

## **Senate Standing Committee on Foreign Affairs, Defence and Trade**

### **Inquiry into the main economic and security challenges facing PNG and the island states of the Southwest Pacific**

Question taken on notice at hearing 20 November 2008

#### **Department of Agriculture, Fisheries and Forestry**

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# **Inquiry into the main economic and security challenges facing PNG and the island states of the Southwest Pacific**

## **Responses to Questions on Notice**

### **Department of Agriculture, Fisheries and Forestry**

#### **1. Tying access arrangements to other activities (P.66)**

Countries seeking fishing access arrangements, or with already established fishing access arrangements, often contribute funding for work on non-fisheries related infrastructure, capital, education and/or health initiatives. It is unknown whether these funding arrangements are tied, explicitly or not, to fishing access arrangements. This information is not publicly available but has often been raised in discussions with officials from Pacific Island Countries in noting difficulties in assessing the benefits of particular arrangements and potential consequences of establishing new or alternative arrangements.

#### **2. Unauthorised vessels fishing in the Exclusive Economic zones of Pacific Island countries (p.67)**

The following vessels were nominated by Pacific Island Countries and Territories for inclusion on the Western and Central Pacific Fisheries Commission's Illegal, Unreported and Unregulated (IUU) Vessel List in 2007 and 2008. Some of these vessels were not subsequently placed on the IUU vessel list as satisfactory sanctions were taken against vessels by flag States. This is the only publicly available information on unauthorised vessels fishing in the Exclusive Economic Zones (EEZs) of Pacific Island Countries. The IUU vessel list was established at the start of 2007.

<b>Vessel Name</b>	<b>Vessel Flag</b>	<b>Offence</b>
Yin Chen No. 1	Chinese Taipei	Fishing illegally inside Cook Islands' EEZ
Athena F	Venezuela	Suspected of fishing illegally inside Cook Islands' EEZ
Jinn Feng Tsair No. 1	Chinese Taipei	Breach of licensing condition inside Federated States of Micronesia's EEZ
Daniela F	Venezuela	Fishing illegally inside French Polynesia's EEZ
Chu Huai No. 638	Chinese Taipei	Fishing illegally inside Tonga's EEZ
Ugavi	Ecuador	Fishing illegally inside Cook Islands' EEZ
Buena Suerte J-107	PNG (Philippines nationality)	Breach of PNG fishing license conditions
Buena Suerte J-53	PNG (Philippines nationality)	Breach of PNG fishing license conditions
Buena Suerte J-96	PNG (Philippines)	Breach of PNG fishing license

	nationality)	conditions
Buena Suerte J-116	PNG (Philippines nationality)	Breach of PNG fishing license conditions
Buena Suerte J-107C	PNG (Philippines nationality)	Breach of PNG fishing license conditions

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### 3. How significant is the illegal logging or the over logging in both PNG and Solomon Islands?

There is insufficient forestry data available to determine the significance of illegal logging in PNG or the Solomon Islands. The following information is publically available. The tables below describe the current rates of logging in those countries relative to the estimated sustainable wood yields.

#### Papua New Guinea (PNG):

The Food and Agricultural Organisation of the United Nations (FAO) estimates that there are 29.4 million hectares of forest in PNG, with 24.8 percent allocated for production<sup>1</sup>. The following data from the International Tropical Timber Organisation 2006 annual review indicates that wood harvesting volumes are below the sustainable yield estimates:

#### Production of Tropical Timber by PNG (1000 m<sup>3</sup>)

2005 Wood harvest	Estimated sustainable yield (2800 m <sup>3</sup> ) minus production	2006 Wood harvest	Estimated sustainable yield (2800 m <sup>3</sup> ) minus production	2007 Wood harvest	Estimated sustainable yield (2800 m <sup>3</sup> ) minus production
2381 m <sup>3</sup>	419 m <sup>3</sup>	2399 m <sup>3</sup>	401 m <sup>3</sup>	2412 m <sup>3</sup>	388 m <sup>3</sup>

Although reported production is below the estimated sustainable yield, some groups such as the World Wildlife Fund, have expressed concern that the estimates of timber harvesting are not accurate<sup>2</sup>.

The following data on forest change is obtained from the FAO's State of the Forests Report 2007:

#### Change in extent of Primary Forests PNG

Area of Primary Forests 1990 (1000 ha)	Area of Primary Forests 2000 (1000 ha)	Area of Primary Forests 2005 (1000 ha)	Annual change of total forest area from 1990 – 2000 (ha/year)	Annual change of total forest area from 2000-2005 (ha/year)
29,210	26,462	25,211	-274,800	-250,200

#### SOLOMON ISLANDS (SI):

It has been reported that the rate of timber harvesting in 2007 was 1.5 million cubic meters, which is four times the annual allowable rate<sup>3</sup>. The interim results of the natural forest inventory indicate that the total amount of harvestable wood is approximately 13 million cubic meters<sup>4</sup>. Reducing harvesting to sustainable levels and

<sup>1</sup> FAO (2005) Global Forest Resource Assessment 2005: Papua new Guinea Country Report, Country Report 097, FAO Rome.

