | SSP | SP1 | SP2 | SS1 | SS2 | SS3 | | SP1 | SP2 | SS1 | SS2 | SS3 |
| | 1985 | | | | | | | | | | | | | | |
| 1 | SEP. | 1.2 | 98.8 | NIL | 2.8 | 3.7 | 66.1 | 24.1 | 3.4 | | 3.25 | NIL | 70.5 | 23.3 | 3.1 |
| | | 18.6 | 81.4 | NIL | NIL | 7.0 | 19.1 | 43.2 | 30.6 | | NIL | 5.4 | 18.2 | 42.3 | 34.1 |
| | 1986 | | | | | | | | | | | | | | |
| 2 | FEB. | 32.5 | 67.5 | NIL | NIL | 6.0 | 18.9 | 36.1 | 39.0 | | NIL | 8.6 | 19.6 | 35.7 | 36.0 |
| 3 | MAR. | 51.8 | 48.2 | NIL | NIL | 6.8 | 19.7 | 46.7 | 26.7 | | NIL | 7.3 | 16.6 | 57.3 | 18.8 |
| 4 | MAY | 55.0 | 45.0 | NIL | NIL | 2.9 | 20.4 | 40.1 | 36.5 | | NIL | 5.8 | 31.9 | 40.6 | 21.8 |
| 5 | JULY | 14.5 | 82.7* | NIL | NIL | 0.1 | 6.4 | 19.7 | 73.7 | | NIL | 1.0 | 19.8 | 38.3 | 40.9 |
| 6 | AUG. | 12.4 | 87.6 | NIL | NIL | NIL | 5.2 | 8.8 | 85.9 | | NIL | NIL | 17.6 | 16.1 | 66.2 |
| 7 | SEP. | 22.0 | 78.0 | NIL | NIL | 0.6 | 5.1 | 9.3 | 85.0 | | NIL | 2.0 | 12.9 | 15.8 | 69.3 |
| 8 | OCT. | 29.3 | 70.7 | NIL | NIL | 2.5 | 8.9 | 11.5 | 77.0 | | NIL | 6.4 | 14.0 | 15.4 | 64.1 |
| 9 | DEC. | 25.2 | 74.8 | NIL | 1.7 | 5.0 | 23.4 | 41.7 | 28.2 | | 6.3 | 15.2 | 34.5 | 30.8 | 13.2 |
| | 1987 | | | | | | | | | | | | | | |
| 10 | FEB. | 45.6 | 54.5 | NIL | 10.4 | 6.1 | 24.4 | 43.4 | 15.6 | | 21.3 | 12.3 | 26.3 | 32.6 | 7.5 |
| 11 | MAR. | 4.1 | 95.9 | NIL | 3.3 | 1.2 | 19.6 | 52.8 | 23.0 | | 38.7 | 5.6 | 20.3 | 31.8 | 3.5 |
| 12 | JUNE | 29.7 | 70.3 | NIL | 14.4 | 7.2 | 26.2 | 36.8 | 15.3 | | 37.8 | 12.9 | 26.0 | 20.2 | 3.1 |
| 13 | AUG. | 27.8 | 72.2 | NIL | 6.4 | 5.6 | 49.3 | 35.8 | 2.8 | | 17.9 | 11.8 | 45.0 | 23.8 | 1.5 |

*Balance of this shipment was small quantities of CANARIUM (138m³) and TAUN (14m³)

000229

SCHEDULE 10

MUSSAU

SPECIES MIX + GRADING PERCENTAGES

BY YEAR

| SPECIES MIX | | | | TOTAL SHIPMENT | | | | | | | | | |
|-------------|--------|-----------|-------|----------------|-----|--------------|-----|-----------|------|-----------|------|-----------|-------|
| No | Volume | % | | SP1 | % | SP2 | % | SS1 | % | SS2 | % | SS3 | % |
| | | | | No/Vol | | No/Vol | | No/Vol | | No/Vol | | No/Vol | |
| 1985 PC | 304 | 1129.191 | 10.09 | 57/ | 1.4 | 191/ | 5.4 | 1697/ | 42.2 | 1534/ | 33.8 | 824/ | 17.18 |
| CAL | 3999 | 10065.193 | 89.9 | 156.927 | | 600.328 | | 4723.996 | | 3789.538 | | 1923.537 | |
| 1986 PC | 3253 | 12813.456 | 28.9 | 19/ | 0.2 | 296/ | 3.0 | 1457/ | 13.5 | 3175/ | 26.6 | 8504/ | 56.7 |
| CAL | 10154 | 31378.212 | 70.7 | 95.105 | | 1321.190 | | 5982.603 | | 11815.341 | | 25130.009 | |
| ORS | 44 | 152.580 | 0.3 | | | | | | | | | | |
| 1987 CAL | 5265 | 16802.541 | 72.5 | 448/ | 8.7 | 269/ | 5.1 | 1860/ | 29.6 | 3294/ | 42.2 | 1169/ | 14.3 |
| PC | 1775 | 6380.655 | 27.5 | 2025.848 | | 1186.531 | | 6867.991 | | 9793.388 | | 3309.988 | |
| TOTAL PC | 5332 | 20323.302 | 25.8 | 524/ | 2.9 | 756/ | 3.9 | 5014/ | 22.3 | 8003/ | 32.3 | 10497/ | 38.6 |
| CAL | 19418 | 58245.946 | 74.0 | 2277.88 | | 3108.049 | | 17575.59 | | 25398.327 | | 30363.534 | |
| ORS | 44 | 152.580 | 0.2 | | | | | | | | | | |
| TOTAL LOGS | | | | 24,794 | | TOTAL VOLUME | | 78,722.38 | | | | | |

PENCIL CEDAR

| | | | | | | | | | | | | | |
|-------|---------|-------------------------|--|----------|------|----------|------|----------|------|----------|------|----------|------|
| 1985 | PC-304 | PCS FOR | | 1/ | 0.2 | 15/ | 5.1 | 61/ | 21.4 | 112/ | 41.1 | 115/ | 32.2 |
| | | 1129.191M ³ | | 2.214 | | 57.412 | | 241.65 | | 464.389 | | 363.586 | |
| 1986 | PC-3253 | PCS FOR | | 18/ | 0.7 | 174/ | 6.7 | 594/ | 21.5 | 1100/ | 35.5 | 1367/ | 33.1 |
| | | 12813.456M ³ | | 90.555 | | 857.226 | | 2757.049 | | 4542.475 | | 4566.151 | |
| 1987 | PC-1775 | PCS FOR | | 353/ | 25.5 | 165/ | 12.1 | 535/ | 30.5 | 613/ | 27.1 | 109/ | 4.8 |
| | | 6380.655M ³ | | 1629.912 | | 772.885 | | 1944.78 | | 1729.94 | | 303.638 | |
| TOTAL | PC-5332 | PCS FOR | | 372/ | 8.5 | 354/ | 8.3 | 1190/ | 24.3 | 1825/ | 33.1 | 1591/ | 25.7 |
| | | 20323.302M ³ | | 1721.681 | | 1687.523 | | 4943.479 | | 6736.804 | | 5233.375 | |



000230

DEPARTMENT OF NEW IRELAND PROVINCE

TELEX
TELEPHONE

DIVISION Of Forests

BRANCH P O Box 172/KAVIENG

The Managing Director
Mussau Timbers
Aluma Base Camp
Palakau District
MUSSAU ISLAND NIP

Date 31 March 1987
Our Reference 151-16-29
Action Officer P Wapala
Designation IMO
Your Reference
Date

SUBJECT: UNDER GRADING OF LOGS

This is referred to my telephone conversation between:-

- 1 Lessly, General Manager, United Timbers (Rabaul) 24/3/87
- 2 Peter Terry, Managing Director, Mussau Timbers - 24/3/87
- 3 Joe Badi, SPO Rabaul - 24/3/87

It is obvious observing records shown on your log export shipments, and as per our grading inspections confirmed that you are severely down grading the logs for about 80% - 90%.

Quite surprising to note so high your undergrading when timber resource stands in Mussau is known to be good quality species with very little defects, heart rot, surface checks and knots. Log form, mostly bends not exceeding 3 units classified as SS1 Grades. Others with severe bends exceeding 3 units are classified as SS 2 or SS 3 grades. Few with twisted grain classified as SS 3 grades.

Your records shows high percentages SS 3 grades with low percentages on other higher grades. These turns to give impression that Mussau timber resources are all composed of mostly poor quality logs.

As a rule tumb created, by check gradings on your export logs so far, Mussau timber exports gives normal average figure of some:

| | | | | |
|----|-----------------------|-----|---|-------------|
| A) | Group 1. (PC LOGS) | SSP | - | NIL |
| | | SP1 | - | 40% |
| | | SP2 | - | 8% |
| | | SS1 | - | 30% |
| | | SS2 | - | 20% |
| | | SS3 | - | 2% |
| | | | | <u>100%</u> |

Original copy placed
on 170-2-0

B) Group 2.
(CALOPHYLLUM)

| | | |
|-----|---|-----|
| SSP | - | NIL |
| SP1 | - | 3% |
| SP2 | - | 5% |
| SS1 | - | 35% |
| SS2 | - | 40% |
| SS3 | - | 17% |

000231

100%

C) Over all grading Group 1 and 2 gives average of:

| | | |
|-----|---|-----|
| SSP | - | NIL |
| SP1 | - | 21% |
| SP2 | - | 7% |
| SS1 | - | 32% |
| SS2 | - | 30% |
| SS3 | - | 10% |

- including super small and regular small.

100%

The average percentage figure as shown is a guide only used to compare your gradings and that your grading should not go way below this figure.

Percentage grades shown on your previous log export shipments, has been very low indeed on higher grades. You need to improve in your gradings.

Number of times, spot checking on grades were made with your log grader however since then he hasn't improve much on his grading work.

It is therefore a final notice is served here to advice you that we do not wish to recommend suspension of his grading certificate as yet but would further urge him to rectify immediately and improve his gradings.

Would you convey this to your log grader and remind him to take note of it and should determine his gradings correctly.

For your prompt attention please.


JACK M. MASU
a/Assistant Secretary (FORESTS)

CC: The Manager - United Timbers RABAUL

→ CC: Emaus Toubu - Forest Port Moresby

CC: Joe Badi - Forests Rabeul

Noted
RDoy
14/4.

000232

SCHEDULE 12

MUSSAU

RELEVANT MEP DATA

PENCIL CEDAR

| MEP | EFFECTIVE | SSP | SP1 | SP2 | SS1 | SS2 | SS3 | SHIPMENTS |
|---------|------------|-------|-------|-------|-------|-------|-------|---------------|
| SEPT/85 | SEPT. 1985 | 84.07 | 80.57 | 77.07 | 73.56 | 56.95 | 47.23 | -1, 0, 1, 2 |
| 1/86 | MARCH 1986 | 84 | 81 | 77 | 74 | 57 | 47 | 3 |
| 6/86 | JUNE 1986 | 87 | 84 | 80 | 77 | 65 | 55 | 4, 5, 6, 7, 8 |
| 7/86 | NOV. 1986 | 95 | 92 | 88 | 85 | 72 | 61 | 9, 10, 11 |
| 7/87 | AUG. 1987 | N/A | 135 | 130 | 125 | 120 | 115 | 12 |

CALOPHYLLUM

| MEP | EFFECTIVE | SSP | SP1 | SP2 | SS1 | SS2 | SS3 | SHIPMENT |
|--------------|------------|-------|-------|-------|-------|-------|-------|-------------|
| SEPT/85 | SEPT. 1985 | 61.37 | 58.70 | 56.03 | 53.37 | 43.30 | 36.67 | -1, 0, 1, 2 |
| 1/86 | MARCH 1986 | 62 | 59 | 57 | 54 | 44 | 37 | 3 |
| 3/86 (2A) | JUNE 1986 | 65 | 62 | 60 | 57 | 52 | 48 | 4, 5, 6, 7 |
| 7/86 | NOV. 1986 | N/A | 65 | 63 | 60 | 55 | 50 | 8 |
| 7/86 | NOV. 1986 | 75 | 72 | 69 | 66 | 60 | 55 | 9, 10, 11 |
| 7/87 | AUG. 1987 | N/A | 103 | 100 | 97 | 94 | 91 | 12 |

000233

41

Reflected
19
15/1

JAN 09 1987 1359

0

FOREST NE22360

UNITIM NE92838

TRL 001A

09JAN87

ATTN: D. KARI

RE YR TLX DTD 08 JAN 87.

1) EXPORT LICENCE WAS VALID AS MS OCEAN TREASURE ARRIVED ON 17 NOV 86 AND WAS BEFORE NEW POLICY OF LICENSING BEGINING 01 DEC 86.

