

# PAPUA NEW GUINEA REVIEW OF CURRENT LOGGING PROJECTS

CARRIED OUT UNDER THE AUSPICES OF THE DEPARTMENT OF NATIONAL  
PLANNING AND MONITORING

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## FINALISED INDIVIDUAL PROJECT REVIEW REPORT No 8.

TIMBER PERMIT (TP) : TP 2 –16 VAILALA BLOCKS 2,3  
TP HOLDER : FRONTIER HOLDINGS LTD  
LOGGER AND MARKETER (L&M) : FRONTIER HOLDINGS LTD  
L&M PARENT COMPANY (If Different) : RIMBUNAN HIJAU (PNG) LTD  
DATE OF FIELD REVIEW : OCT 2003  
DATE OF FINAL REPORT : APRIL 2004

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This Final Individual Project Review Report (IPRR) has been prepared by the Review Team after undertaking a review of documents, a field assessment, and receiving feedback to a draft IPRR distributed to stakeholders for corrections and comment. Responses were received from the following:

| STAKEHOLDER                     | COPY DRAFT IPRR PROVIDED | RESPONSES RECEIVED |
|---------------------------------|--------------------------|--------------------|
| Logging Company                 | Yes                      | Yes                |
| Timber Permit Holder            | (*)                      |                    |
| Landowner Company               | Yes                      | Yes                |
| PNG Forest Authority            | Yes                      | Yes                |
| Dept Environment & Conservation | Yes                      | Yes                |
| Provincial Administration       | Yes                      | No                 |

(\*) In this case the Logging Company is the Permit holder.

Disclaimer: It should be noted that this documents sets out the findings and views of the Review Team, and does not represent an official Government position.

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## **FOREWORD**

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The Terms of Reference for this Review of Existing Logging Projects provide a broad mandate to examine the operation of logging companies within their legal and contractual obligations, and the framework within which forestry activities are planned, monitored and controlled by the relevant Government Departments/Authorities. The Review is focused on future improvements in the actions of stakeholders, and not on the pursuit of instances of poor or non-performance. Of key concern are the future achievement of sustainable timber production within a stable regulatory framework; effective environmental guidelines for logging and associated roading; adequate attention to and mechanisms for forest conservation; and sound long term benefits for the forest resource owners.

Given this broad mandate, and the extensive requirements set out in the legal and contractual documents governing each logging project, the Review Team has by necessity focussed on identifying and exploring meaningful issues. This Final IPRR focuses on project specific areas of concern, and will be used as input for the Review Team's draft Observations and Recommendations Report.

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## **ACKNOWLEDGEMENTS**

The Review Team acknowledges the support and cooperation given by PNG Forest Authority (PNGFA) Port Moresby and Kerema, PNGFA field officers, the Department of Environment and Conservation (DEC), Frontier Holdings (PNG) Ltd, the Gulf Provincial Government and Administration and the landowners of the Vailala Blocks 2,3 TP area.

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Appendix 1 : Selection of Pertinent Photographs

## 1. LEGAL BASIS, PARTIES AND CONTRACTUAL RELATIONSHIPS

The key legislation governing logging projects are the Forestry Act 1991 (as amended), the Environmental Planning Act 1978, Environmental Contaminants Act 1978 (as amended) and the Water Resources Act, chapter 250. The relevant documents enabling and prescribing TP 2-16 Vailala 2 & 3 are set out in Tables 1 and 2.

The Timber Permit issued to Frontier Holdings Ltd to undertake the logging and marketing governs the logging project. Under the Timber Permit the company is required:

- To pay a reforestation levy of K1.00m<sup>3</sup> to the PNGFA (cl. 4.4.1);
- To pay agriculture development levy of K1.00m<sup>3</sup> into a trust fund held jointly by the PNGFA Managing Director, the landowner company and the Department of Gulf (cl. 4.4.2);
- To pay infrastructure development levy of K1.00m<sup>3</sup> to a trust fund managed by the Department of Gulf and the landowner Company (cl. 4.4.3);
- To pay a log export premium of 5% of FOB for logs exported within 7 days of each shipment to the landowner company (cl. 4.4.4);
- To construct, upgrade and maintain to the standard specified and approved all roads and bridges required and used by the company (cl. 4.5);
- To pay royalty as prescribed (13.1); and
- To lodge with the PNGFA Managing Director a performance bond of K250,000 within 30 days of the permit date (cl. 14).

