

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 9.

TIMBER PERMIT (TP) : TP 2-12A TURAMA EXTENSION
TP HOLDER : TURAMA FOREST INDUSTRIES LTD
LOGGER AND MARKETER (L&M) : TURAMA FOREST INDUSTRIES LTD
L&M PARENT COMPANY (If Different) :
DATE OF FIELD REVIEW : NOVEMBER 2003
DATE OF FINAL REPORT : APRIL 2004

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.

FOREWORD

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.

The Review Team acknowledges the support and cooperation given by PNG Forest Authority (PNGFA) Head Office, PNGFA field officers, the Department of Environment and Conservation (DEC), Turama Forest Industries Ltd, the Gulf Province Provincial Government and Administration and the landowners of the Turama Extension FMA areas.

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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 205. The relevant documents enabling and prescribing TP 2-12A Turama Extension are set out in Table 1.

The logging project is governed by the Project Agreement entered into by the State and Turama Forest Industries Ltd (TFI), and the Timber Permit granted by the Minister in June 1995.

Under the Timber Permit TFI is required:

- To lodge a performance bond of K125,000

Under the Project Agreement TFI is required:

- To pay royalties as prescribed (cl. 20(a));
- To pay a log export premium of 7% of FOB to the Managing Director as trustee of the owners (cl. 21.1);
- To pay for Annual Benefits to the value of K550,000 to the owners, being goods and services as decided by the Annual Benefits Committee (cl. 21.2);
- To provide K150,000 per year to the Delta Infrastructure Fund (DIF) for purposes of infrastructure development of people for living along the marine routes and waterways and as decided by the DIF Committee (cl. 21.3); and
- To provide additional benefits in the building and equipping of medical clinics, school classrooms, SSB radio in each FMA area, and to sponsor 6 representatives of the project area to tour and investigate the world market for logs from the area every 12 month period.

TABLE 1 : KEY DOCUMENTS

| DOCUMENT | PARTIES | DATE OF ISSUANCE/ SIGNING/ APPROVAL | DATE OF EXPIRY | DOCUMENT LOCATION |
|--|---|--|---------------------------|--|
| Forest Management Agreement | Landowners and PNGFA | Blocks 1, 2 & 3 on 29 May 1995 | 29 May 2045 | Held by PNGFA |
| Timber Permit | Turama Forest Industries Ltd | 1 June 1995 | May 2030 | Held by PNGFA |
| Project Agreement | PNGFA and TFI | 1 June 1995 | May 2030 (term of the TP) | Held by PNGFA |
| Logging Agreement | TFI and Evershine Enterprises Ltd | 15 September 1996 | 15 Sept 2002 | Held by PNGFA |
| Logging and Marketing Agreement | TFI and Rimbunan Hijau (PNG) Ltd | | | PNGFA have no record of this LMA although it is referred to by the company |
| Environmental Plan (EP): Phase 2, FMA 1 & 2 | Approved by Minister for Environment and Conservation (E&C) | 9 January 2002 | 9 January 2007 | Held by DEC. Submitted by TFI on the 17 th August, 2001 |
| EP Approval Conditions | Set by Minister for E&C | 9 January 2002 | 9 January 2007 | Held by DEC |
| Environmental Monitoring & Management Programme (EMMP) | Set by Minister for E&C | 9 January 2002 | 9 January 2007 | Held by DEC |
| Waste Management Plan (WMP) | Set by Minister for E&C | 9 January 2002 | 9 January 2007 | Held by DEC |

| | | | | |
|---|--|---------------|----------------|--|
| 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 |

2. SUSTAINABILITY OF LOG PRODUCTION

This logging project was set up under the current Forestry Act 1991 (as amended). This reflects the National Forest Policy 1991 which sets out the policy objectives of sustainability log production and a sustainable forest industry. The rights to harvest logs were acquired by the PNGFA in June 1995, and the Project Agreement allows the resource to be cut over a period of 35 years (May 1995 to May 2030). Timber Permit conditions relating to boundary description, map, an increase to the allowable cut and the premium payable on logs were amended by Minister Baing on 11 December 1996.

The gross areas for FMA 1 539,400 ha, FMA2 744,100 ha and FMA3, 438,300 ha add up to 1,721,800 ha making this operation one of the largest in Papua New Guinea. TP 2-12A contains large areas of limestone Karst landscape which is excluded from logging under the PNG Logging Code of Practice (LCOP). The Review Team observed that this landscape was indeed being logged at the time of the Review field visit.

The PNGFA's original estimates were that the project area contained a loggable resource of 11.9 million m³, and would support a sustainable annual allowable cut of 340,000 m³ per annum.

The project was originally planned in conjunction with a domestic processing plant which was expected to process 60,000 m³ of logs per annum during project years 5-7 and 340,000 m³ per annum from project year 8 onwards. There has been no processing facility established to date. The Project Agreement does not specifically require the construction of a processing plant.