<sup>2</sup> David Melick, 2008, Seminar on challenges to the national implementation of activities to reduce emissions from deforestation and forest degradation.

<sup>3</sup> <http://www.solomontimes.com/news.aspx?nwID=2870>

<sup>4</sup> FAO, Asia and the Pacific National Forestry Programmes, 1999

improving logging practices are two major issues. There is added concern over the high rates of population growth and subsequent pressure that may be exerted on land and forests, 9% of which have been degraded due to agricultural activities, swidden subsistence farming, logging, and damage by natural disasters, such as cyclones. It is predicted all virgin forest in the Solomon Islands will be cut by 2015 with a serious wood shortfall by 2018<sup>5</sup>.

The following data on changes in forest area and the volumes of wood harvest have been obtained from the FAO's State of the Forests Report 2007:

Total Forest (2005)	Production of timber 2004 (includes wood fuel, industrial roundwood and sawnwood)	Estimated Sustainable yield (300,000 m <sup>3</sup> ) minus Production	Annual change rate in total forest area (2000-2005)
2,172,000 ha	1,170,000 m <sup>3</sup>	-870,000 m <sup>3</sup>	-1.7 %

**4. Why is there a particular nexus between the activity of money laundering and the activity of illegal logging? Are we talking about the laundering of moneys from outside of these countries or the laundering of moneys made illegally inside these countries?**

The Attorney-General's Department has provided the following response as it is the lead agency on this matter.

There is a simple nexus between money laundering and illegal logging - illegal logging could generate criminal proceeds to be laundered. These proceeds may be derived by different parties both within and outside the countries where the logging takes place.

For example, a foreign owned company that is illegally logging in excess of its quota is making illegal profits. These profits may be laundered to disguise the fact that the logging was illegal. It may be that the beneficial owner of the foreign company is many miles (and financial transactions) away from where the forest is logged, and their identity may or may not be known.

This may also occur by a company paying a bribe to a corrupt official to be given an increased logging quota. The bribe received by the official is also the proceeds of crime. The official may seek to disguise the fact that his income exceeds his salary by laundering the funds. Even if the official simply deposits the funds in a bank account this would constitute money laundering in most countries.

Logging may also be used for trade-based money laundering. Trade based money laundering is the process of disguising the proceeds of crime, and moving value through the use of trade transactions in an attempt to legitimise its illicit origins. In practice this can be achieved through the misrepresentation of the price, quantity or quality of imports or exports. For example, if organised crime is involved in illegal logging, funds generated through, for instance, people trafficking could enter the financial system through a seemingly legitimate logging transaction, where the value of the logs is overestimated in an invoice.

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<sup>5</sup> FAO, Asia and the Pacific National Forestry Programmes, 1999

The department is not aware of any data quantifying the extent of money laundering associated with illegal logging in the Pacific and therefore cannot comment on the activities and degree to which these occur in practice.

- 5. (a) What is a silvicultural levy?**  
**(b) What are the advantages and disadvantages of imposing such a levy?**  
**(c) Is a silvicultural levy used in other Pacific Island Countries?**

(a) Silvicultural or reforestation levies are payments, usually made into a trust fund, based on a rate per cubic meter of timber harvested. This fund helps cover the costs of silvicultural treatments on crown land.

Silviculture is the art and science of controlling the establishment, growth, composition, health, and quality of forests to meet diverse needs and values of the many landowners, societies and cultures.

(b) Silvicultural or reforestation levies are used to:

- help conserve the biodiversity and preserve the forest resource by increasing the rate of natural reforestation after logging (and increasing its economic value, thereby reducing the likelihood that it will be cleared for agricultural or other purposes);
- increase future income by increasing the number and quality of high value trees available for harvest in the next rotation; and
- provide an incentive for villagers to set aside parts of their land for long term forest management.

A disadvantage of imposing such a levy is that it increases the price of timber production. This could lead to an increase in illegal logging activities as there is an additional incentive for logging operators to avoid paying levies and fees. Such a levy places responsibility for silvicultural operations back onto the government authorities. Scarcity of resources, lack of political will, weak law enforcement, institutional weaknesses, shortages of suitably skilled staff and inadequate operational structures all create impediments to implementation of works that the levies are collected to undertake<sup>6</sup>.

(c) A number of Pacific Island countries collect revenue from forest levies, such as reforestation or silvicultural levies, to support tree planting and tending, reforestation, and other silvicultural operations.