Prior no
was for

2) FOB PRICE FOR OCEAN TREASURE SHIPMENT WAS NEGOTIATED IN ADVANCE OF THE SHIPMENT SO THAT LETTER OF CREDIT CAN BE FACILITATED TO ENSURE A LOGGING SHIP CHARTER. THIS WAS DONE EARLY IN OCTOBER. DUE TO LAG TIME BETWEEN SALES AND THE PRODUCTION OF LOGS, APPROX. 2 MONTHS, WE RECEIVED WHAT HAD BEEN AGREED ON. CHECKING 07/86 OF MEP WE WOULD LIKE TO INFORM YOU THAT WE HAVE NEGOTIATED WITH OUR BUYERS AND WILL BE ABLE TO SELL THE LOGS AT ABOUT U\$5.00 ABOVE THE MEP FOR THE COMING SHIPMENTS.

Not Conf

3. L/C COMES DIRECT FROM BENEFICIARY.

Vague

RGDS

MANAGER - MTD.0

FOREST NE22360


UNITIM NE928380000

JAN 09 1987 1403

0

FOREST NE22360

Yours faithfully,


LUCAS J. WAKA MP
~~Minister~~ for Forests
Ministry of Forests
LJW/rvp

- cc The Premier, New Ireland Provincial Govt.
P.O. Box 130
KAVIENG
- cc The Secretary,
Office of Forests
P.O. Box 5055
BOROKO.

000234

SUBJ: STATES PURCHASE OPTION YR TLX DTD 16DEC86.

1. IT IS TRUE THAT THE CO. HAS BEEN OPERATING UNDER THE TIMBER PERMIT TP16-29. HOWEVER, DOCUMENTS WERE AND HAD BEEN KEPT IN OUR SOLICITORS SAFE KEEPING. AS SUCH, THE CO. WAS UNAWARE THAT THE STATE OPTION PURCHASE OF 25% EXISTED UNTIL RECENTLY.

not
good
enough
yes

2. HAVING READ AND UNDERSTOOD THE TIMBER PERMIT. WE WOULD LIKE YOUR CONSIDERATION ON OUR SITUATION.

(A) WE HAVE COMMITTED SALES OF LOGS TO MITSUBISHI CORPORATION AT A RATE OF 10000M3 PER MONTH, A FIGURE WHICH OUR COMPANY HAS NOT BEEN ABLE TO ACHIEVE AS YET. IN 1986, WE HARVESTED 44344.248M3 FOR EXPORT ALTHOUGH WE

JAN 09 1987 1407

FOREST NE11360

UNITIM NE92838
TRL 002A
09JAN87

ATTN: O. MAMALAI

SUBJ: STATES PURCHASE OPTION YR TLX DTD 16DEC86.

1. IT IS TRUE THAT THE CO. HAS BEEN OPERATING UNDER THE TIMBER PERMIT TP16-29. HOWEVER, DOCUMENTS WERE AND HAD BEEN KEPT IN OUR SOLICITORS SAFE KEEPING. AS SUCH, THE CO. WAS UNAWARE THAT THE STATE OPTION PURCHASE OF 25% EXISTED UNTIL RECENTLY.

2. HAVING READ AND UNDERSTOOD THE TIMBER PERMIT. WE WOULD LIKE YOUR CONSIDERATION ON OUR SITUATION.

(A) WE HAVE COMMITTED SALES OF LOGS TO MITSUBISHI CORPORATION AT A RATE OF 10000M3 PER MONTH, A FIGURE WHICH OUR COMPANY HAS NOT BEEN ABLE TO ACHIEVE AS YET. IN 1986, WE HARVESTED 44344.248M3 FOR EXPORT ALTHOUGH WE HAD COMMITTED TO SUPPLY 58000M3 AS STATED IN OUR EXPORT LICENCE.

(B) AS WE HAVE GEARED UP, WE WERE EXPECTING AN APPROVAL FOR A HARVEST OF 96000, A COMMITMENT OF 8000M3 A MONTH. THIS FIGURE IS THE COMMITMENT THAT HAS BEEN AGREED UPON BY MITSUBISHI CORPORATION AND OUR CO.

(C) IN VIEW OF CHANGING AND FLUCTUATING MARKETS, OUR COMPANY BASED THE PRODUCTION ON A STABLE AGREEMENT WHICH WILL ENSURE A SECURE OPERATION AS WITH REGARDS TO MUSSAU ISLAND.

(D) AS THE TARGET OF 10000M3 PER MONTH AS YET HAVE NOT BEEN MET, IT IS VERY DIFFICULT FOR OUR CO. TO OFFER ANY LOGS WHATSOEVER TO THE STATE. AS WE MAY INVARIABLE LOSE A SUBSTANTIAL ABILITY TO SELL THE LOGS IN ANY DOWNTURN OF MARKET CONDITIONS.

3. IN VIEW OF THIS, OUR CO. WOULD LIKE TO REQUEST A STAY AND BE RELIEVED OF CLAUSE 5 (A) FOR THE PERIOD OF 1987 AS QUOTED IN CLAUSE 6 WHERE "THE DIRECTOR MAY UPON APPLICATION IN WRITING BY THE PERMIT HOLDER DIRECT THAT THIS CONDITION SHALL NOT APPLY FOR SUCH PERIODS OF TIME AND/OR IN RESPECT OF SUCH PERSONS OR SUCH TRANSACTIONS AS THE DIRECTOR IN HIS ABSOLUTE DISCRETION THINGS FIT". AND THAT A FORMAL APPLICATION IN WRITING WOULD BE SHORTLY DUE.

No way

R6DS
MANAGER - MTD.0

① United Timber must pay
25% to state (S.M.S.)

000235

0
FOREST NE22360
04087 JAN 12 1987 1000
GOOD MORNING

GA
92838+
JAN 12 1001
UNITIM NE92838

ATTN: MR. GIREGIRE
MANAGER

SUB: LOG EXPORT BY MUSSAU TIMBERS DEV. CO.

RE: YR TLX TRL 001A OF 9 JAN/87.

1. EXPORT LICENCE: YR EXPLANATION IS NOT ACCEPTABLE, B'CAUSE ALL PREVIOUS EXPORT LICENCES WERE CANCELLED ON 1-12-86 WITHOUT ANY CONCESSION TO WHETHER SHIP WAS IN OR OUT OF PNG.

IT APPEARS THAT U HVE NOT ASKED FOR A VALID EXPORT LICENCE ONLY TO AVOID GOVT'S CONTROL ON UNDERPRICING

2. UNDERPRICING: YR EXPLANATION ON UNDERPRICING IS ALSO NOT SATISFACTORY. LOG MARKET IN OCT WAS QUITE STRONG TO SELL YR TWO-SPECIES PARCEL AT A SIGNIFICANT HIGHER PRICE THAN USD 58.70/M3. FIC S SERVICE WAS AVAILABLE.

3. L.C: PLS. SEND SHARP A COPY OF THE L.C. FOR THE CONCERNED SHIPMENT FOR OUR PERUSAL N RECORD.

RGDS.

D. KARI
A/SEC. FOR FORESTS

C.C. PFO KAVIENG
ATTN: MR. J. MASU

C.C. FIC

C.C. INDEV
ATTN: MR. SIMA KONE.

41M NE92838
41 NE2236000000
103.1 MINS

000236

FOREST NE22360
14051 JAN 12 1987 1544
GOOD AFTERNOON

GA
94900+
JAN 12 1544
BMS NE94900

ATTN: MR. GIREGIRE

SUB: STATES PURCHASE OPTION

RE: YR TLX TRL 002A

YR EXPLANATIONS ARE FAR FROM SATISFACTORY.

THE STATE N FIC OFFERED U BETTER MARKETING SERVICES WHICH U HVE
FAILED TO ACCEPT. THE STATE HAS NO OBJECTION TO SELL YR LOGS BY
U TO ANY OTHER BUYER PROVIDED PRICES ARE COMPETITIVE. FIC IS
READY TO OFFER U A LONG TERM MARKETING AGREEMENT COVERING YR
~~DOES~~ DOWNTURN MARKET CONDITIONS ON THE BASIS OF YR PRESENT FOB
PRICE, SPP N GRADES MIXURE, IF U WANT TO.

YR OFFER TO THE STATE WAS DUE ON 1-12-86. I~~A~~ AM ASKING U AGAIN
TO SUBMIT YR OVERDUE OFFER BY 19-1-87 AT THE LATEST. OTHERWISE
APPROPRIATE ACTIONS WILL BE TAKEN TO CANCEL THE T.P.

RGDS.

D. KARI
A/SEC. FOR FORESTS

C.C. FIC

C.C. PFO KAVIENG
ATTN: MR. J. MASU.

0
BMS NE94900
FOREST N 227-00000000
TIME 005.8 NS

JAN 12 1987 1553

0
FOREST NE22360
STAND BY FOR BROADCAST CALL

000237

0 ✓
FOREST NE22360
05787 FEB 04 1987 1106
GOOD MORNING

GA
22226+

FEB 04 1987 1107

FORINCO NE22226

ATTN: MR. P. CONNELL/GIREGIRE

SUB: EXPORT LICENCE MUSSAU TIMBER.

RE YR TLX 918 OF 4 FEB/87.

1. YR EXPLANATIONS FOR BEING FAILED 2 OFFER 25% OF YR ANNUAL LOG EXPORT VOLUME TO THE STATE ARE NOT CONVINCING.
2. YR LOG SHIPMENT ON 9 DEC/86 WAS IRREGULAR USING AN INVALID EXPORT LICENCE. THE PRICES OF YR LOGS CONSIDERING A PARCEL OF TWO SPECIES WERE TOO LOW. MARKETING OF LOGS BY YR COMPANY IS FAR FM SATISFACTORY.

A COPY OF THE L/C WAS ASKED BY THIS OFFICE ON JAN 12/86 WHICH HAS NOT YET BEEN RECEIVED.

3. WE ARE NOT BOUND 2 ACCEPT YR SALES CONTRACT WITH MITSUBISHI AT A LOW FOB PRICE. EXPORT LICENCE WILL NOT BE RECOMMENDED UNLESS FOB PRICES ARE COMPETITIVE. CURRENT PRICE IDEA IS GIVEN BELOW:

PC. USD. 95 - 120/M3
CAL. USD. 70 - 75/M3

A PARCEL OF TWO SPECIES SHLD RECEIVE THE HIGHEST PRICE ABOVE.

SUGGEST U OFFER YR LOGS TO FIC.

4. SUBMIT YR LOG OFFER 1/16 OF YR ANNUAL PERMITTED VOLUME IN ACCORDANCE WITH MKTING CL. OF YR T.P.

RGDS.

O. MAMALAI
SEC. FOR FORESTS.

C.C. FIC

C.C. INDEV.
ATTN: MR. SIMA KONE.

0
FORINCO NE22226
FOREST NE2236000000
TIME 003.7 MINS

00023

0
FOREST NE22360
07878 MAR 03 1987 1148
GOOD MORNING

GA
92838++
MAR 03 1149
UNITIM NE92838

TO: UNITIM

ATTN: MR. T. GIRIRE

SUB: STATE PURCHASE OPTION N STATUS OF LOG EXPORT BY MUSSAU
TIMB. DEV.

1. PLS. SUBMIT URGENTLY A COPY OF L/C OF YR LOG SHIPMENT DT
9 DECEMBER/86.
2. INFORM THE STATUS OF STATE PURCHASE OPTION BY YR COMPANY.

RGDS.

