

Masalai i tokaut

Number Twenty Four: 28 October 2003

Conspiracy to defraud: Yet more corruption in the logging industry

New Ireland Province attained international notoriety in the late 1980s as the heartland of logging industry corruption. Justice Barnett and his Commission of Inquiry famously described the logging companies in the Province as acting like robber barons roaming the countryside and seizing whatever forest resources they wanted.

Today much of New Ireland is a sad testimony to the destruction of the logging industry. Its forest resources have been shattered and local governance destroyed through the politics of greed and the corruption that the loggers left as their legacy.

*But one logging operation, at Kaut, still survives and as **Masalai** reveals below, it is the centre of an illegal conspiracy that is defrauding the local landowners and the national government.*

The logging operation at Kaut demonstrates how the forest industry is still inexorably linked to corruption and it reveals once again the depth of the sickness in our forest sector.

Tutuman Developments is a relatively new name in the logging industry in Papua New Guinea, but some of the people involved are well known.

The company is notionally owned by Pedi Anis, the former New Ireland Provincial Administrator (and advisor to the Provincial Governor Ian Ling-Stuckey), and Janette Rauvevie, previously the National Forest Service Manager in Kavieng.

The company employs Debon Logo as its manager. Debon retired last year from his position as the National Forest Service Islands Regional Manager, but not before he had ensured a controversial permit extension for Tutuman Developments!

Although Registrar of Companies records do not reveal the identity of Tutumans financial backers, it is widely acknowledged in forestry circles that the company is a front for Malaysian logging interests.

Tutuman Developments began logging operations in Kaut in 2000 and quickly set about defrauding the local landowners and the national government.

This is being done through flagrant transfer pricing where the declared value of the log exports is way below market prices.

This allows the company to avoid much of its log export tax liabilities, to avoid corporation tax and to use its apparent lack of profitability as an excuse for not providing landowners with promised infrastructure developments.

In 2002 the average price of PNG logs sold on the international market was US\$ 57 per cubic metre. Yet logs exported from Kaut by Tutuman Developments were sold for an average price of just US\$ 40.

To demonstrate the extent of the fraud and to show how blatant the evidence is, the table below compares on a species by species basis the difference between the best and average PNG log export prices and those declared by Tutuman Development during January 2003.

| Species | Best price | Average price | Tutuman price |
|---------------------|-------------------|----------------------|----------------------|
| Burckella | 60.00 | 56.34 | 38.00 |
| Calophyllum | 86.00 | 72.67 | 46.00 |
| Dillenia | 65.00 | 55.25 | 30.00 |
| Erima | 57.38 | 55.95 | 38.00 |
| Grey canarium | 57.00 | 54.81 | 38.00 |
| Kwila | 103.00 | 84.71 | 42.00 |
| Lophopetalum | 65.00 | 50.86 | 38.00 |
| Malas | 62.00 | 53.82 | 38.00 |
| Pencil cedar | 87.00 | 73.52 | 45.00 |
| Red canarium | 72.00 | 55.17 | 38.00 |
| Taun | 86.00 | 71.68 | 45.00 |
| Terminalia | 72.00 | 55.87 | 38.00 |
| White planchonella | 58.00 | 55.46 | 38.00 |
| Group two species | 65.00 | 52.76 | 30.00 |
| Group three species | 60.00 | 49.14 | 30.00 |
| Group four species | 55.00 | 46.41 | 30.00 |

Note: All prices are US\$ per cubic metre

Overall the prices claimed by Tutuman are barely 50% of the best prices being achieved by other log exporters from PNG (and more than one third lower than the average price across the PNG log export market)

To date Tutuman Developments have exported more than 72,000 cubic metres of logs from Kaut and they have made at least US\$ 1 million in secret offshore profits.

But this simple scam requires a team of conspirators within the National Forest Service and the office of the Minister.

As documents below show, each shipment of log exports by Tutuman Developments requires the signed approval of the Marketing Branch of the NFS who warrant that the log prices and quantities are genuine and the signed approval of the Minister for Forests.

Why are Ishmael Libertino and Patrick Pruiatch signing documents that clearly show on their face that the log exports from Kaut by Tutuman Developments are at a price that is defrauding the landowners and the State?

All log exports are also audited by SGS, an independent company contracted by the National Forest Service to ensure that export quantities are correctly declared. SGS provide a voluminous monthly report to the NFS.

This quote is from the executive summary of the SGS report from January 2003:

“As noted in earlier monthly reports, there continues to be very substantial variation in log export prices between different exporters and projects. For example, the average price for saw/veneer calopyllum ranged from a high of US\$86/m³ to a low of US\$46/m³ (Tutuman Development).”

So SGS have clearly identified that a problem exists and brought it to the attention of the National Forest Service. But no further action has been taken and the fraud continues. Why are NFS officers ignoring the concerns of SGS?

This is not a problem just of corruption or dodgy business practices. The people named in this report are guilty of a serious crime - FRAUD - and they should be arrested and brought before the courts.

The logging operations of Tutuman have also been criticised for their environmental performance. A National Forest Service report from New Ireland Province details the failure to comply with key logging standards.