Logging at the project was suspended after a successful Court challenge by landowners. A Project Agreement is currently being discussed and negotiated between the landowners, the logging company and the PNGFA. In November 2003 the chairmen of the Incorporated Land Groups presented a petition to stop the negotiations. As at April 2004 the PNGFA is considering asking the permit holder to show cause as to why the Timber Permit should not be revoked.

**TABLE 1 : KEY DOCUMENTS**

| <b>DOCUMENT</b>  | <b>PARTIES</b>   | <b>DATE OF ISSUANCE/ SIGNING/ APPROVAL</b> | <b>DATE OF EXPIRY</b>   | <b>DOCUMENT LOCATION</b>  |
|--|--|--|---|---------------------------|
| Forest Management Agreement                            | PNGFA and Land Groups  | 18 December 1995                           | 17 December 2045  | Held by PNGFA             |
| Timber Permit  | Granted to Frontier Holdings Ltd   | 24 June 1992                               | Original expired 23 June 2002.<br>Extended for 10 years until June 2012 . | Held by PNGFA             |
| Logging and Marketing Agreement                        | Referred to in Company documentation, but no record of a LMA in PNGFA records. |  |   |                           |
| Environmental Plan (EP)                                | Approved by Minister for Environment & Conservation (E&C)                      | 22 January 1996                            | TP period only  | Held by DEC               |
| EP Approval Conditions                                 | Set by Minister for E&C  | 22 January 1996                            | TP period only  | DEC's closed project file |
| Environmental Management & Monitoring Programme (EMMP) | Set by Secretary for Department of Environment & Conservation (DEC)            |  |   | DEC has no record on file |
| Waste Management Plan (WMP)                            | Set by Secretary for Department of Environment & Conservation (DEC)            |  |   | DEC has no record on file |

|   |  |   |                  |  |
|---|--|---|------------------|--|
| Water Use Permits (WUP)                                   | Set by the Minister for E&C <ul style="list-style-type: none"> <li>Discharge logging generated wastes</li> <li>Discharge primary treated waste water</li> <li>Water abstraction</li> </ul> | Issued on 17 July 2000 for 5 years. <ul style="list-style-type: none"> <li>WUP No. 29/1198</li> <li>WUP No. 29/1197</li> <li>WUP No. 29/1196</li> </ul> | 17 July 2005     | DEC's project file                     |
| 5 Year Logging Plan                                       | Approved by PNGFA Managing Director  | 19 February 2002  | 18 February 2007 | PNGFA Headquarters                     |
| Annual Logging Plan                                       | Approved by PNGFA Managing Director  | 06 June 2002  | 06 June 2003     | PNGFA Headquarters                     |
| PNGFA's Planning, Monitoring and Control Procedures       | Issued by Managing Director.   | November 1995   | No expiry date   | Standard document available from PNGFA |
| PNG Logging Code of Practice (Including 24 Key Standards) | Endorsed by NEC. Observance required by Regulation   | April 1996  | No expiry date   | Standard document available from PNGFA |

**TABLE 2 : ADDITIONAL (OR SUPPLEMENTARY) AGREEMENTS**

| DOCUMENT                               | PARTIES                                       | DATE OF ISSUANCE/ SIGNING | DATE OF EXPIRY | DOCUMENT LOCATION     |
|--|---|---------------------------|----------------|-----------------------|
| Agreement for use of land for log pond | Frontier Holdings Ltd and relevant landowners |                           |                | Verbal agreement only |

## **2. SUSTAINABILITY OF LOG PRODUCTION**

This logging project was set up under the old Forestry Act when the sustainability of log production and the forest industry was not yet a policy objective. The rights to harvest logs were acquired by PNGFA in December 1995, after a Timber Permit had already been given to harvest the resource over a period of 10 years (June 1992 to June 2002).

