

## **PNG FORESTRY REVIEW TEAM**

### **AUDITING FORESTRY PROJECTS CURRENTLY "IN PROCESS" FOR COMPLIANCE WITH THE REQUIREMENTS OF THE POLICY, THE FORESTRY ACT AND OTHER REGULATIONS AND GUIDELINES**

---

**To:** Government of Papua New Guinea  
C/- The Interagency Forestry Review Committee  
Office of the Chief Secretary to Government

**From:** Review Team

**Date:** 5 February 2001

**Re:** **INDIVIDUAL PROJECT REVIEW REPORT NUMBER 19**

**MIDDLE RAMU BLOCK 1 (KUMLAM) (MADANG PROVINCE)**

---

#### **AUDIT CONCLUSIONS AND RECOMMENDATIONS:**

##### **RESOURCE AND PLANNING ISSUES:**

The net loggable area has been over-estimated by an estimated 47,000 ha in the FMA document. Also the estimated volume per hectare is questionably high. However the sustainable timber yield principle has been complied with and the corrected estimated sustainable annual cut is sufficient to support a conventional stand alone log export project (provided the volume per hectare is verified unchanged). There is a suggestion that a Provincial Government supported oil palm development is being planned within the project area.

##### **LEGAL COMPLIANCE:**

Due process has been observed. However, this project has not really progressed since Incorporated Land Group work commenced in 1996 – Landowner Companies generally respond to delays by involving prospective developers in ways that tend to compromise the allocation procedures.

##### **LANDOWNER ISSUES:**

Substantial landowner awareness work was undertaken by PNGFA. The Incorporated Land Groups are incomplete and flawed in that they are based on families rather than clans.

RECOMMENDATIONS (INCLUDING CORRECTIVE MEASURES IF REQUIRED):

- That the PNGFA investigate the status of the suggested oil palm development and its potential impact on the extent of the forest available for sustainable management.
- That the PNGFA verifies its volume estimates.
- That the PNGFA revisits the ILGs.

That subject to the above, if the potential for a sustainable forestry project is confirmed:

- That the PNGFA progresses this project without undue delay and with continued efforts to fully involve landowners in informed decision making.

---

**Note:** The individual project reports summarise the findings of the Review Team regarding material compliance issues, and present project specific recommendations for the consideration of the Interagency Forestry Review Committee. Separate reports produced at the end of the review process set out in more detail the audit procedures applied, and comments and recommendations regarding existing policies, legal requirements and project development processes.

---

## **REVIEW REPORT**

### **SUMMARY PROJECT DETAILS:**

Project type:	Forest Management Agreement / Timber Permit
Processing stage:	Formation of Incorporated Land Groups (ILGs) completed. Forest Management Agreement approved by the Board and currently being signed.
Gross FMA area (a):	159,000 ha
Gross loggable area (a):	77,000 ha
Net sustainable timber yield (a):	122,000 m <sup>3</sup> /annum (b)

(a) Anticipated. To be finalised once it is known which ILGs sign the FMA.

(b) Review Team estimate based on:

- Area information extracted from the PNGFA Geographic Information System (FIMS);
- Gross volume per hectare information from PNGFA field inventory work (FIPS);
- A standard reduction factor of 15% applied to gross loggable area;
- A standard reduction factor of 30% applied to gross volume per hectare; and
- A 35 year cutting cycle.

## **A. FORESTRY AND PLANNING ASPECTS**

<p><b>1. SECTORAL PLANNING AND CONTROL</b></p>	
<p><u>PROVINCIAL FOREST PLAN</u></p> <ul style="list-style-type: none"> <li>• PNGFA Board endorsed Provincial Forestry Plan exists:</li> <li>• Is the Provincial Forestry Plan current:</li> <li>• Is the Project listed in the Provincial Forestry Plan:</li> </ul> <p><u>NATIONAL FOREST PLAN</u></p> <ul style="list-style-type: none"> <li>• Is the Project listed in the National Forest Plan as required under s54 of the Act:</li> </ul>	<p>Yes</p> <p>No – expired August 1999</p> <p>Yes</p> <p>Yes</p>