Logging in FMA1 has temporarily ceased partly due to a dispute over an area of land which is claimed by persons not signatories to the FMA, and partly so that benefits from the logging operations, particularly the monetary benefits, are spread more widely within the FMA area. Turama Forest Industries Ltd still maintains its logging camp and some equipment in FMA1 in readiness for future operations.

3. FIELD WORK

The field inspection for TP 2-12A was undertaken during the period 24 to 28 November 2003. As well as meetings with the logging company managers and staff, and with landowners, the field inspection involved the following:

- An inspection of a set-up prepared for logging but not yet approved (set-up 3C18/03/04);
- An inspection of a set-up cleared after logging (Set-up 2B45/02/03);
- An inspection of current logging operations (Set-up and Set-up 2G09/02/03);
- 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;
- Visits to various villages to meet with landowners (see chapter 5);
- Discussions with Local level Government for the Kikori District; and
- An inspection of the loading camp at Paia Inlet.

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 2-12A Turama Extension, the Review Team's observations were that:

- TP2-12A Turama Extension is a project established under the current Act. While the project appears to be soundly based the PNGFA's security of project documents and records did not allow the Team to satisfy itself of legal compliance and due process.
- Copies of the FMA blocks 1, 2 and 3 provided by the PNGFA to the Review team were inconsistent in that the clause relating to the payment of royalties for gravel used in the logging operation was included in the FMA for Block 3 (schedule 7, monetary benefits, royalty to be paid at Valuer General rates, which is currently K1.90/m³) whilst for FMAs Blocks 1 and 2 this schedule was absent.

4.2 LOGGING COMPANY

The logging company Turama Forest Industries Ltd is responsible for observing the requirements of the Project Agreement and the Timber Permit. The current logging operation is being carried out in FMA 2 with base camps at Serebi and Victory Junction.

The observations of the Review Team are that:

(a) Planning and Control of Logging

The Review Team visited two logging sites, one based at Serebi where the company was logging in Karst terrain and the other based at Victory Junction. Apart from the issue of logging in Karst areas being against the Logging Code of Practice in that "limestone country (Karst)" is excluded from those areas that the PNGFA and DEC have agreed are suitable for selection logging, the following Key Standards requirements not being followed were observed to be;

- Due to the difficult Karst terrain (photo 9), road construction (spur or main roads) was not always done according to the approved Logging Plan and without seeking appropriate approvals for variations to the logging plan;
- Lack of water bars on no longer used skid tracks leading to serious soil erosion (photos 4 and 7);
- Lack of appropriate decommissioning within set-ups (Log landings/ skid tracks);
- Log landings established on watercourses and low-lying areas without appropriate culvert or drainage to enable free flowing of water;
- Logging operation within buffer zones of Class 2 streams;
- Debris (including soil) blocking watercourses;
- Watercourses or streams have excessive soil pushed into by bulldozers;
- Lack of appropriate drainage and culverts along roads to prevent ponding;
- Use of soil and branches to construct temporary crossings within set-ups;
- Excessive damage to residual stand caused by operators not following marked skid tracks in the non Karst terrain set-ups; and
- Lack of temporary bridge¹ for the Wao River (GPS 07° 07' 41"S and 144° 22' 93"E), A landowner who accompanied the Team was concerned about heavy-duty machines crossing the river and the risk of contamination from possible oil/fuel leakage, rust etc.

(b) The Log Ponds

The Serebi log pond, located at GPS 07° 12' 49" and 144° 14' 38"E was generally well set up and managed, with minimum clearance of the riverbank.

Key Standards requirements not being met were:

- Serebi was not proposed in the Environmental Plan (EP) to be the site for log pond and is therefore considered to be a variation to the approval. The EP Approval Condition number 10 states, "*Any proposed variation from the approved Environmental Plan shall require approval from the Minister*";
- Lack of containment bund around the storage fuel tanks. It was observed that truck drivers were not careful during re-fuelling and this is evident in fuel spillage around the storage tanks; and
- Lack of cross drainage to buffer excessive sediments from entering the Serebi River during wet rainy periods.

The Victory Junction log pond/river dump was generally well set up and managed, with minimum clearance of riverbank. Key Standards requirements not being met were:

- Similar to Serebi, the log pond location was also not proposed in the EP and therefore is considered a variation to the approved EP;
- Lack of containment bund for the fuel storage tank; and
- Lack of cross drainage to buffer excessive sediments from entering the Serebi River.

¹ It is considered environmentally unsound to have trucks and bulldozers crossing the bed of rivers, this river is used as water supply for many villages.