The grant of this permit was controversial at the time because the Timber Permit, although granted by the Minister, had been produced by a party other than the PNG Forest Authority. When the Forest Authority sought to correct the situation the company took out court proceedings. The court decided in favour of Frontier Holdings Ltd, and the PNGFA was compelled to recognise the permit. Minister Ogio granted an extension to the term of the permit for 10 years after the expiry date in July 2002.

Logging in Vailala Blocks 2 & 3 was suspended at the time of the field visit by the Review Team as a result of a court decision in favour of Vailala and Purari Investments Ltd against Frontier Holdings Ltd as first defendant and the PNGFA as second defendant (WS 820 of 2003).

TP 12-16 is one of the largest logging projects in PNG with a total area of 267,820 hectares and a maximum allowable annual cut of 300,000 m<sup>3</sup> from Permit year 4 onwards. With a sawmill capable of processing 30,000 m<sup>3</sup> supposedly being constructed by the end of year 3, the maximum allowable annual log export is 270,000 m<sup>3</sup> from year 4 onwards.

SGS records show that 543,425 m<sup>3</sup> of logs were exported from 1997 to 30 November 2003. This is about 100,000 m<sup>3</sup> per annum on average.

## **3. FIELD WORK**

The field inspection for TP 2 –16 Vailala Blocks 2 & 3 was undertaken during the period 26 – 29 October 2003. As well as meetings with the logging company managers and staff, and with landowners, the field inspection involved the following:

- An inspection of set-ups prepared for logging but not yet approved (set-up Nos. SO3-04 D14 and 15);
- An inspection of set-ups cleared after logging (Set-up Nos: SO2-03/D1 and D2);
- An inspection of roads and bridges currently being used, and no longer being used;
- An inspection of the log pond and barge loading facilities;
- An inspection of the logging camp including the workshop area;
- Discussions with employees at Vailala Base Camp;
- Discussions with landowners (see chapter 5); and

- A briefing meeting with the Gulf Provincial Administration, Deputy Governor and Governor.

## **4. REVIEW TEAM OBSERVATIONS**

### **4.1 LEGAL DOCUMENTS AND DUE PROCESS**

The Review Team examined the legal documents underpinning the logging project as listed in Tables 1 and 2. Particular attention was paid to the observance of due process with regard to the application for, processing of and issuance of the various legal instruments.

With regard to TP 2-16 Vailala 2 & 3, the Review Team's observations were that:

- An opinion exists that aspects of the granting of the original Timber Permit by the Minister was irregular. However, the issue was examined by the courts which found in favour of Frontier Holdings Ltd. Frontier Holdings Ltd consider this now to be a non-issue.
- A legal opinion exists that the extension of permits originally issued under the old Forestry Act is not permitted. The PNG Government is currently examining this opinion. If the opinion is upheld then the grant of an extension of the term of TP 2-16 by the Minister in June 2002 may need to be revisited.
- The grant of extension after the expiry of the permit period is legally questionable.

### **4.2 LOGGING COMPANY**

The logging company (Frontier Holdings Ltd) is responsible for observing the requirements of the Timber Permit.

The observations of the Review Team are that:

#### (a) Planning and Control of Logging

Logging in Vailala Blocks 2 & 3 was suspended at the time of the field visit as a result of a court decision in favour of Vailala and Purari Investments Ltd against Frontier Holdings Ltd as first defendant and the PNGFA as second defendant (WS 820 of 2003). The landowners challenged the legality of the permit.