O. MAMALAI
SEC. 4 FORESTS

0
UNITIM NO
FOREST NE22360
TIME 001.4 MINS

00023:

SCHEDULE 19

PRICE COMPARISON / DECEMBER 1986USD / M³

| SPECIES / GRADES | MUSSAU TIMBER CO | OPEN BAY TIMBER CO | LEYTRAC PTY LTD | UNEVULG | WECO PTY LTD | GAULIM LOGGING | WAWOI GUAVI PTY LTD | VANIMO TIMBER CO |
|------------------|-----------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | 09/12/86 (2 (SPECIES) | 07/12/86 (38 (SPECIES) | 08/12/86 (13 (SPECIES) | 10/12/86 (27 (SPECIES) | 10/12/86 (15 (SPECIES) | 17/12/86 (26 (SPECIES) | 17/12/86 (34 (SPECIES) | 18/12/86 (53 (SPECIES) |

PENCIL CEDAR

| | | | | | | |
|-----|----|--------|-------|-------|--------|-------|
| SSP | - | 101.79 | - | - | 113.49 | 95.00 |
| 1 | 84 | 98.28 | - | 91.47 | 109.91 | 92.00 |
| | 80 | 93.60 | 93.60 | 87.12 | 105.13 | 88.00 |
| | 77 | 90.09 | 90.09 | 83.85 | 101.54 | 85.00 |
| | 65 | 76.05 | 76.05 | 70.78 | 86.01 | 72.00 |
| 3 | 55 | 64.35 | 64.35 | - | - | 61.00 |

ALOPHYLLUM

| | | | | | | | | |
|-----|----|-------|-------|-------|-------|-------|-------|-------|
| SSP | - | - | - | 74.05 | 85.71 | 89.60 | 88.03 | - |
| SP1 | 65 | 76.05 | 76.51 | 70.78 | - | 86.01 | 84.15 | 72.00 |
| SP2 | 63 | 73.71 | 73.71 | 68.60 | 78.85 | 82.43 | 81.56 | 69.00 |
| SS1 | 60 | 70.20 | 70.20 | 65.35 | 75.42 | 78.85 | 77.68 | 66.00 |
| SS2 | 55 | 64.35 | 64.58 | 59.89 | - | 71.68 | 71.20 | - |
| SS3 | 50 | 58.50 | 58.96 | - | - | 65.70 | - | - |

000240



DEPARTMENT OF FORESTS
REGIONAL FORESTS OFFICE

TELEX NE92933
TELEPHONE 922251

P O BOX 406
RABAU
EAST NEW BRITAIN
PAPUA NEW GUINEA

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

Date: 26th March 1987

Our Reference: 170-2-②

Action Officer: J. BADI ran

Designation: Special Projects

Your Reference:

Date:

Attention: M. AMIN - MARKETING SECTION

EXPORT LOG GRADING - MUSSAU TIMBERS

As per telecon AMIN/BADI of this am refers:-

Please find company invoice summary of log species groups and grades for export.

Although I am quite satisfied with the overall log grades for this shipment in contrast to the previous shipments, I am still not convinced that the down grading of log is not taking place as claimed by the company.

In view of the above, I have further advised the company to make prior arrangements with Forest Office - RABAU so that licenced Government Grader would travel to MUSSAU Island to check log grades before being loaded on the vessel.

As with my assessment of log grades in group 1 - Pencil the grading is quite satisfactory. For group 2 nan 50% of calophyllum is graded as SS2 grade. have been attributed to the fact that most lum logs are susceptible to some form defects twisted grains, bends and knots which resulted in the down grading of the logs.

For acknowledgement.


JOSEPH M BADI
SPECIAL PROJECTS

STAND BY FOR B/CAST CALL.

00024

TO: MUSSAU TIMB. CO.

ATTN: MANAGER/P. CONNEL

FM: M.N. AMIN

SUB: LOG EXPORT.

PLS. B ADVISED THAT WE HVE NOTED THE FOLLOWING IRREGULARITIES IN LOG EXPORT BY YR CO.

1. LOG SHIPMENT, OCEAN TREASURE, 9-12-86, 5731.980 M3, WAS MADE WITHOUT VALID EXPORT LICENCE.
2. THE REQUIREMENT OF STATES PURCHASE OPTION AS PER CL. 20 (5) (A) (B) (1) OF T.P. 16-29 WAS NEVER MET.
3. RECENT LOG SHIPMENT WAS UNDERPRICED BY 10%. WHICH WAS LATER RENEGOTIATED N RECOVERED. VESSEL ETA WAS NOT INDICATED, LOGS WERE LOADED WITHOUT RECEIVING THE EXPORT LICENCE N NO OPPORTUNITY WAS LEFT TO CHECK LOG GRADINGS WITHOUT INVOLVING UNNECESSARY DEMURRAGE

IN FUTURE, NO EXPORT LICENCE WILL B RECOMMENDED UNLESS -

1. STATES PURCHASE REQUIREMENT IS MET STRICTLY IN ACCORDANCE WITH THE T.P.
2. EXPORT LICECE APPLICATION IS MADE AT LEAST ONE WEEK BEFORE VESSEL ETA.
- .. COMMENCEMENT OF LOADING IS REPORTED AT LEAST 24 HRS BEFORE.

RGDS.

SEC.
DEPT. OF FORESTS.

C.C.C PFO, KAVIENG

C.C. JOE BADI. RABAUL.
TKS 4 YR LETTER OF 26.3.87. ABOUT LOG F GRADING OF THE CO.

0
BEREAU NE92933
MRES NE223600
BEREAU NE92933
BMS NE94900
GAISHO NE92904
FOREST NE223600000000
01-
TIME 010.3 MINS

02-
TIME 010.3 MINS

03-
TIME 010.3 MINS

MAR 27 1987 1603

Schedule 22

FOREST NE22360

STAND BY FOR BROADCAST CALL

27/03 7

000242

*Refined
Entered on 3/12
h.g.*

FOR - MR. AMIN

RE - LOG EXPORTS MUSSAU TIMBER N YR TLX 27/3 1317

TAKING YU POINTS SERIATIM -

1. EX. LIC. WAS VALID - REF TLX 9/1 1359 TO D. KARI

2. OFFERS TO STATE WERE MADE -

REF - TLX 9/1 1407 TO O.MAMALAI

TLX 19/1 1338 TO D.KARI

TLX 20/1 1002 TO D.KARI

NO REPLIES EVER MADE TO THESE OFFERS

(COPIES OF ALL ABOVE CAN BE FAXED IF NEC.)

3. (A) NO ILLEGAL PRICING WAS ATTEMPTED.

MEP WAS MET THENCE YR REQUEST TO INCR.

BY 10% WAS MET BY RENEG. (WITH DIFFICULTY)

(B) MOST COMPANIES N.G.I. LOAD LOGS BEFORE LICENCE

COMES THROUGH. AT START OF NEW SYSTEM F.I.C.

PROMISED LICENCES IN 4 HRS - BUT THIS IS A DREAM.

(C) MUSSAU TIMBER HAS QUALIFIED GRADER.

IF DEPT. UNHAPPY THEN EITHER SEND CHECK GRADER

(MESSERS BADI OR WAPALA) TO INSTRUCT HIM OR

REVOKE HIS AUTHORITY.

OUR CLIENT BEGINNING TO FEEL HARASSED OVER THIS ISSUE M

RGDS

PETER CONNELL

PNG FOREST RESOURCES

C.C. - 92 933 FOR MR. BADI, FORESTS

C.C. - 94 900 FOR MR. WAPALA, FORESTS

CORRECTION - YU SHOULD READ YR.

GAISHO NE929040

FOREST NE22360



00024.

DEPARTMENT OF FORESTS

TELEGRAMS FORESTS
TELEX NE22360
TELEPHONE 254022

FRANGIPANI STREET
P.O. BOX 5055
BOROKO
PAPUA NEW GUINEA

[The Manager/
Mr P Connel
Mussau Timber Co
KAVIENG

] Date: 31 March 1987
Our Reference:
Action Officer: Amin
Designation:
Your Reference:
] Date:

L

FACSIMILE TRANSMISSION

SUBJECT: LOG EXPORT BY MUSSAU TIMBER DEV. CORP

Ref your telex 1603 of 27-3-87.

I am really disturbed to see your reply which is incorrect and misleading due to following reasons:-

1. Export licence was not valid. Suggest you read the notification published in the Post Courier on 1-12-86. Your reply telex 9/1 1359 to this office was unacceptable due to reasons stated in my reply telex 1024 of 12-1-87.
2. Have you read the marketing clause of the T.P. 16-29 and have you ever made any offer in that manner?
3. MEP is the minimum export price for tax-payment. It is not the market price. Market price must be negotiated above MEP depending on species-mix and size-mix. MEP is the minimum price which is fixed at the bottom of the pricing scale keeping sufficient margin/allowances for negotiating the best market price under different situations of species-mix and size-mix. It must not be used as an opportunity to export the logs along the bottom line.

It has been proved that the logs were underpriced by 10% which was later recovered not because of request but because of another competitive offer at actual market price.

: 2 :

FIC is not the authority to give export licence. Application for Export Licence should be made to Trade and Industry with a copy to the Department of Forests immediately after the negotiation of the price and other terms of the sales contract.

There is no dispute about the qualified grade^h of the Mussau Timber. But that does not overtake our right of check grading. We must be given opportunity to exercise the right of check grading.

There is no intention to harass any client. Fair deal is to ask for fair price. There is no fair deal in giving away your goods at 10% below market price and then honour the client. What about depriving the producers and the country of the fair value of their resources? Intention is to stop deliberate underpricing. All parties, including the Clients should be informed that government is determined to stop underpricing and for that purposes will continue checking FOB prices for every shipment and every client will have to pay 'fair' market price not the 'minimum' export price.

Regards.

for *Re. Anon*
O MAMALAI
Secretary for Forests

cc: PFO
KAVIENG

cc: Mr Joe Badi
SPO
RABAUL

000245

IN

8988

07.05.87

↓ MAY 06 1987 1639
↑ FORINCO NE22226
↓ MULTI ADDRESS CALL MOM

76869 HCLTD HX

TLX TO FOREST DEPT OF PNG C/O FIC - POM FROM HOLDCROWN HKG MAY 6, 87.

ATTN. MR. M.N. AMIN
C.C. MR. REX GRATTIDGE - LUSCO, RABAU

RE: MUSSAU ISLAND OFFER OF 5,500M3 FOR MID MAY LOADING

FURTHER TO OUR PHONE DISCUSSION THIS PM, U HV CONFIRMED OUR PRICE N CONDITION WHICH IS REPEATING AS BELOW:

1. LOG MUST BE ALL FRESH CUT.
2. SPECIES N SIZE PER YR OFFER OF APRIL 29, 1987.
3. PLS ADV LOADING PORT N PORT OF CLEARANCE.
4. FOB PRICE: FROM OUR BUYER TO HOLDCROWN.
PENCIL CEDAR USD100/M3 FLAT
CALOPHYLLUM USD70/M3 FLAT
5. OTHER CONDITIONS:
 - (A) ASSUME ALL PC N CALO ARE FLOATERS, IF NOT, PLS ADV FLOATER PERCENTAGE BUT BUYER WUD LIMITED SINKER NOT MORE THAN 5 PCT
 - (B) MEASUREMENT: SAME AS MITSUBISHI DID BEFORE, NO CHANGE.
(FYI, MITSUBISHI LAST 4-5 SHIPMTS HAS 7-16 PCT OVERAGE)
 - (C) PNG FOREST DEPT/FIC GUARANTEE TO ISSUE EXPORT PERMIT FOR THIS SHIP BEFORE VSL WL ARRIVE LOADPORT. IF ANY DEMURRAGE, IT WL FOR YR ACCOUNT.
6. OUR COMMISSION:

THREE PERCENT AS PER YR OFFER, WE WL OPEN L/C TO U (PLS NOMINATE BENEFICIARY NAME N BANKER) AT OUR BUYER'S PRICES BUT DEDUCT OUR COMMISSION.
7. VSL SPACE VERY TIGHT, OUR BUYER WL SEND SHIP ASAP BUT WUD BE IN LATE MAY. IF U HV SPACE AVAIL, PLS OFFER TO US.
8. OUR BUYER WL SEND GRADER TO MUSSAU FOR PRE-SHIP INSPECTION, PLS COORDINATE N COOPERATE.
9. PLS RECONFIRM BY RETURN TLX.

BEST REGARDS
EDDIE CHOW

000246

JUN 02 1987 1722

FOREST NE22360
76869 HCLTD HX

TLX TO DEPT OF FOREST PNG FROM HOLDCROWN HKG JUNE 2, 1987.

ATTN. MR. M.N. AMIN

RE: MUSSAU

1. WE HV READ A NEWSPAPER ARTICLE TODAY "FIRM WINS LICENCE IN LOGS BATTLE", IT INDICATED MUSSAU GOT EXPORT PERMIT FOR THEIR KOYU MARU CARGO.
2. IT ALSO INDICATED "THE STATE NEGOTIATED FOR THE SALE OF THE LOGS TO A NAMED BUYER, BUT THE NEGOTIATIONS FELL THROUGH." PLS CLARIFY OUR SALES POSITION N WHETHER WE CAN PLACE OUR SHIP TO MUSSAU AROUND END JUNE OR EARLY JULY TO HONOUR OUR COMMITMENT PER YR PREVIOUS AGREEMENT.
3. MITSUBISHI TOKYO MANAGER HV PHONED US ON JUNE 1, 1987 TO REQUEST/ WARM US "STEP OUT OF MUSSAU", WE KNOW THEY HV NO RIGHT TO ORDER US SINCE WE ARE DEALING WITH PNG DEPT OF FOREST DIRECTLY.
4. WHAT IS YR CURRENT STATUS WITH MUSSAU SHIPPER FOR OUR CONTRACT. WE STARTED TO WORRY.