Paia Inlet is the log export site and is located on a mud flat along the Ivi and Aiai River systems. The site is a wetland area and therefore is always subjected to inundation during high tides. Key Standards requirements not being met were:

- Lack of containment bund around the fuel storage area;
- Lack of toilet septic system. Direct discharge of raw sewage observed;
- Lack of waste disposal facilities. Solid wastes - domestic or industrial were indiscriminately discarded around the Paia camp. Liquid wastes – fuel, oil and other liquid residues (e.g. paint) were spilled around the workshop area. Domestic and industrial wash-waters were directly discharged into the river system;
- Very old rusted pontoon-barge used as working station to accommodate workshop, general equipment storage. Adjacent to this pontoon is the fuel storage shed. Rust from this pontoon and scrap metals from the whole area are a significant threat to the aquatic fauna and flora of the delta areas (photo 10);
- Ship re-construction/maintenance yard. This activity is considered a heavy-duty mechanical work and therefore an additional risk taking into account the local people's dependency on the aquatic resources including water for their day-to-day livelihood; and
- Lack of Water Use Permits.

(c) The Logging Camp

The logging operation at Serebi has two logging camps, the Base Camp and the Bush Camp. The Base Camp is located together with the log pond along the bank of the Serebi River and accommodates the bulk of the Turama Forest Industries workforce. The Bush Camp is for the field or bush workers and is located closer to the logging operations along the Serebi River and is for PNG national employees only. Key Standards requirements observed as not being met in both camps were:

- Lack of adequate supply of potable water for staff. When the small water tanks run dry, they have to boil drinking water taken from the Serebi River where people also take baths;
- Lack of Water Use Permits for the main Camp;
- Inadequate septic system in the expatriate quarters, domestic wash-water and food wastes were observed being channelled into a water hole, which eventually drains into the Serebi River; and
- Lack of toilet for the bush workers camp.

Victory Junction:

- Although water tanks (one per house) were provided, they were insufficient to sustain the number of workers per house including their family for safe drinking and cooking water at the camp;
- Lack of Water Use Permits for the main Camp; and
- Toilet for workers sited on a slope near a creek.

(d) Landowner Financial Benefits

The financial benefits provided for are as follows:

- A timber royalty payment of K10.00 per cubic metre derived from records of logs scaled in the logging operation.
- Log Export Premium of 7% FOB of log exports, payable through the Managing Director of PNGFA. From this 70% is distributed to ILGs that signed the FMA and 30% is paid to the landowner company of the area where the logs are actually being harvested.

TFI notes that it has paid rent for the land at Paia Inlet into a trust account pending agreement by the landowners as to how it would be distributed. The issue of distribution has been the subject of numerous court hearings.

(e) Landowner Infrastructural Benefits

Under the Project Agreement, landowners are entitled to a number of funds that can be used to develop infrastructures such as classrooms, teacher's houses, clinics and aid posts and other items that the committee tasked with the management of the funds approves. The funds may also be used for non-infrastructural purposes, and in 2004 a considerable sum was spend on subsidising school fees for children of the area.

The Review Team observed correspondence provided by landowners indicating that the distribution of the Annual Benefit Funds and the Delta Infrastructure Funds were not consistent with the terms and conditions of the Project Agreement. In some cases the amounts allocated annually were far less than the amounts stipulated in the Project Agreement and in some certain cases there was no allocation at all. In both cases the people claimed that TFI has not kept up to date with the distribution of such benefits.

The Infrastructure Benefits are:

- An Annual Benefit Fund of K550, 000.00 per annum, to be managed by the Annual Benefit Fund committee.
- A Delta Infrastructure Fund of K150, 000.00 specifically for those villages along the marine routes and waterways used by the company to transport logs.
- The installation of VHF Radios in the several villages.

The following infrastructures were to have been constructed under the Project Agreement:

| Infrastructure | Quantity/Quality | No. Constructed | Status |
|-----------------------------|---|-------------------------------|--|
| Medical clinics | 3 - standard determined by the provincial government. | 3 | Size and quality unacceptable. Not being used. |
| Community school classrooms | 3 - standard determined by the provincial government | 2 plus one under construction | Incomplete; size and quality unacceptable |
| SBB Radios | 3 - one for each FMA area | 3 | Completed but not operational. |
| Roads | Komaiao-Kebini | | Incomplete |
| | Kebeni-Omati | | Complete |
| | Omati-Kikori | | Incomplete |
| | Siberi-proposed ply mill site | | Yet to start |
| | Wabo-headwaters of Era River | | Yet to start |

(f) Royalty Payments

Neither the Southern Regional Office nor the Headquarters of the PNGFA could furnish the Review Team with any statistics regarding royalty payments for TP 2–12A.

It is estimated from data provided by SGS that some K14.3 million has been paid to the landowners of TP 2–12A from January 1997 to November 2003.

(g) 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 TFI Ltd has complied with this requirement.