During the Review Team's visit, the following Key Standards requirements not being complied with were observed to be:

- Lack of vine cutting in preparing trees to be felled (photo 5);
- Lack of marking for the required buffer zone width (Class 2 stream see photo 4);

- Logging too close to a village, well within the buffer zone, for example at Paivera Village;
- Some trees of commercial size not marked for felling;
- Skidders/bulldozers causing excessive damage to the residual stand and opening up large gaps within forests by not following marked skid tracks;
- Watercourses or streams have excessive soil pushed into them by bulldozers (photos 4 and 8);
- Debris not removed from watercourses (eg photo 2);
- In some areas where crossings/ bridges were required, log clusters were observed;
- Lack of decommissioning within set-ups (Log landings/skid tracks/roads including temporary crossings); and
- Pools of stagnant water on roadsides showing inadequate drainage (photo 3).

Frontier Holdings Ltd questions how the Review Team defined “compliance”, and noted that if a key standard is consistently identified as being an area of concern that it makes a recommendation with regard to addressing the issue and any immediate actions that will be taken.

#### (b) The Log Pond

The log pond and the logging camp are located together opposite the Village of Hepea. Key requirements not being met were observed to be:

- Excessive clearance along the Vailala River (500 metres plus) for the log pond<sup>1</sup>; and
- Lack of bund for the fuel storage tanks. The location of the fuel tanks was too close (20-30 metres) to the Vailala River and considered a threat to the river system should there is any form of disaster or accidental spillage.

#### (c) The Logging Camp

The Vailala Base Camp is located in the area generally known as Block 3. Residing in this camp are the logging contractor employees, landowners who are employed by the logging contractor, and the PNGFA Project Supervisor. There are over two hundred people living in the camp with no sports facilities (except for a single snooker table).

The majority of skilled employees in this logging operation are from provinces other than the Gulf or Western Provinces. They are mainly from East and West New Britain, the Momase Region, Oro and Milne Bay Provinces. Some have married local women from the area and some have brought their wives with permission and support from the logging contractor.

The following are issues and concerns raised by employees and their wives living and working in the camp:

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<sup>1</sup> This clearance is also for the logging camp.



- Employees were concerned that the logging contractor can and does dismiss them if they complain about working conditions or pay, and that they are then made to find their own way back to their home provinces.
- Employees claimed that they do not receive any annual leave pay but a bonus that amounts to a fortnight's pay that is further deducted for food they charged to the employer's canteen. They requested an investigation of their terms and conditions of employment by the Department of Trade and Industrial Relations.
- Employees who have had serious injuries while on official duties claimed that they have yet to receive any payments from the insurance company despite provisions of medical statements and insurance forms. They further claim that expenses for their trips to Port Moresby and food allowances are being deducted from their wages.
- Several families expressed concern that husbands have to re-imburse the cost of airfares from the home provinces to the base camp even though the company initially agreed to bring the families to Vailala. The Review Team can confirm that deductions are being made, and that wives sell food in the local market daily to supplement the husband's earnings.
- Employees claimed that it is a common practice that when an employee is terminated in the bush (which could be 5 to 7 kilometres from the camp and in a late afternoon) that he is forced to walk back to camp.
- Employees claimed that there are at least five of their colleagues buried in the bush. They further claimed that the logging contractor made little or no attempt to assist with the arrangements of proper burials. One of the deceased is from the New Guinea Islands.

Frontier Holdings Ltd respond that this statement is outrageous, and that it reflects the lack of sincerity underpinning all of the employee voiced concerns listed in this report.

- Employees further claimed that the employer does not repatriate employees recruited from other provinces if they resign or their services are terminated.
- Employees claimed that some of their colleagues had been sacked for refusing to work on their relevant religious holy days (Saturdays or Sundays)
- Employees were seriously concerned about the conditions of their employment in the logging operation. Evidence was shown to the Review Team that even skilled workers (with trade certificates) were earning minimum wages despite what they claimed as working 7 days per week and a minimum of 12 hours per day. The evidence included many pay slips which showed that after deductions for food purchases from the company canteen, they are often left with less than a net K10 cash per fortnight. They would like the Labour and Industrial Relations Department to investigate their concerns.

- Employees on cubic metre rates were concerned that their pay is less than what they claimed it should be based the volume measurement. They would like to see a system established to protect the employees in the logging industry in PNG.
- Employees who are drivers were concerned that the trucks, vehicles and jinkers that they are driving are not registered. This means that they are not covered by third party insurance. They would like to know what their legal position is in driving unregistered equipment.
- Employees expressed concern that foreigners were occupying positions that Papua New Guineans were capable of executing.