These failures include not compacting road surfaces, pushing soil heaps into water courses, not providing proper road culverts or drainage, using log clusters as culverts, not directionally felling trees, leaving excessively high stumps and tree felling within buffer zones.

The landowners have also protested in the national media about the performance of the logging company and the lack of effective monitoring or control by the National Forest Service. (See for example *Logging contractor damaging environment* in the Post Courier on April 8 2002 and *Stop logging in New Ireland province* on March 8 and *NIP forest owners losing millions in royalties* in the Logging Times on April 4)

Yet despite the clear evidence of problems the National Forest Service has taken no action against the logging company.

To compound these problems the latest indication from New Ireland is that Tutuman Developments are now moving into the Central New Ireland Timber Rights Purchase area having being allowed by the NFS to take over the logging permit for this concession.

The robber barons are clearly still at large in the logging industry in Papua New Guinea.

This document shows the signed endorsement by the National Forest Service Marketing Branch of a log shipment by Tutuman Developments at an average price per cubic metre of just US\$35.36, more than \$20 less than the industry average. The secret profit on this one log shipment was more than \$70,000. How much of this might have ended up in Ishmael Libertino's pocket?

**PNG Forest Authority
EXPORT PRICE ENDORSEMENT**



Exporter: Tutuman Development Ltd. Fax: 8821102
 Address: P.O. Box 242, Kavieng
 New Ireland Province,
 Papua New Guinea.


The Papua New Guinea Forest Authority hereby endorses the export prices for the sale and shipment, having the following details:

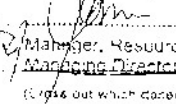
Notification Date: 24-Jul-03
 Buyer: May Tim Importers & Exporters Pte Ltd
 Buyer Address: No. 20 Maxwell Road
 # 03 - 04/05 Maxwell House
 SINGAPORE 069112
 Destination: Korea
 Vessel: Tian Xin ETA: 25-Jul-03
 Project: West Kut

Endorsed Prices

| Product Name | Unit Price | Quantity | Total Price |
|---------------------|------------|-----------|-------------|
| Group 1 - Low Grade | 30.00 | 838.699 | 25,100.97 |
| Maas - Low Grade | 40.00 | 1,896.681 | 75,947.24 |
| Paul - Low Grade | 32.00 | 301.222 | 9,639.10 |
| Group 2 - Low Grade | 30.00 | 29.180 | 845.40 |
| Group 3 - Low Grade | 30.00 | 219.474 | 6,584.22 |
| Group 4 - Low Grade | 30.00 | 370.317 | 11,109.51 |
| | 35.36 | 3,654.573 | 129,226.44 |

This endorsement is valid for a period of two months from today. All correspondence relating to the above sale and shipment must include the following reference code

SIGNED:  307144
 Marketing Manager 24.07.2003

COUNTERSIGNED:  25.07.2003
 Manager, Resource Development
 Marketing Director/General Manager
 (Tick out which doesn't apply)

Note: This endorsement is not valid without two signatures



This document shows the signed endorsement by the Minister for Forests of a log shipment by Tutuman Developments at an average price per cubic metre of just US\$35.36, more than \$20 less than the industry average. The secret profit on this one log shipment was more than \$70,000. How much of this might have ended up in the Minister's pocket?



 ATTORNEY GENERAL
Minister for Forests

To: The Manager
 Customs Office
 P.O. Box 137, KAVIENG
 New Ireland Province.

CUSTOMS (Prohibited Exports) REGULATION
 CHAPTER No. 101 (Reg. Sec. 1)
 Jurisdiction


Monday, 28 July 2003

Export Permit No. 307144

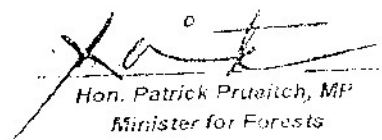
I, Hon. Patrick Pruaitch, MP, Minister for Forests, hereby consent to the exports of the following forest produce:

Exporter: Tutuman Development Ltd
Producer: Tutuman Development Ltd
TP/TL/TA/LEA No.: TP-16 45
Project: West Kaut
Quantity (m3): 3,654.573 *Saw-Veneer Logs*
Value (USD): 97,076.00 *129,226.44*
Species: As attached
Loading Ports: Kaut
Vessel: Tian Xin
Departure Date: 29 Jul-03
Destination: Korea
Buyer: May Tim Importers & Exporters Pte Ltd
 No. 29 Maxwell Road
 # 03 - 04/05 Maxwell House
 SINGAPORE 069113

Right figures on the endorsement



Export Licence:


 Hon. Patrick Pruaitch, MP
 Minister for Forests

cc: PNGFA Regional Manager
 cc: PNGFA Project Supervisor

P.O. BOX 5055, BOROKO, NATIONAL CAPITAL DISTRICT, PAPUA NEW GUINEA
 Telephone: (675) 327 7342 (Parliament) / 327 7918 / 920 (HQ - Hohola)
 Facsimile: (675) 327 7480 (Parliament) / 325 5457 (HQ - Hohola)