BEST REGARDS
EDDIE CHOW+

76869 HCLTD HX0
FOREST NE223600
FOREST NE22360
AUTO LINE TEST PASSED

000247

0
FORT NE22360
053 JUN 03 1987 1050
GOOD MORNING

GA
23290+
JUN 03 1987 1050

PRIDE NE23290

ATTENTION: MR M KOMTAGAREA
ACTING SECRETARY
DEPT OF PRIME MINISTER N NEC

SUBJECT: LOG EXPORT - MUSSAU TIM DEV
=====

YR URGENT ATTENTION IS DRAWN TO MY REPORT FOR THE HONOURABLE
PRIME MINISTER SUBMITTED YESTERDAY RE THE ABOVE SUBJECT.

IT IS LEARNT THAT EXPORT LICENCE HAS BEEN ISSUED BY THE DEPT OF
TRADE N INDUSTRY FOLLOWING AN EX-PARTY INTER-LOCUTORY
INJUNCTION FROM THE COURT. SURPRISINGLY THE STATE WAS NOT EVEN
INFORMED.

THE COMPANY HAS EXTENSIVELY UNDERPRICED PNG LOGS ALL THOUGHOUT
ITS OPERATION IN LAST TWO N A HALF YEARS N HAS NOW FINALLY BEEN
ABLE TO CRIPPLE THE STATE'S MARKET CREDITABILITY THROUGH FALSE
STATEMENTS IN THE COURT WHICH WILL CERTAINLY HAVE A TREMENDOUS
DETRIMENTAL EFFECT NOT ONLY IN TIMBER MARKETING, BUT ALSO IN
OTHER OPERATIONAL ASPECTS OF THE TIMBER COMPANIES.

I WOULD APPRECIATE YR URGENT INTERVENTION IN THE MATTER IN
REVOKING THE EXPORT LICENCE IN THE PROPER WAY N SECURE THE
POSITION OF TE THE STATE IN ESTABLISHING FAIR MARKETING OF PNG
LOGS.

I AM ALSO WILLING TO DISCUSS THE MATTER URGENTLY WITH YOU,
SHOULD U SO DESIRE.

THE MATTER IS MOST URGENT.

RGDS.

A L TAGAMASAU
A/SECRETARY FOR FORESTS

0
PRIDE NE23290
FOREST NE2236000002
TIME 006.9 MINS

000248

FACSIMILE MESSAGE

HOLDCROWN LIMITED

CONTROL NO. HC-1878/87

DATE: June 19, 1987.

TO: Dept. of Forest - POM

Attention: Mr. M.N. Amin

Your request on price history:

ROOM 1118 FORTRESS TOWER
250 KING'S ROAD, NORTH POINT
HONG KONG
TELEPHONE 5-717860
TELEX : HX 76888 HONG KONG
CABLE : HC CROWN HONG KONG
FACSIMILE 552 5 8071816

o/o FIC - MR A. Acpo
plz RELAY TO MR Amin

BASICALLY they were PNG
log prices.

| | <u>Calophyllum</u> | <u>P. Cedar</u> |
|---------|--------------------|-----------------|
| 1985, 1 | US\$72 | US\$75 |
| 2 | 65 | 70 |
| 3 | 65 | 70 |
| 4 | 65 | 65 |
| 5 | 62 | 65 |
| 6 | 57 | 80 |
| 7 | 55 | 80 |
| 8 | 52 | 80 |
| 9 | 47 | 80 |
| 10 | 50 | 75 |
| 11 | 50 | 70 |
| 12 | 55 | 70 |
| 1986, 1 | 60 | 75 |
| 2 | 60 | 75 |
| 3 | 62 | 75 |
| 4 | 62 | 80 |
| 5 | 67 | 80 |
| 6 | 65 | 80 |
| 7 | 65 | 80 |
| 8 | 60 | 85 |
| 9 | 60 | 85 |
| 10 | 66 | 90 |
| 11 | 66 | 90 |
| 12 | 68-20 | 90 100 |
| 1987, 1 | 72 | 95 |
| 2 | 75-78 | 95-100 |
| 3 | 70-75 | 95-100 |
| 4 | 68 | 95 |
| 5 | 68 | 95 |

Trust above will help. Please confirm receipt.

Best regards
Eddie Chow

Eddie Chow

000249

77

DEPARTMENT OF FORESTS

TELEGRAMS FORESTS

TELEX NE22360

TELEPHONE 254022

FAX: 254433

FRANGIPANI STREET
P.O. BOX 5055
BOROKO
PAPUA NEW GUINEAThe Manager
Mussau Timber Development Pty Ltd.
P O Box 817
RABAU
East New Britain Province.

Date: 8th June, 1987.

Our Reference: 151-16-29

Action Officer: R. POLUME/sf

Designation:

Your Reference:

Date:

Dear Sir,

NOTICE TO SHOW CAUSE - TP 16-29

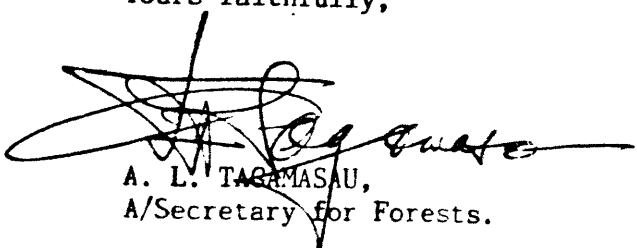
The receipt of your response (prepared by your consultant - PNG Forest Resource Pty Ltd dated 10/6/87) to our Notice to show cause dated 15/5/87 is acknowledged.

We regret to advise that your response to our said Notice is not satisfactory in that;

1. We believe the Company has not taken any initiative for market promotion. As an exporter of only two (2) plywood species (Calophyllum and Pencil cedar), your prices have been significantly low.
2. We believe the Company failed to diversify markets and sold all its logs to one buyer only. Besides, all letters of Credits were received by your management contractor through Hongkong for obvious reasons of underpricing.
3. We believe the Company admitted the facts of underpricing when it accepted the renegotiated prices by an extent of 10-20 Dollars per cubic metre for its January, February and April, 1987 shipments.

Hence, we have strongly recommended to the Minister for Forests to cancel your Timber Permit No. 16-29. Mussau Timber Development can re-apply for the same area if it so wished.

Yours faithfully,


A. L. TAGAMASAU,
A/Secretary for Forests.CC: Assistant Secretary
Division of Forests - Kavieng.

000250



COMMISSION OF INQUIRY INTO ASPECTS OF THE FOREST INDUSTRY

TELEX NE: 23290

(FAXSIMILE)

P.O BOX 2554,
BOROKO.

PAPUA NEW GUINEA

DATE: 22 April, 1988.

TO: KUNDU, TOKYO.

OUR REF:

FROM: COMMISSION OF INQUIRY
(FORESTS)

YOUR REF:

TELEPHONE: 277702/277703

MUSSAU TIMBER DEVELOPMENT PTY LTD

There have been allegations of transfer pricing and undermeasurement of log volumes in relation to the sale of logs exported by this Company (through its contractor UNITED TIMBERS (PNG) PTY LTD.) to Mitsubishi Corporation, Tokyo.

Although sales appear to be invoiced direct to Mitsubishi Corporation, payments are received from Sheng Kee Enterprises Co. Ltd. of Hong Kong under Letters of Credit from Hong Kong to Papua New Guinea, showing United Timbers (PNG) Pty Ltd. as the beneficiary. This suggests transfer pricing through Sheng Kee Enterprises which would be proved if Sheng Kee sent invoices to Mitsubishi at higher prices which Mitsubishi paid.

Would it be possible to initiate enquiries and obtain information and documentation as follows -

1. Obtain remeasurement quantity summaries for all shipments shown on the attached list.
2. Obtain from the shipping lines details of the volume of logs loaded in P.N.G. on each of these shipments (there are two shippers involved).
3. Approach Mitsubishi Corporation, Tokyo to request:
 - (a) details of the prices paid for each shipment; and
 - (b) details of the ownership of Sheng Kee Enterprises Co. Ltd. of Hong Kong (there are conflicting allegations as to whether UNITED TIMBERS or Mitsubishi Corporation controls this Company).

Thanking you in anticipation.

T E BARNETT,
Commissioner.

000251

LOG SHIPMENTS TO MITSUBISHI CORPORATION TOKYO

| <u>Name of Vessel</u> | <u>Sailing Date</u> <u>ex Mussau Island</u> | <u>Shipping Line</u> |
|------------------------|------------------------------------------------|-----------------------------------|
| 1. PACIFIC SATU V58 | 20. 9.85 | DOWA LINE CO. LTD. |
| 2. ONWARD SOLDIERS V3 | 9.12.85 | KAWASAKI KINKAI KISEN KAISHA LTD. |
| 3. KOYU MARU V80 | 5. 2.86 | KAWASAKI KINKAI KISEN KAISHA LTD. |
| 4. SHIOHARU MARU V108 | 15. 3.86 | " " " " " |
| 5. TAIYO MARU V79 | 1. 5.86 | " " " " " |
| 6. SEISHO MARU V106 | 1. 7.86 | " " " " " |
| 7. SHIOHARU MARU V114 | 8. 8.86 | " " " " " |
| 8. TAIYO MARU V83 | 4. 9.86 | " " " " " |
| 9. SHIOHARU MARU V117 | 14.10.86 | " " " " " |
| 10. OCEAN TREASURE V75 | 9.12.86 | " " " " " |
| 11. LA VIE EN ROSE V5 | 13. 2.87 | KAWASAKI KINKAI KISEN KAISHA LTD. |
| 12. MYAGI MARU V4 | 26. 3.87 | " " " " " |
| 13. KOYU MARU V100 | 6. 6.87 | " " " " " |
| 14. TAIYO MARU V97 | 29. 8.87 | " " " " " |



SCHEDULE 30

000252

EMBASSY OF PAPUA NEW GUINEA TELEFAX

FAX 454-7275
TELEX KUNIGU 021458
PHONE TOKYO 454-7275

MIA KOKUSAI BUILDING 3F. 210
4-2-2, NIA 1 CHOME
MINATO-KU
TOKYO 100
JAPAN

FAX NO 197 FAX REF 9-2-7 DATE 19 July 1988

TO Mr. John Reeve, Counsel Assisting Commission of Inquiry, PNG
FROM Ambassador Joseph K. NOMBRI, PNG Embassy, Tokyo, Japan

I refer to your previous faxes and one of yesterday (18/7/88).

Although it has been difficult to obtain the information that you requested, we did have some success sometime back, however, I do apologize that we did not transmit the information to you due to an oversight on our part.

The results of our efforts are as follows:-

1. Meeting between a Mr. Akiyama, Manager, Tropical Wood Team Lumber Dept. B of Mitsubishi Corporation had resulted in refusal by Mr. Akiyama to hand over any document with details that you requested and information on prices paid etc.

On the details of Ownership to Sheng Kee Enterprises Co. Ltd. of Hong Kong, it seems that Mitsubishi Corporation controls this company. Mr. Akiyama points out that his company does business with United Timbers via Sheng Kee Enterprises. He further stated when probed that Mitsubishi assists and maintains Sheng Kee Enterprises in order to do business with Mainland China in Tropical Timber Trade.

Note: My own opinion is that Sheng Kee Enterprises is being set up jointly by United Timbers and Mitsubishi Corporation by agreement for their mutual benefits. The impression of non-cooperation during the meeting has been markedly clear.

2. Mr. Kobayashi, President of Nanyo Kigyo Co. Ltd. has denied that his had been involved in the business of log imports from Papua New Guinea in the past. He said his company is an end user of Papua New Guinea logs and they buy them from Ocean Enterprises Co. Ltd. which has confirmed it.
3. From Ocean Enterprises Co. Ltd. (Japan) we have obtained a second stop Invoice from Yen Cheong Trading Co and a Certificate of Measurements up on unloading by all Nippon Checkers Corporation.

Note: This papers are attached.

000253



**COMMISSION OF INQUIRY INTO ASPECTS OF THE
FOREST INDUSTRY**

TELEX NE: 23290

P.O. BOX 2554
Boroko

PAPUA NEW GUINEA

(FAXSIMILE)

DATE: 25th July 1988

OUR REF:

TO: KUNDU, TOKYO

YOUR REF:

FROM: COMMISSION OF INQUIRY
(FOREST)

TELEPHONE: 277690/277703

Thank you for your fax No: 197 Ref: 9-2-7 of 19 July, 1988.

The only aspect we would seek to pursue is the re-measurement records on the shipments by United Timbers to Mitsubishi Corporation.

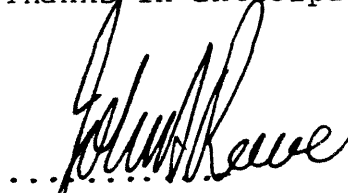
It is strongly suggested the volumes disclosed, as shipped from PNG were understated thus cheating PNG of foreign earnings, export duty, royalties company tax etc and cheating landowners of their full entitlements.