(h) Company Search

A company search shows that TFI has current IPA registration. It has a share capital of 121,149,437 issued shares held by New Zealand Wood Products Company Ltd of Hong Kong (120,979,846) and Nadzab Nominees Ltd of Port Moresby (1). Its Directors are Yvonne Choo of Singapore; Anthony Honey of Boroko; and Kui San Lu of Port Moresby.

The company is currently registered as a Forest Industry Participant under the Forestry Act 1991 (first listed in Aug 1993 – Registration Number FI 048).

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 logbook by the PNGFA Project Supervisor.

The observations of the Review Team are that:

- The PNGFA has a Project Supervisor and two monitoring officers for TP 2-12A. There is one project house at the main Serebi Base Camp and prefabricated offices at both the Serebi and Victory Junction Base Camp. The monitoring officer at Victory Junction is residing in a house provided by the logging company. There are two project vehicles on site.
- The officers are carrying out their duties in a reasonably effective manner but appear unaware of the exclusion of limestone country (Karst) from selection logging under the Logging Code of Practice.

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:

- DEC's file for the Turama Extension project is not in order. Letters, memos, reports and other project related documents were missing or mis-filed.
- DEC has not administered the requirements it imposed on the project, namely the EP Approval Conditions.

4.5 LANDOWNER COMPANY

There is no particular umbrella landowner company for this Timber Permit as each FMA area has its own landowner company made up of various Incorporated Land Groups. All dealings with landowners are carried out between the Incorporated Land Groups and the Turama Forest Industries Ltd Landowner Liaison Officer.

The landowner companies with current registration with the Companies Registry at IPA are – Lower Turama Investment Ltd with 10 villages represented with one ordinary share each of the 10,000 issued shares; and KGO Investment Ltd with three villages being represented with one ordinary share each of the 10,000 issued shares. The following companies have been de-registered – Kikori Timber Investment Ltd, Kaia Koriki Investment Ltd and Kibeni Gibidae Ltd.

One landowner remarked that although a number of business groups have been set up in each FMA area, non have any defined objectives as to how to use the 30% of the log export premium that they receive. There is no assistance/support for the groups. They appear to be unaccountable for the funds that they spend.

5. LANDOWNER VOICED CONCERNS

The landowners that make up the FMA 1 of the Turama Forest Industry come from three main villages; Omati, Kibeni and Gibidan. The Review Team was informed by leaders in the meeting that at least 50 % of the population in these villages live in Kikori because of the lack of adequate health and education services in the villages.

Landowners were consulted mostly in groups but also as individuals. Groups consulted included:

- Landowners at Omati village;
- Landowner representatives from Kibeni village;
- Landowners at Gibidan;
- Landowner representatives from the Morigi Tribe;
- Landowner representatives from the Delta communities;
- Landowner representatives from FMA3; and
- Landowner representatives from the Porome Tribe.

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 claimed to be dissatisfied with the Project Agreement and called for the agreement to be reviewed.
- Landowners claimed that because this project was one of the first involving Forest Management Agreements, there was very little consultation with landowners as to the content and implication of them signing away their rights. For example, it was never their intention to allow gravel and coronas free for road making, but now they find themselves not getting any benefits from the use of these resources.
- Landowners claimed that Turama Forest Industry Ltd has not fully accounted for the log export premium payments, or the Delta Infrastructure Fund and the Annual Benefit Fund.

TFI responds that this claim is unfounded, and that the PNGFA, which sits on the various benefit committees has copies of all the relevant information. It also notes that TFI has been trying to formalise the procedures for handling the benefits with the PNGFA so as to alleviate some of the confusion, and to ensure that there is a meaningful way in which the data can be presented which all stakeholders can understand.

- Landowners who claimed ownership of the waterways denied that it was ever their intention to allow free access for the use of the river system. They claimed that they are not signatories to the FMA and should be compensated for the use of the waterways that link the logging operation to the loading point at Paia Inlet.
- These people also expressed concerns regarding the physical damage caused during barging of logs on the banks along the waterway, damage to the river

banks, mangroves and nipa palms, erosion, sedimentation and decrease in marine productivity.

- Landowners were concerned that Turama Forest Products Ltd is yet to construct the ply-mill which was due by the end of the fifth year of the logging operation.

TFI notes that a technical plan for a plywood mill has been completed and submitted to the relevant Government authorities for consideration, but that no response from the State has been received. It also notes that Government has not initiated the acquisition of the land required for the mill, despite continuous follow-up by the company.