<p><b>2. PROJECT DEFINITION IN FMA DOCUMENT</b></p>	
<ul style="list-style-type: none"> <li>• Is the gross loggable area properly defined:</li> <li>• Has the total gross merchantable volume been properly estimated:</li> </ul>	<p>No. The FMA document indicates a gross loggable area of 147,000 ha without explaining how this is derived – applying the standard 15% reduction results in the net loggable area estimate of 125,000 ha shown in the FMA. The FIMS area data indicates a gross loggable area of 91,000 ha, and a net loggable area of 77,000 ha. The FMA area data is thus a significant over-estimate.</p> <p>There is anecdotal evidence of a planned oil palm development within the project area which is purported to have Provincial Government support.</p> <p>No. FIMS data indicates a gross loggable volume of 78.9 m<sup>3</sup>/ha but the sample is small, and the volume per hectare intuitively seems high. The FMA document sets out a lower gross loggable volume per hectare of 61.4</p>

<ul style="list-style-type: none"> <li>• Has the net merchantable volume been properly estimated:</li> <li>• Have “Fragile Forest Areas” (OEC definition) been considered:</li> <li>• Have environmentally sensitive areas been considered:</li> <li>• Have conservation set asides been appropriately implemented:</li> </ul>	<p>m<sup>3</sup>/ha. The difference is due to the volume of “other” species being overlooked. This is explained by the NFS as a “human error”. As a consequence the net volume per hectare is significantly understated in the FMA document (by 15.0 m<sup>3</sup>/ha – on the assumption that the FIPS data is correct).</p> <p>No. The gross loggable area has been over-stated, and the harvestable volume per hectare has been under-stated. These errors compensate. The FMA indicates a net harvestable volume of 5.4 million m<sup>3</sup>. A corrected figure is 5.2 million m<sup>3</sup>.</p> <p>No, because there is no agreed position regarding fragile forest areas. An estimated 4% of the gross loggable area of the Middle Ramu Block 1 project area is classified as Fragile Forest.</p> <p>Yes. Large scale Gazetted conservation areas are excluded from the FMA area. Small scale Gazetted conservation areas are identified and excluded from the gross loggable area. The Logging Code prohibits logging in defined environmentally sensitive areas which are excluded when the gross loggable area is defined.</p> <p>The standard FMA document reserves the right for the PNGFA to exclude up to 10% of the gross loggable area from logging for conservation purposes.</p>
--	--

<p><b>3. ESTIMATE OF SUSTAINABLE CUT</b></p>	
<ul style="list-style-type: none"> <li>• Has the sustainable annual cut been properly calculated:</li> </ul>	<p>Not yet estimated by PNGFA, but it would be over-estimated if they rely on the resource description shown in the FMA. Preliminary data suggests a sustainable cut of 122,000 m<sup>3</sup>/a, or 117,000 m<sup>3</sup>/a if the areas classified as Fragile Forests are excluded from harvesting.</p>

<ul style="list-style-type: none"> <li>Is the estimated sustainable yield sufficient to support a financially efficient logging investment (min 30,000 m<sup>3</sup>/a):</li> </ul>	Yes
<ul style="list-style-type: none"> <li>Is the estimated sustainable yield sufficient to support a stand-alone log export operation (min 70,000 m<sup>3</sup>/a guideline set by PNGFA Board):</li> </ul>	Yes

<b>4. CONSISTENCY BETWEEN DOCUMENTS</b>	
<ul style="list-style-type: none"> <li>Is the area and volume data consistent between the FMA, the Development Options Study and the Project Guidelines:</li> </ul>	Only an FMA prepared to date.
<ul style="list-style-type: none"> <li>Any other material inconsistencies regarding the resource:</li> </ul>	None found.

<b>5. ANY OTHER MATERIAL NON-COMPLIANCE REGARDING THE RESOURCE</b>	
<ul style="list-style-type: none"> <li>The standard cutting cycle assumed in the sustainable annual cut calculation.</li> </ul>	The National Forest Policy specifies a 40 year cutting cycle. In practice a 35 year cycle is applied. No explanation is available.

**RECOMMENDATIONS REGARDING FORESTRY ASPECTS:**

**1. SECTORAL PLANNING AND CONTROL**

- That the PNGFA pro-actively assist the Madang Provincial Government update their Provincial Forest Plan (s49), and facilitate the inclusion of the updated Provincial Forest Development Programme (s49(2)(b)) into the National Forest Development Programme (s47(2)(c)(ii)) as required under the National Forest Policy (Part II (3)(b)) as the basis for the PNGFA’s acquisition and allocation programme.