We believe the quantities received would be ascertainable from All Nippon Checkers remeasurement summaries.

The information is important to both the Commission and the Taxation office.

Could you please advise whether the information is obtainable and if so the timeframe.

Thanks in anticipation.


.....
JOFF S REEVE
Counsel Assisting.

'88 07/25 15:42

☎ 03 454 7275

PNG EMBY. TOKYO

01



000254

EMBASSY OF PAPUA NEW GUINEA TELEFAX

FAX 454-7275(GH)
TELEX KLNDOU 025455
PHONE TOKYO 454-7275

203

OUR REF

9-2-7

DATE

25 July 1988

Mr. John Reeve, Commission of Inquiry, Waigani

FROM Ambassador J.K. Nombri, PNG Embassy, Tokyo

Subject

Reference your fax letter dated 25 July 1988 and mine of 19 July 1988.

All Nippon Checkers remeasurement summaries cannot be obtained unless the Importer agrees to the release of the information. In this case Mitsubishi Corporation has refused to release the documents therefore it is difficult and impossible to obtain the information.

However, we are seeking other possible avenues through personal contacts to see if it is possible to get some of the information.

We will give you an answer later this week.

Regards,

Joseph Kaal NOMBRI, ISO, BEM

AMBASSADOR

APPENDIX. 5

LEYTRAC PTY LIMITED
SIAMAN, KAMDARU AND KAMDARU EXTENSION T.R.P AREAS
SEMALU, WATPI AND KING TRP AREAS
KABAMAN, KABAMAN EXTENSION AND NASKO EXTENSION TRP AREAS
PROPOSED UPPER KAMDARU TRP AREA
DANFU TRP AREA

This company and these areas were only superficially examined by the Commission and the company was not called before the Commission.

THE COMPANY

Leytrac Pty Limited was originally incorporated on 9 January 1974 to purchase the logging and earthmoving contracting business carried on by Nancy Elizabeth McArthur at Kamdaru in the extremities of West Coast Namatanai. Its original proprietor was John Francis McArthur. On 6 September 1983 Rex Grattidge became a director and Secretary of the company with John McArthur being the other director and shown in the Companies Office records as remaining the proprietor of the company.

On 18 February 1985 Roderick Leonard Ferguson joined Messrs McArthur and Grattidge as a director and is shown in Minutes as being Chairman of a directors meeting held that day.

No documents have been filed with the Companies Office which show the position after early 1985.

OUTLINE OF OPERATIONS

Leytrac has been a long term operator in the Kamdaru area. Its operations apparently commenced in the Siaman, Kamdaru and Kamdaru Extension areas and then included the Semalu, Watpi and King areas. Timbersales Pty Limited operated in these times in the Kambaman, Kambaman Extension and Nasho Extension areas. When Timbersales moved out Leytrac acquired these areas.

In 1985 Leytrac lodged a proposal for consolidation of these areas into one permit covering an estimated area of 24,800 ha with a then estimated resource of 101,700 m³. It also proposed that new areas in Kamdaru Valley and Jaulu River with an area of 13,700 ha be included; such areas having a then estimated resource of 330,000 m³.

The proposal was for a combined roading, reafforestation and agricultural project.

In the project proposal Leytrac stated it had harvested some 220,000 m³ of logs since operations began in 1974 and had constructed some 115 kilometres of National road. A consolidated Permit was prepared, approved by the State Solicitor and submitted for signature by Minister Waka on 5 November 1985. The brief (Schedule 1) outlines the terms of the Consolidated Permit which was to run for three (3) years expiring on 31 August 1988.

Minister Waka signed the Permit on 14 November 1985. The Consolidated Permit was a short term measure as Secretary Mamalai advised Minister Diro in January 1986 when he said "The project is operational, but consideration will be needed during the next year or two to decide if any further resources are to be acquired for allocation to this Company".

In July 1986 Leytrac sought a new commencement date for the Permit (Schedule 2) despite the clear terms of the Permit itself. Secretary Mamalai agreed to this date (Schedule 3).

Though it is a small matter perhaps this is utterly irregular. The power to grant Timber Permits is vested in the Minister of Forests, not the Secretary. The Minister signed the Permit and it expired on 31 August 1988. Mr. Mamalai had no power at all to change that fact by himself granting an extension. The same irregularity was confirmed by Secretary Komtagorea on 7 July 1988. (Schedule 4).

In March 1988 Leytrac, realising its resource was running out, sought to obtain a TRP over Kamdaru Valley (Schedule 5). In April 1988 the operation was inspected by Provincial Forestry Officers and a report made (Schedule 6). Despite unsatisfactory aspects including the use of rivers as snigging tracks, logging steep slopes and the absence of qualified log graders this report has just been filed on DOF files with no action.

Despite due warning about expiry of the Consolidated Permit (and that Permit in fact having expired in August 1988), the PFO was seeking funds (K500-00) in October which he had obviously not budgetted for, to enable a post logging inspection. He noted that the Upper Kamadaru area was "yet to be considered". (Schedule 7).

By November 1988 the resource in the Consolidated Permit area was clearly running out with estimates of between 5000m³ (by the PFO - Schedule 8) and 15,000m³ by the company - Schedule 9 remaining to be harvested.

A further six month Permit was granted on advice (Schedule 10) by Minister Stack to enable this last remnant of resource to be harvested.

Again in this area it is quite clear that between August 1988 (when the earlier Permit expired) and December 1988 (when the new Permit was signed) operations continued with no legal basis.

VISIT TO LEYTRAC OPERATION

In September, 1987 while the Commission was overflying various timber areas by helicopter I examined Leytrac's operation from the air and made a brief unscheduled stop at the Leytrac headquarters which consisted of two residences and several sheds and outhouses. There was no sign of a reafforestation project except for a small balsa plantation of about 10 hectares which appeared to be about two years old.

The nearby forest was very heavily logged including illegal logging on steep slopes. A bulldozer was in the process of clearing a road outside the boundary of Leytrac's area going in the direction of Upper Kamadaru to the Weitin Valley where, at that stage, Leytrac hoped to be allocated timber rights.

At the headquarters Mr Costigan, one of Leytrac's contractors, confirmed that Leytrac had logged out its area and was virtually scouring it once again to extract the last remnants of timber by way of a second cut. It was logging the slopes and taking undersized trees. (He claimed to be unaware that the minimum allowable size was 50 cm.) Those involved in the operation were clearly in desperate need of a new resource to keep their machines operating. Mr Costigan confirmed that the balsa plantation was their only reafforestation project and he did not know (and did not seem to care) who would own and/or have future harvesting rights over the plantation.

He agreed that the company was heavily overcutting and damaging the forest but explained that he had no option as the area was cut out and no new resource had yet been allocated. In his mind the survival of the company clearly took precedence over the survival of the forest.

MARKETING

The early marketing of Leytrac was not studied. Rex Grattidge's involvement with Leytrac seems to date from September 1983 when he became a director. Grattidge, with Robin Kumaina, had incorporated a company LUSCO ENTERPRISES PTY LIMITED (LUSCO) in March 1981. In August 1983 LUSCO seems to have become activated with shares allotted to Grattidge and his wife Mathiva Grattidge (Mrs. Grattidge on her own behalf and in trust for children) and with Mr. and Mrs Grattidge becoming directors.

From June 1983 LUSCO was very active in the log sales business and its activities during that period have been studied in detail by the Commission.

Grattidge began marketing for Leytrac, through Lusco, in 1984 and continued to so market until at least late 1987. In its 1985 proposal Leytrac included a section on marketing dealing with various aspects (Schedule 11).

Leytrac had a good quality resource with a homogenous species mix with Taun predominant and small percentages of group 4 or even group 3 species. Its logs were of good average size and were well prepared. With such a resource Leytrac logs should have commanded excellent prices but were sold at discernibly lower prices than those at which Bruce Tsang sold from a comparable resource (see Appendix Schedule 154.1).

According to the proposal and other evidence LUSCO was marketing in 1985 for Leytrac on a commission basis into the Korean and Japanese markets. It was said to market generally through Weyerhaeuser and Shin Asahigawa. The study of LUSCO's marketing during 1985, 1986 and 1987 will be reported on in detail in the future. It suffices for present purposes to say that in 1985 Hong Kong company vehicles were used by Weyerhaeuser and other LUSCO buyers.

In late 1985, 1986 and 1987 the marketing habits of LUSCO changed to a familiar pattern. Grattidge and his wife were by this stage the owners of a two-third share in the Hong Kong Company Holdcrown Limited. The owner of the other one-third share was Eddie Chow a former employee of Weyerhaeuser.

During 1985, 1986 and 1987 Leytrac paid Lusco a sales commission equal to 5% of the FOB price which Lusco obtained. Such a commission rate is unusually high. The vast majority of Lusco's 1986 sales were made through Holdcrown in Hong Kong to Japan, Korea and Taiwan and it is quite clear that there was systematic transfer pricing through Holdcrown. This will be detailed in the report on Lusco's marketing. Lusco systematically invoiced Holdcrown and Holdcrown established (or transferred) the letter of credit to Lusco. Holdcrown then invoiced the destination buyer whose letter of credit was established to Holdcrown in Hong Kong. In this way the difference between the two prices - Holdcrown to destination buyer less Lusco to Holdcrown was reposed with Holdcrown in Hong Kong.

Destination end invoices for three Korean destination shipments were obtained and enabled detection of this system and letters of credit provided further insight. The system as it affected Leytrac bears detailed statement.

M.V. ASIA RIVER

A clue to what was to follow appeared in the 1985 sale of logs from Menvuvu and Leytrac to OK San Ind. Co of Korea shipped on M.V. Asia River. The sale was effected through Weyerhaeuser Far East. The letter of credit was established by Weyerhaeuser to Lusco to cover 6,000m3.

Only 5716.393m3 was shipped for which Lusco's invoice price was USD272,269.27. It is clear back to back arrangements were in place because the Weyerhaeuser letter of credit required all documents to bear a Korean letter of credit number - M1838-506-NU-00025 and because Lusco's invoice bears that credit number. It also provides that in the bill of lading OK SAN - the destination buyer - is to be shown as the notify party. The letter of credit from Weyerhaeuser to Lusco also provides that:-

"upon negotiation the amount of USD40,000-00 being sales commission and other shipping expenses be TT remitted to Weyerhaeuser."

This is quite extraordinary. It represents a rate of 14.69% of the invoiced price; 12.21% of the full letter of credit value (USD 327,4000.00); a rate of USD 6.99 per m3 over the volume shipped and a rate of USD 6.66 per m3 over the full volume for which the letter of credit was established.

Such a rate is extortionately high; could not be justified and clearly involves transfer pricing.

M.V. ESTELLA. - November 1985

This was Lusco's first sale through Holdcrown and Leytrac was the producer. It followed the Weyerhaeuser pattern. The sale was to Sanno Lumber Co. of Japan. The letter of credit was established by Holdcrown to Lusco to cover 3,000m3. A total 2993.939m3 was shipped for which Lusco's invoice price was USD139,278.04.

The arrangements are clearly back to back as SANNO LUMBER CO. is required to be shown as the notify party in the Bill of Lading and because the letter of credit provides that (relevant) documents other than the draft and invoice (which are replaced for the end buyer) are not to bear the unit price or value of the shipment. This letter of credit also provides that on first negotiation "deduct USD12,000-00 from proceeds payable to beneficiary (LUSCO) being sales commission and other expenses and remit by TT to Holdcrown Limited."

This represents a rate of 8.6% of Lusco's FOB price and a rate of approximately USD4.00 per m3. Such a rate is again very high, could not be justified and clearly involves transfer pricing.

From this point through late 1985 and early 1986 to the end of 1986 the pattern changes to one of "full blooded" transfer pricing which can be proved and quantified precisely where end invoices have been obtained. In general terms the Commission has found it virtually impossible to obtain any co-operation from Japanese buyers in supplying end invoices but has been able (through FIC and DOF) to obtain some Korean end invoices. By studying the number patterns on these (Holdcrown) invoices the "transfer pricing" system of Holdcrown/Lusco became quite clear. Actual end invoices for two part shipments in 1986 from Leytrac were obtained.

M.V. RAINBOW VOLANS - January 1986

The shipment was again to OK San Ind. Co of Korea. The producers were Leytrac (2929.093m3) and Woodlark Island Development (2612.026m3). The letter of credit (NPH 852023) to Lusco was from Holdcrown. The arrangements were clearly back to back:-

- OK San is the notify party to be shown in the bill of lading.
- The bill of lading must bear the Korean letter of credit number M1838-512-NU-00018.

- The documents (other than the draft and invoice which are replaced) are not to bear the unit price or value.

