

# A GROWING BUSINESS

Despite the impact of the global downturn, PNG's forestry sector continues to be a major export earner and is moving steadily towards sustainability.

**O**f all Papua New Guinea's export-focused sectors, it is arguably forestry that was hit most immediately by the global downturn. Low global prices for logs and reduced international demand for building materials of all kinds meant a dramatic drop in exports in the last quarter of 2008.

According to the PNG Forest Industries Association, raw log exports—which go to countries as diverse as Japan, China, Taiwan and Vietnam—fell by about 16% in 2008, from 2.9 million cubic metres in 2007 to 2.4 million. Exports of processed wood also experienced a drop of around 10%.

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## ADDING VALUE

In spite of the slowdown, it certainly hasn't been all doom and gloom across the forestry sector. For many of those adding value to timber, and suppling PNG's construction boom, business has been brisk.

'We had our best year in 27 years in 2008,' notes Tony Honey, Managing Director of PNG Forest Products Ltd, a company with 100% focus on value-added plantation timber. PNG Forest Products produces prefabricated houses, dressed timber, plywood and veneers from its own pine plantations. It exports to Australia, but also has large customers in PNG's mining, agribusiness, construction and government sectors.

## VERTICAL INTEGRATION

PNG Forest Products and Lae Builders and Contractors Ltd are both examples of a significant shift towards vertical integration in the forestry sector.

'A lot of companies are increasingly vertically integrated, from plantation to export,' notes Bob Tate, Executive Officer for the PNG Forest Industries Association (PNGFIA), which represents the bulk of log exporters and timber processors in PNG.

This integration is being actively encouraged by the PNG Government, which is keen to see the positive impact on employment and rural development that downstream processing can deliver. Minister for Forests Belden Namah has already signalled his intention to stop raw log exports from new timber concessions from 2010 in a bid to make downstream processing the norm.

## SUSTAINABILITY & LEGALITY

PNG's forestry industry has attracted significant criticism for unsustainable practices—criticism the PNGFIA feels is largely



THE PNGFIA'S GABRIEL SAMOL, BOB TATE AND STANIS BAI.

misplaced. Bob Tate told *Business Advantage* that, while not as fast as some would like, the industry was undeniably embracing more sustainable practices.

Timber for export is now being certified. Saban Enterprises in Milne Bay Province (a subsidiary of Malaysia's R H Group, a major timber producer in PNG) has already successfully completed an internationally recognised Timber Legality & Traceability Verification (TLTV) program audited by the Swiss-based SGS Group, and Tate says two more producers are about to commence the program. More timber than ever is now coming from plantations, and the PNG Government is also encouraging replanting of previously logged areas.

## PNG'S COMPETITIVE ADVANTAGE

As with other commodities, the key to PNG's continued success in forestry will be in its ability to attract further investment by remaining internationally competitive. One major advantage for PNG's producers is the low real labour cost in PNG, which is up to 50% lower than that of Russia and the Far East.

PNG's forestry producers also benefit from the wealth of accumulated data on tree species and land types produced by the Lae-based Forest Research Institute. ■

## PAPUA NEW GUINEA'S FORESTRY SECTOR

- 78% of PNG's 46 million hectares is covered in forest
- 6.9 million hectares suitable for forestry (PNG Forest Authority estimate)
- Produce includes raw logs, sawn timber, veneer, plywood, balsawood and woodchips
- sector employs over 10,000 people