- Landowners were deeply concerned about the absence of education and health services in the villages. Classes at Omati village stopped in 1997 because teachers either refused to teach in the area or the education division has not been able to allocate anyone to the area. School aged children from these villages are now living with their parents or guardians in Kikori in order to access education. A newly constructed classroom and a teacher's house remain empty.
- Landowners were concerned about the lack of health services in the community. The Aid Post Orderly who used to be based here recently left leaving a run down house and a sub-standard aid post building which is supposed to be a clinic.
- Landowners claimed that normal government services in the area stopped in 1989. By 1997, 50% of the population had move on to Kikori District to access the service that they used to have in the community. As noted by TFI, this is a reflection of the state of Government services, and not the forestry project.
- Landowners were also concerned about the lack of performance by the landowner companies. They questioned the reasons for maintaining landowner companies when they had failed to perform and facilitate services and developments needed by the community.
- One of the major concerns raised in a combined meeting held at Kikori District station is the lack of tangible outputs from the Annual Benefit Fund. Landowners were concerned that the Annual Benefit Fund Committee (PNGFA, 4 representatives from landowners, the Provincial government and Turama Forest Industry Ltd) has failed to implement social, economic and infrastructure projects using this fund. They further claimed that unspent funds are being kept by TFI with little or no information being fed to the community of its status. They requested the immediate auditing of this fund.
- Landowners from FMA Block 1 expressed frustration that Turama Forest Industries Ltd had shifted the logging operations from Block 1 to Block 2 without completing the road from Omatyi to Kikori. The completion of this road link would provide considerable benefits to the people of Block 1.
- Landowners claimed that a substantial number of logs were abandoned in various log landings within FMA1 and they would like PNGFA to conduct a more detailed investigation on the status of these logs. Landowners claimed that some

of the log piles were burnt. The Review Team observed that there are logs piled up in the base camp at Omati.

- Landowners claimed that they are yet to be paid some of their timber Royalties from logs harvested within FMA Block 1 area².
- Landowners were concerned that the logging operation has failed to initiate, develop and implement a sustainable social and economic program for the communities in the project area. TFI agrees with this sentiment.
- Landowners from the Porome Tribe claimed that they have yet to receive any benefits from the use of the waterways and loading areas where the logging ships anchor to load the logs. They further claimed that they were never party to the FMA and should be compensated fully for the disturbance caused to their environment.
- The above tribe claimed that they were subjected to physical abuse and brutality at the hands of the police some years ago. They claimed that houses were burnt down and young people were beaten up.
- Landowners were concerned that PNGFA and the Lands Department had failed to secure special purpose lease for the port facilities at Paia Inlet and the newly constructed airstrip.

Spin off Opportunities.

- There is a Lucas Mill being operated by the KGO (Kibeni, Gibidan & Omati villagers) landowner company. KGO is milling logs that have been left behind at River Dumps and log landings.
- The coronas quarry at Omati is being operated and managed privately by the landowners. All income generated from this operation goes direct to the landowners.

In response to the draft report, the landowners in FMA 3 noted that it is almost 10 years since they signed the FMA, and that to date not a single log has been harvested in their area. They are impatient to receive benefits, and are questioning the legality of the state acquiring their resource and then not logging it.

6. PROVINCIAL GOVERNMENT DISTRICT OFFICE

Although the Review Team was unable to meet with the District Administrator in Kikori, the Review Team was able to meet with the acting District Administrator and key personnel of the administration available at that time including a nursing medical sister.

² Clan names were given and amounts of timber royalty expected. The information collected has been passed on to PNGFA.

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

- Public servants available at the time were concerned that despite all the economic developments that have taken place and all the revenue generated from the area, there is little meaningful sustainable developments taking place and facilities and personnel requirements for them to support the communities are lacking.
- Public building at Kikori have deteriorated and other services such as electricity and telecommunications are not functional. They would like to see certain level of improvements made to these services so the government system can adequately respond to the economic and social development needs of the people.
- It was claimed by a nursing sister that health problems related to water borne diseases have increased in certain areas of the river systems where logging is taking place. Health and education services no longer exist and the majority of the people who used to live in these communities have moved to Kikori where they can have easy access to such services.

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:

- Current logging practices in those set-ups other than limestone country (Karst) are causing excessive damage to the topsoil and streams due to the breaches of the Key Standards noted in this report.

8. BROAD RECOMMENDATIONS FOR TP 2-12A TURAMA EXTENSION

The Turama Extension Timber Project is one of the first logging operations to be established under the new forestry legislation and guidelines and is one of the largest logging projects in Papua New Guinea. It has the potential to contribute significantly to both the local, provincial and national economies and development.

The project has failed to meet the expectations of landowners for a number of reasons, and the lack of a processing facility is seen by them as a major shortcoming. During the Review Team's field visit this general dissatisfaction with the project was expressed by landowners from the two FMAs where operations have occurred and are current. The landowners of FMA 3 are eagerly awaiting commencement of the operation in their area. However they are also anxious that the problems associated with the logging operations that they have seen and heard about in FMA 1 and 2 are not repeated in FMA 3.