The Leytrac part shipment was invoiced by Lusco to Holdcrown (Invoice No.73) as 850 logs aggregating 2929.093m3 at an FOB unit price of USD50.00 for an aggregate price of USD146,454.65 (FOB). The Holdcrown invoice to Ok San (Invoice 6A/85) was for the same number and volume of logs at a dissected CNF price (ie the FOB price and freight were separated). The unit FOB price was USD55.00 per m3 and the aggregate price was USD161,100.44 (FOB). The difference was thus USD5.00 per m3 and in aggregate USD14,645.00. It represents a markup of 10%. The markup on the Woodlark logs was USD3.50 per m3 (7.865%) and in aggregate USD9,142.00 making a total markup of USD23,788 on the shipment. The rate is extortionate, cannot be justified and is a clear illustration of transfer pricing.

M.V. NO.3 MARBELLA - May 1986

The shipment was to Chungkoo Lumber of Korea through its usual letter of credit opener Oriental Chemical Company. The producers were Leytrac (2,292.314m3) and R. Gault Industries (3,352.827m3). The letter of credit (NPH 860791 B/B) was from Holdcrown and the arrangements were clearly back to back:-

- the suffix "B/B" indicates back to back.
- Oriental Chemical is the notify party to be shown in the bill of lading.
- the inspection certificate is to be from a log inspector of Chungkoo Lumber.
- the documents (other than the draft and invoice which are to be replaced) are not to bear the (Holdcrown) Hong Kong letter of credit number or the unit price or value.

The Leytrac part shipment and the Gault Industries part shipment were included in one invoice (Invoice No. 87) by Lusco to Holdcrown the split being:

- Leytrac - 762 logs aggregating 2,292.314m3 at an FOB unit price of USD 52.75 for an aggregate price of USD120,919.56 (FOB).
- R Gault - 860 logs aggregating 3,352.827m3 at an FOB unit price of USD50.00 for an aggregate price of USD167,641.35.

The shipment was again included in a single invoice (Invoice HCL 17/86) from Holdcrown to Oriental Chemical and was again for the same number and volume of logs at a dissected CNF price.

The prices were:

- Leytrac - the identical number and volume of logs at an FOB unit price of USD55.50 per m3 and an aggregate price of USD127,223.43 (FOB).
- Gault Industries - the identical number and volume of logs at an FOB unit price of USD53.50 and an aggregate price of USD53.50 per m3.

The markup on the Leytrac logs was USD2.75 per m3 for an aggregate USD6,303.87 and on Gault Industries logs was USD3.50 per m3 for an aggregate USD11,734.88 making a total markup on the shipment of USD18,038.75. The percentage markup for Leytrac was 5.21% and for Gault Industries 7.00%. The rate is lower than previously but nonetheless high and not justifiable and illustrates transfer pricing.

Holdcrown continued to be used by Lusco up until about August 1987 when a switch was made to Eddie Chow's new Hong Kong vehicle May Shan Trading Inc. and then in November and December 1987 Holdcrown was used again.

With FIC becoming actively involved in marketing to traditional markets in early 1987, the sales pattern of Lusco changed from January to March and other Hong Kong vehicle companies were involved as well as Holdcrown. There was a mix of the earlier 1986 pattern and fixed rate commissions for Holdcrown. In the period March to August 1987 Lusco generally dealt direct with buyers and the letter of credit generally provided for deduction of a rate per m3 for Holdcrown to be remitted to Hong Kong. In the period August to November 1987 the earlier mixed pattern which characterised the January to March 1987 period returned but the Hong Kong vehicle was May Shan Trading.

In November and December Holdcrown (with the address changed to that used by Mayshan Trading) was used again and the same mixed pattern continued with some back to back arrangements and some shipments providing for 3% commission to Holdcrown. These matters will be reported on fully in the report on Lusco's marketing.

It suffices to say for present purposes that there is clear evidence of the regular use of transfer pricing structures through Hong Kong which characterise Lusco's marketing from at least late 1985 to late 1987 and of actual transfer pricing during late 1985 and the whole of 1986. During the whole of this period Lusco was the marketing agent for Leytrac. For that service it obtained a fee of 5% of the FOB price obtained by Leytrac and it seems that fee was paid in addition to the moneys which were reposed in Hong Kong.

Lusco was represented by Counsel before this Commission and no satisfactory explanation for its disgraceful conduct was put forward. Repeated invitations to Rex Grattidge to appear in his capacity as a Leytrac director, Lusco co-owner and Holdcrown co-owner were evaded.

I have also found (see Appendix 7) that where Bruce Tsang used Holdcrown as his Hong Kong vehicle on sales to Sanyo Kokusaku Pulp during 1986 and 1987 Holdcrown made its services available on terms that Tsang could secretly benefit from funds reposed in Hong Kong through transfer pricing. I have no doubt Lusco enjoyed the same benefits and that in view of its ownership it probably enjoyed those benefits on a larger scale and to a greater extent than Tsang. There is no evidence whether or not his fellow Directors and shareholders in Leytrac were aware of Mr Grattidge's controlling interest in the Hong Kong company Holdcrown.

The losers of this whole commercially immoral practice were Leytrac, which did not obtain the full price for its logs, and Papua New Guinea which did not receive its full entitlement in foreign revenue earnings, export duty and income tax.

If DOF reports are correct (Schedule 6) the other losers must be the landowners themselves whose forest has been devastated by a company which will now simply move out. (Last reports suggest it has recently contracted to log for Tasukolak on the East coast). To an extent Leytrac has honoured its roading conditions in that the Balabong - Wadpi - Lamassa sections were completed. Aerial observation disclosed however that two bridges were washed away already and sections of the road were deteriorating rapidly. Despite permit conditions no sawmill has ever been established and the small balsa wood plantation is merely a token gesture towards reafforestation as a means of replacing the lost resource. As the company has run out of resource for its operation it has applied more and more pressure to the forest recutting, logging the slopes and taking undersized trees as a matter of standard practice.

MINISTER FOR FORESTS

000264

5 November 1985

151-16-35

EXECUTION OF TIMBER PERMIT NO. 16-35

Attached herewith please find:

1. Three (3) copies of the final draft Timber Permit No. 16-35 approved by the State Solicitor.
2. Department of Forests File 151-16-35.

Some of the principal conditions of the Permit are:-

1. Permittee: Leytrac Pty Ltd.
2. Area: Approximately 11,060 hectares comprise Kamdaru Extension, Semalu, Watpi, King, Nasko, Kabaman and Kabaman Extension all in NAMATANAI Sub-District of the New Ireland Province.
3. Term: 3 years from 1/9/85.
4. Minimum Cut: 18,000 cubic metres per annum.
5. Maximum Cut: 60,000 cubic metres per annum.
6. Royalty Rates:

| | | |
|--------|---|-------------|
| K 4-22 | - | Now Premium |
| K13-22 | - | Premium 1 |
| K 5-62 | - | Premium 2 |
7. Bank Guarantee: K42,000 is based on two (2) months maximum cut.
8. Log Export: 58,000 cubic metres per annum to be exported on the condition that royalties are paid by the due date.
9. Sawmill: 2,000 cubic metres of logs to be processed per annum during the permit period.
10. Agriculture: Establish 100 hectares of cocoa plantation each year.
11. Road: Complete construction and upgrading of LAMASSA BAY-KAMDARU River road.
12. Bridges: Construct wooden or steel bridges over KING and KALU River.

The Timber Permit No. 16-35 is approved by the Department of Justice and the document is now in order. If you approve, it is requested that you execute the attached document.



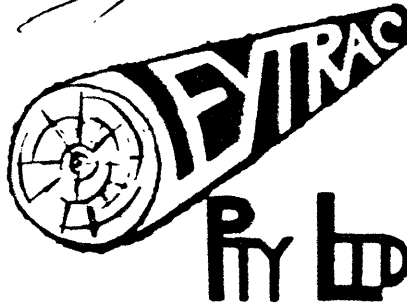
IQ. EAMALAI

Secretary for Forests

000266

RABAU OFFICE 921533
 WEST COAST, N.I.P. 921285
 RABA TELEX 90455

LOGGING
 SAWMILLING
 ROADING



BULLDOZERS
 ROAD GRADERS
 TWIN POWER SCRAPERS
 FOR HIRE
 P. O. BOX 937
 RABAU

17, July 1986.

Secretary of Forests.
 P.O. Box 5055,
 PORT MORESBY.

ATTENTION: RUTH POLUME.

Dear Madam,

Re: Dates in Leytrac Pty Ltd's Permit 16-35.

Further to our letter dated May 1st 1986, and subsequent conversations with Messrs McNeil and Ross, we now write to ask you to confirm a date for our roading programme under the permit.

For the last two months we have experienced such wet weather on New Ireland as to make the sheeting of the last 4-5 kilometres of road impossible.

The two possible dates of commencement of TP 16 - 35 are 1st September 1985 (when the permit states that it commences) and 14th November 1985 (when it was signed by the Minister, came into force, and was received by Leytrac).

We would be grateful if you could confirm that, for the purposes of our "Roading Year One", our final date for completion is 14th November 1986. Thank you for your assistance and we look forward to your early reply.

Yours faithfully,
LEYTRAC PTY LTD.,

Rex W. Grattidge.

* where are the logging sheets
 TP are being processed?

| SECRETARY'S OFFICE | |
|--------------------------|---------|
| Date Received | 24/7/86 |
| Refer to and/or file no. | FS2 |
| Signed | |



000267

DEPARTMENT OF FORESTS

TELEGRAMS FORESTS
TELEX NE22360
TELEPHONE 254022

FRANGIPANI STREET
P O BOX 5055
BOROKO
PAPUA NEW GUINEA

The General Manager
Leytrac Pty Ltd
P O Box 937
RABAUL
East New Britain Province

Date: 8 August 1986
Our Reference: 151-16-35
Action Officer:
Designation:
Your Reference:
Date:

Dear Sir

I refer to your letter dated 10th June, 1986 where you sought amendment on the commencement date of TP 16-35.

I have considered that request and have now approved 14th November, 1985 as the new commencement date. Therefore, the new deadline for roading requirements for Year One will be 14th November, 1986 and not 1st September, 1986.

Yours faithfully

MAMALAI
Secretary for Forests

c.c. AS - Forests
Kavieng NIP

000263

The Managing Director
Leytrac Pty Ltd
P O Box 937
RABAU
East New Britain Province

7 July 1988
151-16-35

R Turia/mb

Dear Sir

TIMBER PERMIT NO. 16-35

Please, be informed that the expiry date of your Timber Permit No. 16-35 will be 13th November, 1988.

Yours faithfully



M MONTAGAREA
Secretary

c.c. A/Assistant Secretary
Forests - Kavieng

Reference your letter of 17/5/88.

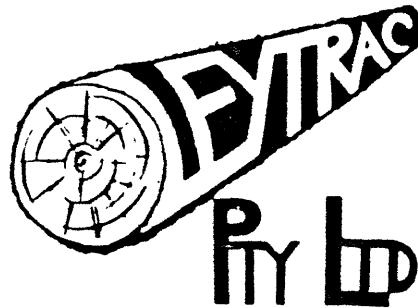
M MONTAGAREA
Secretary

(7)

RABUL OFFICE 92-1833
WEST COAST, N.I.P. 92-1285
RABUL TELEX: 92855

LOGGING
SAWMILLING
ROADING

March 3, 1988.



BULLDOZERS
ROAD GRADERS
TWIN POWER SCRAPERS
FOR HIRE
P. O. BOX 937
RABUL

000269

Secretary for Forest,
P.O. Box 172,
Kavieng. NIP.

Dear Sir,

SUBJECT: TIMBER PERMIT APPLICATION - UPPER KAMDARU VALLEY

This letter is to follow up meeting between Mr. Silas Sabagas and the Secretary and numerous meetings between Leytrac Officers and New Ireland Provincial Government Members.

Leytrac is currently operating under TP:16-35 which expires on 31/7/88. We have no alternate area to operate and are now facing a situation where it will be necessary to wind up our operations later on this year.

During various meetings with the Provincial Government, it has been pointed out that there is substantial resources remaining in the Kandas area, and from the Company and Provincial Government points of view it is desirable to have Leytrac continue to operate in the Kandas area. The main considerations are:-

ROAD CONSTRUCTION & MAINTENANCE

Leytrac has constructed and is currently maintaining the coastal road from Palabong to Lamassa. The Provincial Government does not have resources to take over this task.

KANDAS COCOA PROJECT

This has been set in train, and will take until 1992 to reach full bearing and be self supporting. Leytrac will manage the project up until then, and will then be ready to handover a viable plantation to Kandas landowners.

INCOME TO STATE & PROVINCE

Leytrac has contributed significant amounts of revenue, in the form of Royalties, Export Duties, and Taxes. It has a good track record and would be desirable to keep this operation in existence.

6

EMPLOYMENT

Over one hundred people will lose employment if the operation is terminated.