Frontier Holdings Ltd note that all permanent employees are covered by a standard employment contract which complies with the Department of labour and Industrial Relations rules and regulations. All permanent workers are also covered by workers compensation insurance.

Key Standards requirements observed as not being complied with were:

- Lack of appropriate toilet facilities at the transit camps;
- Toilet for the national employees located too close to the Vailala River. Some employees do not use the toilets resulting in human waste being observed along the riverbank;
- Water tanks provided by the company were insufficient for safe drinking and cooking water. The prolonged dry season experienced during our visit left some of the national employees with no choice but to use the Vailala River for their water supply;
- Substandard and unhealthy housing facilities for the national employees;
- National employees accommodation located too close to the Vailala River;
- Lack of proper waste disposal method observed at the national employees housing areas;
- Lack of bund containment for the power generator shed;
- Lack of safety gear for employees; and
- Lack of appropriate septic system for the expatriate quarters. Employees of the national quarters nearby have complained about foul-smell from the toilet over-flooding onto their quarter's area during rainy periods.

#### (d) Landowner Financial Benefits

The Timber Permit requires the permit holder to pay:

- Royalty of K10.00 per cubic metre to the landowners.
- Agriculture Levy of K1.00 per cubic metre of logs harvested into a trust fund.
- Reforestation Levy of K1.00 per cubic metre log export to the PNGFA.

In addition Frontier Holdings Ltd, under various side agreements, pays or provides:

- A log export premium;

- An infrastructure development levy;
- A business development levy;
- A Provincial Government levy;
- Scholarships at a defined annual rate; and
- A waterway development grant at a defined annual rate.

All of the above contribute in one way or another to development for the landowners.

#### (e) Landowner Infrastructural Benefits

The Timber Permit requires the permit holder to pay a K1.00/m<sup>3</sup> log export Infrastructure Development Levy, to be managed by the certified landowner company and the Secretary, Department of Gulf. The permit does not set out a specified list of infrastructure to be delivered. It does however require the production of a “Program for Construction and Upgrading of Facilities” within 25 months of the grant of the permit. This has not been complied with.

Frontier Holdings Ltd has produced an undated report setting out compliance with an infrastructure delivery schedule purportedly set out in a Logging and Marketing Agreement. There is no evidence of such an agreement in the PNGFA files.

The construction of roads, other than to a standard required for logging is to be determined by the Secretary for Works in consultation with the landowner company and the cost of construction of such roads to be paid from the Infrastructure Levy of K1.00 per cubic metre of logs exported.

The Review Team’s observations in the field were:

- That there were no permanent bridges and culverts installed along the roads that had been constructed by the permit holder.
- That a total of 4 double classrooms and three teachers houses have been constructed by the permit holder.

#### (f) Royalty Payments

Neither the PNGFA Southern Regional Office nor Headquarters was able to provide the Review Team with any statistics regarding royalty payments for TP 2–16.

It is estimated from data provided by SGS that some K5.5 million has been paid to landowners from January 1997 to November 2003.

#### (g) Environmental Monitoring and Management Plan

The Review Team found no evidence of the existence of an Environmental Monitoring and Management Plan for this Project.

#### (h) Other Compliance Issues Observations

- The Forestry Regulations require the lodgement of a Performance Bond, and delivery of an original copy to the PNGFA Managing Director. There is no evidence within the PNGFA files that Frontier Holdings Ltd has complied with this requirement.  
Frontier Holdings Ltd notes that it has lodged a bank guarantee for K250,000 in accordance with the requirements of the Timber Permit.
- See photo 1 and accompanying notes.

#### (i) Company Search

A company search shows that Frontier Holdings Ltd has current IPA registration. It has a share capital of 10,000 issued shares held by Super ACME Ltd of British Virgin Islands (9,999) and Yii Ann Hi (1). Its Directors are Ken Suan Tan, James Sze Yuan Lau, Ivan Su Chiu Lu and Chiong Ong Tiong. Its last annual return was lodged in October 2002 for the year 2001.