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

- That the Project Agreement for TP 2-12A be reviewed in full consultation with landowners within the forest resource areas and those living along the rivers and marine waterways where the logs are transported.
- That the PNGFA should review and amend the FMAs to better accommodate all landowners affected by the logging operation, i.e. both those landowners with timber resources and those landowners along the waterways.
- That landowners seek independent legal advice in any negotiations over contents of the revised Project Agreement.
- That copies of all relevant documents be widely distributed through the Incorporated Land Group representatives.
- That logging in limestone country (Karst) be stopped in accordance with the Logging Code of Practice.
- That PNGFA and Turama Forest Industry Ltd undertake an audit of the payments made to and from the log export premium, the Annual Benefit Fund, and the Delta Infrastructure Fund, and that the audited accounts be made available to all landowners through their relevant Incorporated Land Groups.
- That effort be made to coordinate the social and economic development for the project area with the involvement of the District Administration and the Kikori Oil Pipeline Community Development Initiative program.
- That the District and Provincial Administration seriously address the problems that are causing urban migration from the villages of the timber area to Kikori.
- That the National and Provincial Governments make an effort to improve the physical infrastructures of the District Administration and the services required to make the organisation at district level effective.
- That the use of the police force by Turama Forest Industry Ltd to physically counter genuine landowner protest be addressed by the relevant authorities.

9. DEPARTMENT OF LABOUR AND INDUSTRIAL RELATIONS

A representative of the Department of Labour and Industrial Relations was a member of the Review Team when the field visit to TP 2-12A was made. The focus of the inspection for the Department was to:

- Check the employment of non-citizens against the company's three year training plan;
- Determine whether the training plan is being adequately implemented; and to
- Address general issues relating to wages and employment conditions.

The Department's Inspection Report is presented as Appendix 2.

10. BROADER FORESTRY SECTOR ISSUES FOR PNG

The following is a list of issues identified by the Review Team during its work on TP 2-12A Turama Extension 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.

- Lack of coordination by the government with the permit holder on social and economic development issues for the project area.
- Lack of distribution of documents such as the Timber Permit, Forest Management Agreements and Project Agreements to landowners and local level governments.
- Lack of meaningful communication and dialogue between resource owners and the permit holder causes unnecessary tension and frustration in many logging operations.

APPENDIX 1: SELECTION OF PERTINENT PHOTOGRAPHS

**APPENDIX 2: DEPARTMENT OF LABOUR AND INDUSTRIAL RELATIONS
INSPECTION REPORT**



DEPARTMENT OF LABOUR AND INDUSTRIAL RELATIONS

Private Sector Training and Monitoring Division

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INSPECTION REPORT

COMPANY:

**TURAMA FOREST INDUSTRIES
LIMITED**

SITE OF OPERATION:

**SIREBI & VICTORY LOGGING SITES
(Kikori District – Gulf Province)**

DATE OF INSPECTION:

24th to 28th NOVEMBER 2003

INTRODUCTION

The Department of Labour and Industrial Relations is a member of the review team on ongoing logging projects in Papua New Guinea. The Department of Labour and Industrial Relations is mandated by the Employment of Non Citizens Act, 1978 – 1983, National Training Policy – Ref NEC 19/ 89, Localization Policy 84/89 and NTP section 6.101 and 6.102.

Our operational and administrative performance is guided by the three-year training plan format and guidelines 2000 and the work permit guidelines 2000. The issuance of work permits for engagement of non-citizens is in essence, importation of skills and skilled personal to impart those skills to PNG citizen employees to acquire for advancement in nation building.

The inspection is part of the review of current logging projects undertaken under the auspices of the Department of National Planning and Rural Development and facilitated by the Forest Conservation Project. The Department of Labour and Industrial Relations is a member of the review team and undertook the inspections on Turama Forest Industries logging site at Sirebi and Victory logging camps in Kikori, Gulf Province. The Department of labour and Industrial Relations conducted the inspection to:

- Verify and ensure the non citizen position occupation against physical performance as approved under the company's three-year training plan submission.
- Determine if the company is actively facilitating their training implementation program as submitted
- Address general employment issues relating to wages and employment conditions etc.

This report is for perusal by the affected stakeholders and relevant state agencies including the logging project Review Team Leader and the Department of Labour and Industrial Relations. Upon viewing of this report, it is anticipated that appropriate decisions shall be made for the company (Turama Forest Industries) by the Department of Labour and Industrial Relations and respective agencies to enable corrective measures for application by the company to ensure compliance with respective legislative requirements and agreements.

BACKGROUND TO INSPECTION

The three-year training plan submission for Turama Forest Industries was submitted by the company representatives in Port Moresby and was approved by the Department of labour and Industrial Relations through an approval letter dated 17th September 2003. This approval allowed for the company to apply for non-citizen work permits against those approved positions and were issued with work permits.