UPPER KAMDARU VALLEY

Please find enclosed an application for a Timber Permit over the Upper Kamdaru Valley, together with application fee of K100. Approaches have been made by the Provincial Government for a TRP to be conducted over this area.

Previously application had been made to have the area declared under the Private Dealings Ordinance, but because of change of policy, this application will not now proceed.

I enclose a survey report which was conducted by Mr.A. Academia in 1986. The total volume involved is about 300,000 M3.

PROPOSED PERMIT CONDITIONS

During discussions with the Provincial Government offers the following conditions were proposed:-

- a) Period - 10 years
- b) Maximum Cut - 60,000M3/year
Minimum Cut - 25,000M3/year
Export Allowance - 59,000M3/year.
- c) Sawmill - A mill to cut 1,000M3/year will be established (maintained).
- d) Roothing - A road to be constructed from Tambaka to the watershed of the Weitin River (30 Km.), to later join up with road to Siar.

Leytrac will continue to maintain the west coast road from Palabong-Lamassa.
- e) Agriculture - A sum of K2.00/M3 of log harvest will be paid into an agricultural fund, to promote agricultural project within the TRP area.
- f) Reforestation - The current Balsa project will continue to point where 320 Ha. of Balsa is planted and a mill set up to utilize the forest on a sustained yield basis.
- g) Other conditions re-marketing environmental control etc. as per usual conditions as specified in TP:16-35.

000271

5

CONCLUSION

As time is very limited, it is necessary to have the Timber Right Purchase completed immediately.

We would be available at any time to discuss conditions of the T.P. so that all documentation is complete by the time TP:16-35, expires (31/7/88).

Yours faithfully,
LEYTRAC PTY. LTD.



R.L. Ferguson,
MANAGING DIRECTOR.

Encl.

15
→ 151-16-35
000272

The Assistant Secretary
Division of Forests
P O Box 172
KAVILING NIP

18 APRIL 1988
151-16-35
S TUVANIJAR/da

RE: 1988 LOGGING INSPECTION REPORT NO. 4 15-16-35, LEYTRAC OPERATIONS

INTRODUCTION:

The report here is based on an inspection carried out by two Forestry Officers at the Leytrac operational areas. The inspection was for a week starting from the 11/4/88 to the 15/4/88.

The report here is divided into two (2) parts and that is PART A which is the Leytrac Operations at the Matpi TRP and PART B which is Londa operations. Londa which is a contractor company for Leytrac is now currently operating at the Nako Extension area.

The following points are the main contents of the report;

- (a) Road Conditions
 - Trans Island road
 - All logging roads
- (b) Operational sites and Logging Techniques used.
- (c) Damage to regenerations.
- (d) Agriculture Development and Reforestation programs.
- (e) Booking and efforts
- (f) Grading of logs and check measurements/log numbering
- (g) Recommendations
- (h) Conclusion.

PART A - LEYTRAC OPERATIONS - MATPI TRP

- (a) Road Conditions
 - Trans Island road

The general condition of the trans island road is all right starting from Landaru base camp to the mountain after Kabawan village. The road is well maintained by both companies through their road contractor. Main has been a major factor leading to the flooding of rivers in the area. Rivers have been flooded and has caused alot of problem for the traffic in the area.

* Logging Roads

Logging roads in the Leytrac operational area has not been acceptable. The company has been using the rivers as its logging roads. Both the Grinco and the Pinip rivers have been used for logging and this is not acceptable. The company has not constructed any logging roads but is only relying on the rivers as its access to the timber areas. Few logging roads at the Senalu TRP have also been noticed to be not maintained and drainage also on road sides have not been done.

Some bridges along the Trans Island road have not been made according to the companies DEALING with the elan Agents. Those bridges should be made and also upgrade the present ones.

(b) Operational sites and Logging Technique used

The Leytrac operational area is at the Watpi TRP at the Grinco and Pinip rivers. The company is now currently operating on sides of both rivers and this is not acceptable. Logging should be done 50 meters away from the rivers. Also logging has been noticed on slopes beyond 30° (degrees) and this is also not acceptable. Our office is aware of the rugged mountains in the area but at least certain care should be taken to the above problems.

The logs have been pulled to the river banks by skidders and trimming has been done on the river banks and also this is not acceptable as it will cause pollution to the rivers.

(c) Damage to Regenerations

The young forest in the operational areas have not been much disturbed and the company is doing a good task in protecting the young forest. Few have been disturbed by machines but the forest is still been looked after.

(d) Agriculture Development and Reforestation Programmes

There are about 200 hectares of hybrid cocoa which have been planted by the company at the Mala plantation. Inspection into the cocoa plantation was done by both officers and proof to be of good health.

The reforestation programs have been carried out at the top of the Kamdaru river. The species planted is Balsa and is growing properly. Part of the Balsa plantation has been washed away by the Kamdaru river last month. Some Balsa seedlings are still in the nursery ready to be planted out. The company is doing a great job on its reforestation programs.

(e) Docking and offcuts

Few unnecessary off-cuts have been noticed on both sides of the river. The companies bush logging supervisor was advised by the officers about those unnecessary off-cuts and that it would be stopped. A lot of dockings was noticed to be done in the bush and this was acceptable to the fact that it might cause pollution to the log pond at the beach.

(f) Grading of Logs, check measurements and Log numbering

Logs have been graded at the beach pond by unqualified log graders. The company does not have a log grader for so long and this has caused a lot of problems to the grading of logs. Our office recommends the company to send one to do the log grading course at T.I.T.C (Lee) which is done annually.

Check measurements was carried out for eleven (11) logs and the record is with our office. The numbering of logs is also carried out at the beach pond at Pukuk by the companies log graders.

PART B - LOMDA OPERATIONS - NASKO EXTENSION

Most of the operation in the area was done at the Nasko Extension by the Lomda company which is a contractor for Leytrac.

Few things like Agriculture Development and Reforestation Programs have been carried out by Leytrac who is a permit Holder and other points will be further discussed below for the Lomda company. The trans Island road also have been discussed for both companies starting from Mandaru and ending at the mountain after Kaban village.

But from the foot of the mountain to Lamass station the road has not been graded up to satisfaction.

(a) Logging roads

The logging roads are up to date by means of its maintenance and its drainages. The company have constructed good logging roads and traffic can pass through easily. Few bridges have to be made across the top of the Nasko river because it is causing pollution to the river which is used by the Nasko people down below.

(b) Damage to Regenerations

The damage done to the young forest in the operational site is well control according to the officers observations. Few damages have been done by moving machines but not too bad. Our office is aware of the rugged mountains in the area but at least a bit of care is needed to the young forest in the area.

(c) Docking and Off-cuts

There were a lot of unnecessary off-cuts noticed at the three (3) bush log ramps. These off-cuts were being thrown at the side of log ramps and few have been buried by earth. Our office is very concerned of such a manner and would like the company to stop such a attitude. Most of the dockings are done in the bush log ramps and this is also acceptable.

(d) Grading of Logs, check measurements and log numbering

The company does not have a proper log grader at the moment because their log grader has gone for leave and Mrs. Ian the Logging Manager of the Company. Our office request the company to send one of its man to do the Log Grading Course in Lae which is done annually.

Check measurements were not done at Nasko beach log pond because the officers were late. The logs were already loaded in the boat M.V. GOLD STAR.

The M.V. GOLD STAR loaded a total of 1,587.867M³ and a total of 473 pieces of logs from the Nasko Extension area. The same ship loaded at Pukuk and got 1,200.00 M³ and a total of 340 pieces of logs. The boat left the area on the 14/04/1988.

RECOMMENDATIONS

Our office is now recommending certain things below which both companies should do.

1. Upgrading of the bridges and the part of road from the mountain after Kabamen village to Lamasa station along the Trans Island road.
2. Unnecessary off-cuts should be minimised by both companies in busl. log ramps.
3. Construction of proper logging roads by Leytrac P/L and not relying on rivers as logging roads. Also the upgrading of logging roads at the Sonalu TAP areas.
4. Drainages to be done in logging roads and also the trans island road by both companies.
5. Both companies to send two people to do the log grading course in T.I.T.C (Lae) this year.
6. Control of unnecessary off-cuts by both companies at the top of rivers as pollution is a problem for the rivers which people use down below for drinking etc.
7. Logging has also been noticed on slopes beyond 30° (degrees) and this should be stopped immediately.

CONCLUSION

To conclude, our office is further stressing the above recommendation points to be done by the companies starting from this time and onwards.

Thanks for attention.



for JANETTE RAUVAVE
District Forest Officer - Namatanai

- cc District Manager
NAMATANAI
- cc Special Project Officer
P O Box 406
RABAIL
- cc Operation Section
Forest Headquarters
P O Box 9055
BOROKO
- cc District Manager
Landa P/L
P O Box 937
RABAIL
- cc Logging Manager
Landa P/L
P O Box 937
RABAIL ANBP



151-16-35

000276

DEPARTMENT OF NEW IRELAND PROVINCE

TELEPHONE: 94-2111

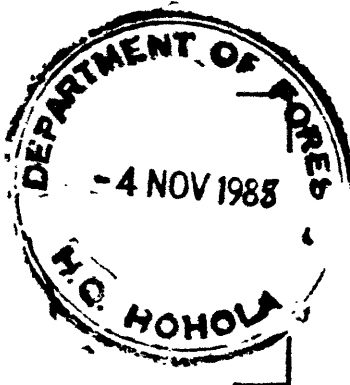
TELEX:

DIVISION OF FORESTS

P.O. Box 103

KAVIENG, NEW IRELAND PROVINCE

The Secretary
Deaprtment of Forests
P O Box 5055
BOROKO NCD



Date: 21 October 1988

Our Reference: 151-16-35

Action Officer: P Wapala/rws

Designation: P I M O

Your Reference:

Date:

Attention: FAS - RD JOHNSON MANTU

Leytrac is soon to wind up operations in the South West Coast TRP areas the Timber at TP 16-35 will expire in November this year.

Company also applied for upper Kamdaru area which is yet to be considered.

Division of Forest Namatanai is therefore to mount inspections camping out to do a complete assessments of Leytrac's operations commencing sometimes next week, however they are faced with problem of funds, District funds is completely exhausted.

Therefore we would like to request if possibly you could arrange with Forests Headquarters for necessary assistance with funds in this regard.

Herewith are manpower needed which will be involve in this excercise.

OFFICER : SILAS TOWANINAR
OFFICER : PETER TERRY
LABOUR : DRIVER
LABOUR : G/LABOUR

The total commitments requiried for the four (4) people is K500 needed for three (3) weeks camping out.

Would appreciate so much if you could give this your favourable responds.

Regards.

J. M. MASU
a/Assistant Secretary - (Forests)



151-16-35
49 80

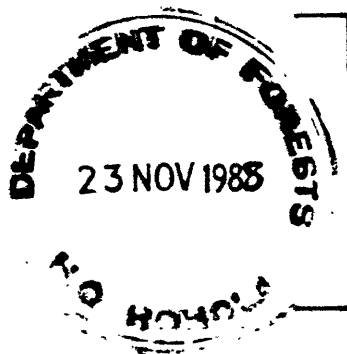
000277

DEPARTMENT OF NEW IRELAND PROVINCE

TELEPHONE: 94-2111
TELEX:

P.O. Box 103
KAVIENG, NEW IRELAND PROVINCE

The Secretary
Department of Forests
P O Box 5055
BOROKO NCD



Date: 11 NOVEMBER 1988
Our Reference: 157-16-35

Action Officer:
Designation:

Your Reference:
Date:

FINAL HARVEST IN TP 16-35

This office has been approached by Permit holder, Leytrac, seeking approval to fully harvest about 5,000 M³ which will be left behind at the expiry of the permit.

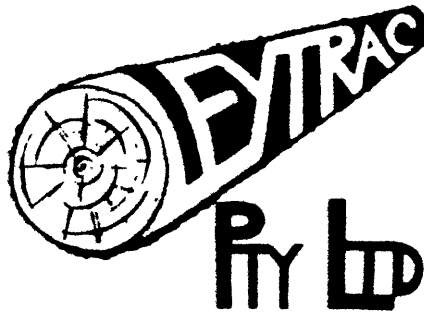
I have no objection on the basis that nobody will go into the area only to log the 5,000 M³. It is only logic that Leytrac should be allowed to fully harvest the remaining volume before leaving the permit area. Could you please consider this and give your decision before the expiry of the timber permit TP 16-35.