The company is currently registered as a Forest Industry Participant under the Forestry Act 1991 (first listed in March 1995 – Registration Number FI 556).

### **4.3 PNG FOREST AUTHORITY (PNGFA)**

The PNGFA is responsible for ensuring that the requirements of the project Planning, Monitoring and Control Procedures are followed. This includes the 5 Year Logging Plan, the Annual Logging Plan, and the approval and clearance of individual logging set-ups. The approval and clearance of set-ups requires the completion of a set-up log book by the PNGFA Project Supervisor.

The observations of the Review Team are that:

- The PNGFA has one officer on site, living in a PNGFA house. He has a vehicle and a prefabricated office. This officer is employed on a casual basis.
- The officer has not attended a PMCP training course and showed a lack of confidence in the use of set-up monitoring and control logbooks.

### **4.4 DEPARTMENT OF ENVIRONMENT AND CONSERVATION (DEC)**

DEC is responsible for monitoring logging company compliance with the Environmental Plan and the Environmental Plan Approval Conditions.

The observations of the Review Team are that:

- Whilst the project is active, the Environmental Plan has been archived.
- DEC does not have regular compliance monitoring visits, responding only to requests.

In August 2003 DEC, accompanied by staff of Rimbunan Hijau (PNG) Ltd, undertook a field compliance monitoring inspection. With respect to logging operations the inspectors mostly reported “no adverse impacts noted”. The main identified concerns were:

- The lack of company annual reporting to DEC;
- The lack of bunding for fuel storage; and
- The failure of the company to compact log pond areas.

The report notes that “Frontier Holdings Ltd has shown its commitment by deploying remedial management strategies to minimise adverse impacts”, and further refers to “Frontier Holdings Ltd’s environmental commitment”.

Various recommendations were made. It is unclear whether these were implemented or whether compliance was followed up in any way.

#### **4.5 LANDOWNER COMPANY**

There are a number of landowner companies operating in the project area, despite the fact that the acquisition of the timber rights by the state is on the basis of Forest Management Agreements between the State and Incorporated Land Groups. It is not clear that the landowner companies properly represent the Incorporated Land Groups.

One landowner company, Vailala and Purari Investments Ltd, was the successful litigant in the court action that has caused the logging operation to be suspended.

The landowner company for the Paivera area is Popo Holdings Ltd and for the upper Ahia area the company is Opuma Ltd. There is no evidence that either of these companies are registered with the IPA.

The Review Team observed that most landowners that were at meetings expressed dissatisfaction with the involvement of landowner companies and wanted direct dealings with the PNGFA and the permit holder through their Incorporated Land Groups.

#### **5. LANDOWNER VOICED CONCERNS**

Landowners were consulted mostly in groups but also as individuals. Groups consulted included landowners from the following villages, communities:

- Paivera village;
- Laikoro village;
- Hepere village;
- Huruta village;
- Arahava No. 2 village;
- Kilavi village;
- Avalu village; and
- The upper Ahia community.

The observations of the Review Team with respect to the relationship between the landowners, their forests, the logging company, and concerns expressed by the landowners are:

- Landowners expressed concern that the permit holder has not fulfilled a number of conditions stipulated in the Timber Permit clause 4 and parts of the sub-clauses.
- During the Review Team's visit, it was observed that several staff members from the Headquarters of Rimbunan Hijau (PNG) Ltd had flown into the base camp. It was the perception of some of the landowners that the purpose of the visit was to obtain support from the chairmen of the Incorporated Land Groups (by signing affidavits) for Frontier Holdings Ltd to continue operating in the area for a further ten years. Some ILG chairmen complained of being forced to sign the affidavits by threats of non payment of Royalties if they did not sign. Many ILG chairmen refused to sign.