## 2. PROJECT DEFINITION IN FMA DOCUMENT

- That the PNGFA checks and amends if necessary the project area and gross volume per hectare information.

## 3. ANY OTHER MATERIAL NON-COMPLIANCE REGARDING THE RESOURCE

That the PNGFA either base their sustainable cut calculations on a 40 year cutting cycle (as required under the National Forest Policy) or provide justification for adopting a 35 year cutting cycle.

## **B . LEGAL COMPLIANCE**

### **SUMMARY OF LEGAL COMPLIANCE:**

- Due process has been observed.

Some additional notes are presented in Appendix 1.

### **RECOMMENDATION REGARDING LEGAL ASPECTS:**

1. That delays between the conduct of ILG work and the signing of FMAs should be avoided. Such delays encourage the involvement of prospective developers at times when their involvement is not timely. In this case, as in most cases, a landowner company that wished to see the process advance more expeditiously arranged their involvement.

## **C. LANDOWNER ISSUES**

<b>RESOURCE ACQUISITION</b>	
<b>1. Landowner Awareness</b>	
<b>The Review Team was looking for evidence of an awareness package containing information explaining the purpose, benefits and otherwise to be expected from the project. This could include general conditions that could be used for all prospective projects.</b>	<ul style="list-style-type: none"><li>• NFS had carried out substantial awareness in the proposed project area. Awareness included the proposed approach that is to be used in the development of the project.</li><li>• During the resource inventory survey, NFS held awareness meetings with landowners on the status of the moratorium.</li><li>• The project appears to be pushed by certain landowners with unrealistic expectations. These expectations need to be addressed by NFS at some point in time.</li><li>• Landowners need to be briefed on what is</li></ul>

	being proposed by Madang Timbers Ltd and Super Mahogany Ltd.
<b>2. Landowner Mobilisation</b>	
<p><b>Landowners are required to be mobilised by means of the Land Groups Incorporation Act. The Review Team was looking to find evidence of full participation by landowners in the ILG process particularly with regard to:</b></p> <ul style="list-style-type: none"> <li>• <b>Recognition that the resources are owned by individual land groups and not collectives of land groups</b></li> <li>• <b>The formation of representative bodies for project consultations and negotiations.</b></li> </ul>	<ul style="list-style-type: none"> <li>• Landowners conducted some of the ILGs on their own and claim to recognise 200 ILGs.</li> <li>• NFS version only recognises 45 ILGs and 52 by March 1998.</li> <li>• By the time the FMA is signed there are 117 ILGs, only 81 signed the FMA</li> </ul> <p>The review of the ILGs highlight the following:</p> <ul style="list-style-type: none"> <li>• Membership lists are incomplete as they appear to list only family members.</li> <li>• There are no property lists</li> <li>• One or two ILGs do not list women</li> </ul>
<b>3. Forest Management Agreement</b>	
<p><b>Must Specify:</b></p> <ul style="list-style-type: none"> <li>• <b>Monetary benefits for the customary group</b></li> <li>• <b>Area in agreement by map</b></li> <li>• <b>PFMC certificate as to</b> <ul style="list-style-type: none"> <li>- <b>Authenticity of the tenure of the customary land</b></li> <li>- <b>Willingness of customary owners to enter into FMA</b></li> </ul> </li> <li>• <b>Review level of consultation with landowners</b></li> </ul>	<ul style="list-style-type: none"> <li>• Monetary benefits are itemised in Schedule 7 of the FMA.</li> <li>• Certificate from the PFMC endorsing the FMA completed</li> <li>• Proposed area is specified in the attached map.</li> <li>• This project is proposed by NFS to be developed as a Model FMA under ITTO funding</li> </ul>



RESOURCE ALLOCATION	
1. Development Options Study	
<p>The Review Team was looking to see if the Development Options Study:</p> <ul style="list-style-type: none"> <li>• Catered for landowner concerns and aspirations and if</li> <li>• All options presented for the resource development had a realistic chance of being pursued.</li> </ul>	<ul style="list-style-type: none"> <li>• The options proposed by Madang Timbers Ltd and Super Mahogany Ltd should be included in the options presented to the landowners by the PNGFA.</li> <li>• A proposed Bismark Ramu Wildlife Management Area proposal has to be considered also although it would reduce the harvestable timber volume for the project.</li> </ul>
2. Project Guidelines	
Draft guidelines must be discussed and developed in consultation with the resource owners	Yet to be drafted
3. Project Agreement	
Authority is required to involve landowners in selection of the “developer” and in negotiation of the Project Agreements according to the terms of the FMA.	This is yet to be drafted and negotiated
4. Environmental Plan	
EP is produced by the preferred developer according to the prescription of the Environmental Planning Act. Evidence of consultation with landowners is important.	This yet to be done

Additional notes are presented in Appendix 2.