O M WASU

a/Assistant Secretary - Forests

RABAU OFFICE 92-2239
WEST COAST, N.I.P. 92-2932
RABAU TELEX: 92942

LOGGING
SAWMILLING
ROADING



151.16.35
BULLDOZERS (81)
ROAD GRADERS
TWIN POWER SCRAPERS
FOR HIRE
P.O. BOX 937
RABAU

000278

24th November 1988

Department of Forests
P O Box 5055
BOROKO

Attention: Mr. Andrew Tagamasu

Dear Sir

re: TP 16-35 - HARVESTING OF REMAINING MERCHANTABLE
TIMBER

We write to confirm our discussion Ferguson/Tagamasu yesterday afternoon wherein you advised that it is in order for Leytrac to proceed to harvest the remaining 12,000 m³ - 15,000 m³ left in its current areas. As discussed this should be completed by 31st March 1989.

As the correspondence from Forestry New Ireland showed, they believed that the merchantable timber should be harvested before we stopped operations, but we wanted to make sure that Head Office were informed as well.

Thank you for your prompt attention and assistance.

Yours faithfully

R. L. Ferguson

R. L. FERGUSON
Managing Director

Short term
Prepare a timber licence to
cover period from ~~12~~ 30.11.88 to
31/3/88. The Company's TP 16-35
has expired. The Company has been instructed
to continue operation while we fix up a TL.
✓ ✓ 24/11/88

9. WORKSHOP

The main work shop has been set up at King, and is equipped with adequate equipment including, power units, lathe, lifting and pressing gear, welders, compressed air etc.

A staffing list is attached. As recording of service time and materials to each individual machine is difficult, allocation of workshop costs is arbitrarily spread to cost centres according to the number of units of machinery assigned to that centre.

10. ELECTRIC POWER GENERATION

Power requirements are for workshop and domestic use only. There is a 20 KVA unit at King to service both needs and a 7.5 KVA at Pukpuk.

11. MARKETS AND MARKETING - LOGS

1. Leytrac has established a good reputation in the market place because of the high percentage of Taun and relatively few other species. Pieces size and quality is good and even in periods of low demand the logs can be sold.

Logs are being sold to Japan and Korea.

2. Logs

- a) Summary of species by grades for the past six months is included. (See appendix) This is considered indicative of average parcels of logs from this area. The average piece size is about 4.0 M3/pcs. and the quality is regarded as high by PNG standard.

- b) Marketing arrangements

Marketing is done by Lusco Enterprise Pty. Ltd. on a commission basis. The strategy is to offer each parcel of logs to several selected buyers, generally Weyerhaeuser Ltd. and Shin Asahigawa (PNG) Pty. Ltd., which provides competitive offers but also avoids the dangers of constant "Spot" marketing.

- c) Marketing Countries

Apart from traditional buyers in Korea and Japan it is intended to actively pursue sales to China, although it would appear that our species quality is too high for usual Chinese requirement.

d) Sales Promotion

The best sales promotion of PNG logs is regular supply of parcels of uniform quality logs, however a policy of active promotion has been devised which is based around the SEALPA Grading Rules. Logs are to be presented with attention given to debarking, correct crosscutting, correct scaling, prevention of end splitting etc and in particular correct grading. Having established a knowledge of the usual grade percentages logs will then be marketed by major species with emphasis being placed on comparison of prices in Malaysia for similar species and quality. This highlights the best properties of our logs and avoids the stigma of being referred to as "MIXED M.L.H.".

e) Pricing

The prices of PNG logs has been very volatile over the past several years varying from a low of K43.00 to a high of K80.00, in a period where prices were the highest since 1979. Compounding the problem is the weakening of the Kina against the USDollar, which not only affects the log price in Kina but also increases costs because of higher machinery, spares, fuel costs etc.

The current M.E.P. value of Leytrac logs is about US\$61.00 or (K57.50) which is close to actual market price.

Another approach was to plot average prices from 1975 to present and for five years. This gave a rising trend with around 8% real increase per year with 1985 value of K50.00. This figure has been used but I have included a table comparing effect on profitability of a range of prices from K40.00 to K60.00.

Shipping

Sales of logs are made on F.O.B. basis hence buyers arrange vessels. We are hesitant to take the associated risks of chartering ships. However, if reliable PNG flag vessels become available since we would promote their use.

12. PROJECT IMPLEMENTATION - TIME SCHEDULE

Leytrac has some 100,000 M3 available on existing leases which is something less than two years logging at allowable cut.

The last 30-40,000 M3 will be on marginal terrain which will make logging slow and expensive.

APPENDIX 5ACENTRAL NEW IRELAND TRP AREA

NIFA COMPANIES

OTSUKA FURNITURE COMPANY

NEW IRELAND OTSUKA DEVELOPMENT PTY LTD

CONTENTS

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INTRODUCTION

By New Ireland standards this was a very big project which commenced in 1976 amidst high hopes, all of which were blighted when the joint venture company went into liquidation in 1983. At the time of the Commission's hearings in New Ireland there was no activity in this Permit Area but the circumstances surrounding its failure were still casting a long shadow over the New Ireland timber scene. The investigation into this project was limited to a study of DOF files and to having discussions with some senior officers. Evidence was taken however at a public hearing on the 11 September 1987 into recent attempts to recommence logging and to reopen the Karu sawmill.

BACKGROUND

The Central New Ireland Timber Area consists of approximately 98000 ha. and originally contained about 700 000 m3 of timber. Permit No 16-16 was issued to a joint venture company New Ireland Otsuka Development Pty Ltd (NIOD) which was owned as follows:

| | |
|------------------------------------------|-----|
| Otsuka Furniture Company Pty Ltd (Japan) | 90% |
| NIFA Pty Ltd (a landowner company) | 10% |

A project agreement was signed between the State and NIOD on 14 September 1976 after which the permit was issued to NIOD for a period of 20 years commencing 9 November 1977. Under the agreement NIOD undertook substantial infrastructure conditions in return for substantial log export entitlements. NIOD was obliged to build:

- (a) A kiln dry plant by 9 November 1980;
- (b) A wharf and berthing facilities by 14 December, 1980
- (c) A town for 2000 people by 14 December 1980;
- (d) A furniture factory by 14 May, 1981.
- (e) A planing mill by 9 November 1981

OPERATION

The files disclose that a full scale logging operation commenced using temporary wharf facilities for loading. Complaints about the nature of the operation were frequent. As the deadline for completion of the major building projects approached and passed it became clear that the company did not intend to fulfill them. NIOD used up its log quota and built two labour dormitories instead of a town. Under pressure from DOF it installed a reconditioned sawmill at Karu but did not commence local processing except on a very small scale for its own requirements. None of the abovementioned conditions were fulfilled.

NIOD was ordered to cease operating in 1982 and went into voluntary liquidation in July 1983 leaving millions of kina payable as damages under the project agreement, the unused Karu sawmill, a partially logged forest, and bitter memories as its only mementos. There were few benefits to the local people. The project agreement was never formally terminated, apparently as there was legal advice that termination could jeopardise the State's chances of obtaining damages against Otsuka Furniture Company which had guaranteed NIOD's damages obligations.

ATTEMPTED REVIVAL

In October 1986 DOF advertised for potential logging and marketing contractors to indicate interest. The following companies showed interest:

- i) Nationwide Consultants
- ii) Groome and Associates,
- iii) Kina Timber SDN. BHD.
- iv) Wewak Timbers Pty Ltd (now Madang Timbers)
- v) Leong Pow Kue and Sons SDN. BHD (Goodwood
or Rosewood in PNG)
- vi) Luabar Logging
- vii) Bowmans - a member of the Pagini Group.
- viii) Timbersales Pty Ltd
- ix) Channel Timbers Pty Ltd, and
- x) Malaysia Overseas Investment (PNG) Pty
Ltd.

Otsuka Furniture Company prompted NIFA to apply for the permit in its own right and to then employ Otsuka as its logging and marketing contractor. The application (not surprisingly) was rejected.

The area has not been logged since mid 1982.

Early in 1987 Timbersales showed an interest in logging the area and starting up the disused sawmill at Karu. The Commission held one public meeting at Karu Sawmill to inquire into this new initiative. Sworn evidence was not taken but a number of key figures spoke. Those present were:

| | | |
|------------------|---|----------------------------------------------|
| Peter Ruasoi | : | Chairman of Directors, NIFA |
| Ben Watlen | : | Secretary, NIFA |
| Martin Watlen | : | Public Relations Officer, NIFA |
| Mrs Betty Watlen | : | |
| Michael Laviri | : | a landowner |
| Augustine Damat | : | a representative for some NIFA landowners |
| Marty Nagel | : | Logging Manager, Timbersales |
| Joe Moisu | : | Business Development Officer |
| Jack Masu | : | Assistant Secretary (Forests) |

COMMENTS

I have recorded events at the Karu sawmill meeting in some detail as it captures "live" some of the elements which are common to so many agreements which, after signing, have proved unsatisfactory to the landowners:

- (a) Upfront "benefits" to company directors and influential landowners

It was quite clear that Timbersales had provided a four wheel drive vehicle for use by NIFA directors. Timbersales' Martin Nagel explained that this was not really a gift but more like "extended credit". I interpreted this as meaning that, if the operation went ahead, the cost of the vehicle would be deducted from NIFA's share of the profits.

In addition to the vehicle already given, Timbersales had promised the immediate payment to NIFA of K200,000 as soon as the agreement was signed and approved. Nagel explained that the amount represented advance payment of rent for the sawmill and was to be considered as payment in lieu of monthly rent for a period of 13 years. This must have been a very attractive offer to NIFA's directors, secretary and public relations officer. Even though NIFA had been inactive since its formation, the prospect of a fund from which wages, directors fees and transport and other expenses could be paid, would have been almost irresistible.

(b) Pressure to sign the agreement

During negotiations to work up the agreement with Timbersales it seems, on the face of it, that attempts were being made to assist NIFA representatives to fully understand what was being proposed and to make a free independent decision. Thus government representatives Masu and Moisu were present at some meetings and NIFA had the services of a lawyer Mana Isana who also attended some meetings.

On the other hand the original draft of the agreement was drawn up by Timbersales and its consultant Peter Connell, and amendments were later agreed to. There was then difficulty in arranging for NIFA representatives to sign it and the way that was finally arranged was very unsatisfactory and gave rise to justifiable suspicions.

The retyped agreement, which purportedly included the agreed amendments, was never referred back to NIFA's lawyer Mana Isana. Instead the NIFA representatives were driven to the Kavieng airport where Timbersale's director John Dixon was about to board an aircraft for Moresby to take the documents down to get Ministerial approval.

NIFA chairman Peter Ruasoi and Secretary Ben Watlen signed the agreement with Nagel and Moisu as witnesses. Many documents were signed and they were not read by either signatories or witnesses.

At the meeting both Chairman and Secretary said they were confused about what they had signed but thought that it had been agreed that Timbersales would be the operator and NIFA would do the marketing. Nagel was adamant that the agreement was for a 70/30 percent split on logs exported and an 85/15 percent split on sawn timber sales. He said that Connell was to handle the marketing.

There was great dissatisfaction expressed by NIFA representatives when they heard the terms of the agreement explained by Nagel at the meeting and by landowners present when they heard the circumstances of the airport signing. The meeting requested DOF officer Mantu to intervene in Port Moresby to make sure that the Agreement did not receive approval.

Mr Mantu was unable to find any record that the agreement was ever submitted to DOF and Timbersales did not proceed with the project. At a later date Timbersales was endeavouring to recover its vehicle from NIFA.

POSTSCRIPT

At the time of writing this report there is evidence of illegal logging by Nationwide Consultants in the Central New Ireland TRP Area which DOF is endeavouring to stop.

The New Ireland Provincial Government is also actively appraising a proposal by the Santa Group to exploit the area in conjunction with another "landowner" company Central New Ireland Development Corporation.

TO : THE MINISTER FOR FORESTS

000279

FROM : THE SECRETARY - FORESTS

FILE : 151-16-35

DATE : 1 DECEMBER 1988

SUBJECT : SHORT TERM TIMBER PERMIT NO: 16-35 LEYTRAC
PTY LTD.

FACTS AND CONSIDERATIONS

The Timber Permit No: 16-35 issued to Leytrac Pty Ltd over the SIAMAN Consolidated TRP's has expired on the 13th November, 1988.

It was issued for a three (3) year period over the Consolidated TRP's covering some 11,060 hectares.

The Division of Forests, New Ireland, fully supports the renewal for another six (6) months to Leytrac Pty Ltd being for the following reasons:

- i) fully harvest the remaining resource (about 15,000 mc) which will be left behind at the expiry of the permit.
- ii) Maintain a continuity of employment for the people in the area until the proposed Lak and Kamdaru TRP's are processed.

However, these would only be possible if you sign the Short Term Timber Permit.

DEPARTMENTAL VIEW

The Department has no objection on the renewal of the Timber Permit for another six (6) months period.

RECOMMENDATION

It is recommended that you sign the attached Timber Permit.


M. KONTAGAREA
Secretary