Frontier Holdings Ltd correctly point out that royalties are distributed by the PNGFA. The company's internal investigation showed that the exercise referred to involved a Commissioner of Oaths who sought to take statements from the various ILG chairmen relating to a dispute about land ownership. The task was performed in order to resolve legal proceedings involving five landowner companies and a court order which was preventing the payment of some monetary benefits. The issue has now been resolved.

- Landowners claimed that the logging company has been harvesting restricted wood species (rosewood and black bean) under the Timber Permit and exporting them.
- A most important issue raised in the meeting at Paivera was the accusation by villagers of the use of the Police Task Force by the permit holder, Frontier Holdings Ltd. Landowners expressed concern that the permit holder is able to access the Police Task Force to silence complaints by the landowners, for example destruction of places of cultural significance.

Frontier Holdings Ltd dispute the above landowner claims. They note that the permit holder was requested to assist the re-establishment of a police presence in the area by the Governor and the Local level Government in 2001 due to increased lawlessness. The company responded by constructing a police station in the Ihu District and facilitating the rehabilitation of the Kerema Police Station and barracks at a cost of K200,000.

- Landowners claimed that the State and the permit holder failed to tidy up any outstanding financial benefits and infrastructure benefits that were due to them when the transfer from the TRP to an FMA took place in 1995. Landowners would like to see an audit take place so that benefits due to them under the TRP can be settled.
- Landowners expressed the need for tougher penalties for breaches of the logging code especially for damage to tributaries and streams used by landowners for fishing and water supply.

- Landowners claimed that the logging company had dumped chemicals in one of the creeks causing death to marine life. The Review Team was told that photos illustrating this claim had been provided to the Ombudsman Commission.
- Landowners were concerned that landowner executives were mis-using log export premiums that are meant to be distributed to landowners or invested in businesses.
- Landowners were concerned about the lack of quality infrastructure being constructed by the logging contractor. Landowners claimed that the low quality of established roads and bridges would disintegrate as soon as logging stops.
- Landowners expressed concern that the classrooms being constructed are made of low quality materials and will not last for very long.

The PNGFA notes that landowners freely express their dissatisfaction with the performance of landowner companies. Frontier Holdings Ltd note that any further comment on the above listed concerns would only give credence to the claims.

#### Spin-off opportunities

- The Review Team observed that there was no significant spin-off activity going on in the area. The only store at the base camp is being operated by the permit holder.
- A mobile sawmill operated by an individual landowner at the base camp was struggling to survive. The owner claimed that he does not make sufficient income to cover his operating expenses.

## **6. PROVINCIAL GOVERNMENT DISTRICT OFFICE**

The Review Team met with several Gulf Provincial Government and Administration personnel including the Governor and Deputy Governor and Local Level Government members.

Relevant comments offered by the Provincial Government and Administration representatives were as follows:

- The Provincial Works Officer claimed to be unaware that he had a role to play in implementing the Timber Permit in terms of infrastructural designs and quality assurance. The Provincial Works Office has registered engineers and qualified building supervisors who could be used to monitor the quality of the infrastructure requirements.
- Failure to institute trust instruments for the management of all levies in the province has worked against the interest of landowners.
- The Gulf Provincial Administration expressed the view that the Gulf Provincial Government should play a more pro-active role to utilise the levies collected from

the logging project to carry out social and economic development in the project areas to sustain the cash economy in the village after logging has ceased.

- Except for its role in the Provincial Forest Management Committee, the Gulf Provincial Administration claimed that it has never been encouraged to play an active role in the implementation of logging projects within Gulf Province.
- The Gulf Provincial Government representatives expressed a lack of knowledge concerning how much money from the different levies has been paid into the provincial accounts since logging in Vailala Blocks 2 & 3 started and how much still remains with the permit holder.
- The Gulf Provincial Governor expressed the view that a considerable percentage of the export levies collected from logs exported from the province should be returned directly to the province for development purposes. The permit holder agrees with this view.