**CONCLUSIONS REGARDING LANDOWNER ASPECTS:**

- It is clear from the sample ILG files that the work done is incomplete. The composition of some of the ILGs can be challenged on grounds that they do not include all clan members. Lack of property lists precludes any certainty between the land groups and the ground inside the FMA.
- It is clear that landowners undertook the ILGs themselves but were not supervised by the PNGFA.
- That not all proposed development options were presented to the landowners.

**RECOMMENDATIONS REGARDING LANDOWNER ASPECTS:**

1. That the PNGFA revisits the ILGs (possibly with the assistance of the proposed Model FMA Project to be funded by ITTO).
2. That the PNGFA present all of the options for development to land owners as part of the awareness program and in the Development Option Study.

## **APPENDIX 1 : NOTES ON LEGAL ASPECTS**

### **Project Background**

Despite the fact that ILG work was commenced in early 1996 no FMA has been executed. A Minute in January 1996 from the Manager Acquisitions noted that the Madang Provincial Government had completed 200 ILGs and that they had been advised to send them in for verification.

In March 1996 correspondence from a landowner company indicated that they had engaged Super Mahogany Pty Ltd to fund the survey work. Concerns about the involvement of this company were raised by the PFMC which had advised the landowner company that this work was the responsibility of the PNGFA.

The Managing Director wrote to the landowner company in February 1997 confirming that the survey work had been completed in September 1996 and that ILG work was nearing completion. Some ILG certificates were issued in October 1997.

It appears that a patrol was planned in April 1998 to obtain signatures for the FMA. It was proposed that the patrol would be for 6 days and a modest cost estimate of K24, 861-50 was submitted.

Nothing was then done to finalise the FMA until the later part of 1999. The delay was said in June 1998 to be due to a lack of funds and also to the priority that was being given to Josephstaal. In September 1999 the Madang Provincial Government committed K37, 000 for this work. An attempt was made to undertake this work but was aborted due to the unavailability of a helicopter.

In November 1998 Madang Timbers requested that parts of this project area be allocated to them due to a smaller than expected volume at its operations at Sogeram. The Chairman of the PNGFA told the company to make application for the area after the acquisition processes had been completed.

By the middle of 2000 it became apparent that steps would be taken by NGOs to preserve conservation areas within the project area. This angered the Managing Director as the project had been selected, along with Musa Pongani, to be a "model project". Funds for this purpose had been committed by the International Tropical Timber Organisation, although there is no indication on the file as to whether these funds had been accessed and if so, for what purpose they had been committed. There had been considerable delays previously due to a lack of funds.

The Manager Acquisitions noted in October 2000 that 19 ILGs had refused to sign the FMA.

### **Comments**

- Both the PNGFA and the PFMC took a responsible approach in dealing with Super Mahogany's activities in the early stages of this project.

- The Chairman of the PNGFA made an appropriate response to Madang Timbers when it expressed its interest in the area.
- The Manager Acquisitions correctly advised the PFMC to have landowner representatives present at its meeting when the project was discussed.

## **APPENDIX 2: NOTES ON LAND OWNER ASPECTS**

- Large project area bounded by Sogeram on the south east and Josephstaal on the north west. Allowable cut 153,000 m<sup>3</sup>.
- Catholic Mission in Annanberg have been milling timber for a long time.
- Jim McKinnon pressed for a logging for export licence in the 1960's.
- 1996 LANCO, KDC propose to conduct survey with Super Mahogany Pty Ltd.
- Landowners recognise 5 operational areas Block A to E.
- Middle Ramu Timbers Ltd Benny Kum.
- Andarum Forest Resources Ltd Michael Ragai.
- Angawa/Kumoram Landowner Group T J Arikingi.
- Madang Timbers apply to get Middle Ramu as an extension of Sogeram.
- 18 June 1999, Governor Kas offers to fund FMA patrol by K22,000 cheque.
- Bismark Ramu Group propose a Wildlife Management Area in the middle of the proposed FMA. NFS threatens court action.