The inspection was undertaken over a four (4) day period commencing from Monday 24th November to Thursday 27th November 2003. We began with a brief meeting with Government officers at the Kikori Government station on Monday 24th November and continued on Tuesday to visit the company's operational site at Sirebi. On Wednesday 26th November, we visited another operational camp at Victory river dump. On the morning of Thursday 27th November, we held a public meeting with the landowners and government representatives at the Kikori Government station.

Apart from the organized meetings, we held meetings with various stakeholders on a one on one basis during the day as well as in the nights at our transit accommodation.

EXPLANATION OF HOW INSPECTION WAS CONDUCTED

Information contained in this report was obtained through discussions with the operations manager and the personal officer of the company, various land owning group representatives, the employees and other reliable sources. We also obtained information through visual observation, photographs and other documents made available to us for this purpose. The consultation with the company management was verbal.

BRIEF STATEMENT OF MAIN FINDINGS

The findings from the inspection covers broad range of issues including the abuse of the training plan and work permit guidelines. There is lack of systematic training with no emphasis on skills transfer while at the same time, there is no concern of safe work practices.

The company is also faced with the mammoth task of progressing with its operations to meet production targets and deadlines. The company is compounded with many non-

compliance issues to resolve while operating under unsuitable conditions including the weather pattern, the terrain, landowner commitments etc.

METHODS

Questions asked

The questions asked were subjective to enable free flow of information to generate discussion with understanding of issues relating to the operations complexities and constraints. The progression and continuity of operations is respected to ensure productivity.

The company's operations manager and the personnel officer were interviewed in their site office at Sirebi base camp, while information were collected from our reliable source and employees at differing times and venue. Questions relating to non-citizen position occupation were retrieved from the company's TLP submission as well as issues relating to citizen counterpart arrangement.

The number of questions asked to each party differed depending on the subject and issue at hand. The consultation session with the company management lasted more than 2 hours, as it required thorough explanation of the information contained in the company's TLP submission.

FINDINGS

1. Company Review Training Plan Submission

Turama Forest Industries three-year training plan submission was submitted to the Department of Labour and Industrial Relations and the positions were approved through an approval letter dated 17th September 2003, Ref 35- 5- 1/ 10

The company's 3YTP was assessed, evaluated and recommended for approval without any inspection to verify the information, as it was a review submission for renewal of non-citizen work permits.

- a) A physical inspection for the review submission is necessary to monitor the progress in the implementation of training and position localization by citizen employees who have been identified as understudies to respective positions.
This actual inspection was undertaken as part of the review of ongoing logging operations after the non-citizen positions were approved and work permits were processed and issued.
- b) It was established that the citizen understudies identified for counterpart training arrangements are performing in those assigned responsibilities, however, the targeted year for localising those positions is unrealistic, given their level of qualifications and experiences. A classic example is that of Mr. Alphonse Mongko, who possesses a bachelors degree in forestry and has been in the industry for 25 years at management level.

The company's TLP submission is not realistic with a lot of flawed and incorrect information.

2. Position Occupation by Non Citizens

A total of 51 non-citizen positions were approved with 45 work permits processed and issued on the 1st November 2003. Nine (9) positions were rejected and the company advised to localize those 9 positions.

a) There are 24 non-citizens employed at the Sirebi logging operations in various occupations while there are 14 non-citizens at the Victory logging operations.

There are 196 citizens engaged at Sirebi while 110 are engaged at Victory logging camp. At the time of this inspection, the figures for citizen employees could not be verified due to circumstances beyond our control. Likewise, visual observation indicated inconsistencies in the number of citizens engaged in those logging camps as opposed to the figures indicated.

b) We identified many anomalies and exaggerated position occupation titles within the company. This also applies to most or if not all logging companies in the country. When submitting their TLP submissions for position approval, the companies indicate very high profile position occupation titles such as admin superintendent, stores superintendent, catering superintendent, roading superintendent etc. Likewise, the qualifications and experiences indicated in the job descriptions of these occupations are absolutely contradictory and inconsistent.

While the occupation titles are so high, the actual level of physical performance can be rated a middle level position. Consequently, citizen employees can occupy these occupations so long as the working environment is conducive and not discriminative against citizen employees.

Logging companies are exaggerating the position titles only to obtain position approval then practically engage semi skilled and unqualified non-citizens in those occupations. Incidentally, the PNG classification of occupations administered by the DLIR is very general in certain occupations. E.g. Forestry workers and loggers, code 6141, other forestry workers NEC, code 6149. These occupations are prohibited to foreigners. However, the logging companies are taking advantage of the general occupation codes and continue to abuse the classification of occupation at the ignorance of the DLIR.

c) The following violations of the training plan approvals and work permit were detected during our inspections and they include but is not limited to the following:

- Case No. 1
Approved position - stores superintendent
Position Number - ASS 01
Work permit number - 2006100139
He was seen physically serving consumable items such as soap, salt and sugar etc at the trade store.
- Case No. 2
Approved position – catering superintendent
Position Number – ACT 01
Work permit number – 2006100172

He has left the kitchen and is now being trained to become a chain saw mechanic as witnessed during the inspection.