Frontier Holdings Ltd reports that since June 2001 it has undertaken a substantial awareness campaign which has led to the establishment of a regulatory framework for administering the agriculture and infrastructure development levies known as the Vailala Development Trust. The Administrator of Gulf Province has been nominated as the Chairperson, and all financial aspects are handled by an independent certified third party, including responsibility for financial management and annual audits. The Review Team understands that the Trust Deeds are yet to be signed.

The company further reports that the Provincial Government levy is now paid to the Ihu Local level Government Council, which has the responsibility for administering these funds.

## **7. OBSERVATIONS REGARDING SILVICULTURE**

The quality of the logging operation (in particular observation of the 24 Key Standards) has a significant impact on the ability of the forest to produce a second yield of logs (from the current residual trees), and to produce logs in the longer term (from regeneration after logging). The Review Team observations in this regard are:

- There is a need for improved observance of the Key Standards;
- Current logging practices are causing damage to the watercourses and residual stand; and
- There is also a need for rehabilitation of logged over areas using the reforestation levies.



## **8. BROAD RECOMMENDATIONS FOR TP 2 – 16 VAILALA BLOCKS 2 AND 3**

Vailala Blocks 2 & 3 have considerable potential to contribute meaningfully to the development of the Gulf Province and for the landowners to obtain both short and long-term benefits.

There has been a recent court finding in favour of the landowners of TP 2-16 against Frontier Holdings Ltd (first defendant) and the PNGFA (second defendant).

The landowners are currently negotiating with the PNGFA who is then negotiating with Frontier Holdings Ltd with the aim of preparing a Project Agreement for TP 2-16 which will be acceptable to all stakeholders.

Given the above findings of the Review Team it is recommended:

- That the terms of employment for all workers in TP 2-16 be thoroughly investigated by the Department of Labour and Industrial Relations, in particular;
  - The working conditions and pay rates provided by Frontier Holdings Ltd; and
  - The non-repatriation of employees who are dismissed by the company.
- That Frontier Holdings Ltd rectify all breaches of the Key Standards noted in this Report.
- That the Royal Papua New Guinea Constabulary carry out an internal investigation into the incident at Paivera Village that is alleged to have occurred in May 2001<sup>2</sup>, and that this investigation be carried out in a thoroughly transparent and non-intimidatory manner and that the findings be made public.
- That the a/Project Supervisor of Vailala Blocks 2 and 3 undergo a training course in Planning Monitoring and Control Procedures.
- That landowners from Vailala Blocks 2 and 3 obtain independent legal advice before agreeing to the conditions stipulated in the Project Agreement that is being negotiated on their behalf for TP 2-16 by the PNGFA.
- That an independent audit is carried out into the payments of all royalties and levies that have resulted from logging in TP 2-16. (On 27 November 2003 the PNGFA managing Director sought information from all of the landowner company chairmen regarding payments received from the permit holder.)
- That the PNGFA clarify the payment mechanism for all royalties and levies relevant to TP 2-16 prior to the resumption of logging.
- That the PNGFA implement reforestation activities in the area using the reforestation levies collected since the project began.

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<sup>2</sup> A full report of this incident as recorded by the Review Team will be provided separately to the Police Commissioner, the Ombudsman and other relevant government departments and agencies.

## **9. BROADER FORESTRY SECTOR ISSUES FOR PNG**

The following is a list of issues identified by the Review Team during its work on TP 2 - 16 Vailala Blocks 2 & 3 which are of broader concern than this specific project. These will be addressed as forestry and conservation sector issues in the Observations and Recommendations Report to be produced by the Review Team towards the completion of the Review.

- The presence of police at logging camps, who are considered to be pro-logging company and are housed, and either paid or paid allowances by the logging companies is a cause for serious concern for landowners.
- This concern is exacerbated when the Police Task Force is flown into the logging concession area in the logging company's own airplanes and seen to be doing the company's bidding.
- The allocation of the Timber Permit prior to the acquisition of Timber Rights is a bad precedent and must be avoided in future by all means.
- Lack of trained logging company employees in the Planning Monitoring and Control Procedures.

## **APPENDIX 1: SELECTION OF PERTINENT PHOTOGRAPHS**