Solomon Islands - The Forests Act establishes a Forest Trust. Besides government appropriations and outside donations, the Trust receives half the proceeds from fines and license fees under the Act and revenue from forest development levies and sale of forfeited property. The Trust supports tree planting and tending, reforestation, and other purposes set out in regulations.<sup>7</sup>

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<sup>6</sup> Status of Tropical Forest Management 2005, International Tropical Timber Organisation

<sup>7</sup> An Overview of National Forest Funds Current Approaches and Future Opportunities (January 2001 by Kenneth L. Rosenbaum and Jonathan M. Lindsay Prepared as a contribution to: The Oslo Workshop on Finance for Sustainable Forest

Vanuatu - The Forest Act 1982 establishes a Forestry Fund, to be kept by the Treasury. Each year there is to be paid into the fund (a) a sum equivalent to what the Minister receives in repayments under plantation agreements, reforestation charges and penalties; (b) such other moneys Parliament may appropriate to the Fund; and (c) such moneys granted to the Government of Vanuatu for such purpose. The Fund is to be used for (a) establishment and maintenance of forest plantations under the plantation agreements; and (b) other afforestation and reforestation works<sup>5</sup>.

Fiji - Royalties are collected by the Forestry Department and passed on in full to the landowners, except for an administration levy. The Forestry Department also levies fees on the licence-holders for log-scaling and regeneration costs<sup>8</sup>.

PNG – as detailed in the ITS Global submission, forestry companies pay a reforestation (silvicultural) levy to the PNG Forest Authority (PNGFA). The levy is designed to maximise the probability of forests regenerating themselves with the same species and as fast as local growing conditions allow.

**6. Are you aware of the allegations by ITS Global that PNG Forestry recipients are not making the investment for which the levy is applied?**

The Papua New Guinea Forest Industries Association, for whom ITS Global acts as a consultant, has publically made these allegations on a number of occasions<sup>9</sup>.

A recent hearing by the Public Accounts Committee (PAC) raised questions regarding the status of the Reforestation Levy trust account. The PAC directed the PNGFA to deliver complete trust and bank records of the Reforestation Levy trust account to the Auditor General together with a list of trustees, signatories and the trust instrument both current and past. The hearing on the PNGFA was adjourned to a later date to be advised<sup>10</sup>.

**7. What are the problem countries in the Pacific? (with regard to the scale of illegal logging in Pacific Island Countries)**

There is insufficient forestry data available on illegal logging activities in Pacific countries. Most research on the Asia-Pacific region has focused on PNG, Indonesia and Malaysia. The major problem areas of illegal logging appear to be countries in South-East Asia. Developing countries and countries with economies in transition are at greatest risk.

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Management Oslo, Norway (22–25 January 2001)

<http://www.fao.org/docrep/003/x6821e/X6821E09.htm>

<sup>8</sup> [http://www.itto.or.jp/live/Live\\_Server/1238/Fiji.e.pdf](http://www.itto.or.jp/live/Live_Server/1238/Fiji.e.pdf)

<sup>9</sup> [http://www.garnautreview.org.au/CA25734E0016A131/WebObj/D0846361ETSSubmission-PNGFIA/\\$File/D08%2046361%20ETS%20Submission%20-%20PNGFIA.pdf](http://www.garnautreview.org.au/CA25734E0016A131/WebObj/D0846361ETSSubmission-PNGFIA/$File/D08%2046361%20ETS%20Submission%20-%20PNGFIA.pdf)

[http://www.fiapng.com/PC\\_pathetic\\_02.htm](http://www.fiapng.com/PC_pathetic_02.htm)

<sup>10</sup> <http://www.postcourier.com.pg/20080923/news.htm>

A 2005 Jaakko Poyry<sup>11</sup> report commissioned by the Department of Agriculture, Fisheries and Forestry identifies PNG as a country of concern with an estimated 70% of harvested timber deemed illegal. This figure is widely quoted by e-NGO's. However, it is disputed by the PNG forest industry and government. Nearly a quarter of the country's forests have been destroyed or degraded since 1972, with forestry operations confirmed to be the main driver of overall forest change in PNG according to the 2005 Jaakko Poyry report<sup>12</sup>.

**8. Does the Australian government have any views on current perceptions of the commercial forestry industry in PNG?**

The Australian government is aware of differing perceptions of the commercial forestry industry in PNG. Through a number of programs and projects the Australian government is assisting the PNG government and PNG forestry industries to improve their sustainable forest management practices and verify the legality of forest and wood products supply.

Minister Burke held discussions with PNG Forests Minister Belden Namah on 19 August 2008. Minister's Burke and Namah agreed that officials should work together on certification and the governance framework for verifying the sources of legally logged timber in PNG, leading to a possible Memorandum of Understanding between Australia and PNG on these matters.

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<sup>11</sup> [http://www.daff.gov.au/\\_data/assets/pdf\\_file/0004/785065/illegal\\_logging\\_report.pdf](http://www.daff.gov.au/_data/assets/pdf_file/0004/785065/illegal_logging_report.pdf)

<sup>12</sup> [http://www.daff.gov.au/\\_data/assets/pdf\\_file/0004/785065/illegal\\_logging\\_report.pdf](http://www.daff.gov.au/_data/assets/pdf_file/0004/785065/illegal_logging_report.pdf)