- Case No. 3
Approved position – export superintendent
Position number – EMS 01
Work permit number – 2006100165
He was seen identifying logs to be lifted by the crane onto the ship at the river dump at Sirebi.

3. Citizen Employees Training Implementation

The exact number of citizen employees mentioned in 1.2 (a) cannot be verified at the time of this report, due to factors relating to their work and living locations.

The citizen employees are mostly from other parts of the country and none from the immediate land owning groups. Except from the Baimuru district of the gulf Province. Arguments raised by the landowners on employment opportunities cannot be verified and substantiated as we are reliably informed there is a general trend of complacency and lack of interest in working for an income with the company.

- a) The level of training provided to citizen employees cannot be proven as the company continues to engage non-citizens. There is no evidence of skills training and transfer to facilitate counterpart-training arrangements. This effectively creates doubt on the credibility of information provided in the company's training plan submission.
- b) There is no evidence of trade skills and apprenticeship training being conducted on the logging sites especially in the apprenticeable trades of electrician, heavy equipment mechanic, saw doctor etc. Citizen employees learn the skills of the trade through hands on self-teaching in very tiring conditions and difficult environment. The nature of operations and associated factors makes it difficult for any formally arranged training to take place.
- c) Most of the citizen employees are engaged as jinker drivers, chainsaw operators, hook man, bulldozer operators, workshop assistants and other non-technical responsibilities.
They work in road construction, tree felling and other general duties.



- ❖ An employee using a chainsaw without protective shoes, glasses and ear protector

4. Occupational Safety and Health

Observation on Turama Forest Industry's safety practice leaves a lot to be desired as safe work practice is non-existent. Physical observations on the various job sites reveal absolutely no regard for safety and safe work practices. While discussions reveal that the company has done nothing to facilitate and promote safety at the workplace. It is not known if the company has a safety policy manual in place for compliance by employees.

Reliable information reveals that all the employees are made to purchase their own safety apparels, as there is nothing in the storeroom for use by employees. The employees have no safety apparels whatsoever, leaving the risk of personal accidents very high.



- ❖ Employees work without safety footwear and safety glasses.

5. Personnel Matters

There have been a lot of issues on citizen employees working conditions raised by both the employees and the management at the logging operational sites. Both factions provided conflicting information contrary to each other with no resolve in sight. While the company management maintains its commitment to the employees, the employees concerns cannot be openly addressed and verified for fear of intimidation and reprisals. We are mindful of the repercussions it will have on the employees continued employment, as we are not there all the time to ensure fairness and natural justice for the employees.

Concerns of the employees relate to the following but are not limited to the following:

a) Minimum wage

There is a disparity on the wages of employees paid on cubic metre arrangement to that of other classification of workers.

The concerns on deductions for food rations and leave entitlements cannot be verified

b) Living conditions

The make shift accommodation for citizens with overcrowding problems is evident with imminent health hazards. No proper containers for safe drinking and cooking water. No lightning is provided in the night for employees at the bush camp.

c) Dispute resolution

There is no fairness and justice in any dispute resolution process between the management and the employees.

The company uses the members of the Police Force to assault employees who raises concerns on personnel issues. There is evidence of this abuse and suppression of workers rights amounting to violation of human rights by the company.

CONCLUSION

The participation by the Department of Labour and Industrial Relations in the review of ongoing logging projects is very timely and worthwhile. While DLIR is faced with resource problems, collaborative opportunities like this review is important to implement policies to ensure compliance of regulations and policies.

Turama Forest Industries has openly violated the TLP and work permit guidelines. However, the conditions upon which the company operates and the factors affecting these conditions needs to be understood and given due consideration. A company presentation to DLIR would be a worthwhile cause to take at this juncture, given that the necessary approvals has been effected.

There are a lot of non-compliance and violation of the guidelines by the company highlighted in this report. The company needs explain its position through a presentation with the Department.

RECOMMENDATIONS

1. The Department of Labour and Industrial Relations in collaboration with the National Forest Service review the current PNG classification of occupation.
2. Turama Forest Industries Limited to provide evidence of their training implementation plans and for them to comply with the Departments directives before TLP is reviewed and work permits are renewed.
3. Turama Forest Industries to justify the exaggerated occupation titling and for the Department to invoke the prohibited classification of occupation.
4. The Department of Labour and Industrial Relations to revoke and cancel the work permits of the 3 non citizens identified in this report
5. The Department of Labour and Industrial Relations in consultation with the review team leader conduct inspection visits to all ongoing logging operations earmarked for review.