

LOOKING FORWARD TO REGROWTH

FORESTRY

PNG's forests sector is rebounding from the global financial crisis, while diversifying its production base.

Papua New Guinea's forests sector has seen the worst of the global financial crisis and industry leaders are 'quietly optimistic' that the sector will recover over the next several years.

Preliminary figures for the year ending December 2009 indicate that log exports were about 1.8 million cubic metres, a decline of about 30% on annual exports prior to the global financial crisis. PNG's Central Bank reports that sales from the forestry sector grew in the June quarter of 2009 compared to the preceding quarter, due to a recovery in international prices and improved log harvest as global demand rebounded, especially in China.

The main markets for PNG timber are in Asia, with more than 80% of log exports going to China, Hong Kong, Korea and Japan. Processed timber products are exported to Australia, New Zealand and South Pacific countries. Veneer is mainly sold to China and South Korea.

INDUSTRY DIVERSIFICATION

PNG's industry is undergoing a gradual transition from reliance on round log exports to diversification into processed products and plantation timber, with both government and private sector support.

All forest projects approved after 1 January 2010 will be for processing-based industry. Downstream processing is also a requirement of eight recently-approved forestry projects released under the government's economic recovery strategy. PNG Forest Authority (PNGFA) Managing Director Kanawi Pouru says negotiations have just been completed for a ninth project, while a final one is still being negotiated with landowners.

INCREASED VALUE-ADDING

PNG's established operators already produce sawn timber, veneer sheets, plywood, processed timber exports and woodchips as well as unprocessed exports. Exports of processed timber products have increased by more than 200% since 1997.

Pouru says the transition can be achieved under existing forest policy and legislation, but the emphasis is now shifting to implementation. The requirements and guidelines for downstream processing have been written into all tender materials for potential investors.

It is a strategy supported by the PNG Forest Industries Association (PNGFIA).

'The incentive is that if you're not into the value-adding game, you're not going anywhere. They're the new realities,' says Bob Tate, Association Executive Officer. 'If it's managed properly, it could be a good thing to create permanent economic activity, which would hopefully then lead to greater development out in the bush and the spin-offs; the trade stores, transport, and related activity.'

POTENTIAL OF PLANTATIONS

Another area of expanded potential is plantations. The country currently has 62,277 hectares of forest plantations, and the PNGFIA says plantation products will make up about 15% of exports this year.

The PNG Forest Authority plans to encourage the development of 240,000 hectares of commercially viable and sustainable forest plantations by 2030. But Kanawi Pouru says the relationship between landholders, business and security of investments needs to

be managed for plantations to reach their full potential.

He says each of the recently approved forest projects has a plantation component.

'All of them will have anything from between 20-30,000 hectares. It is there as part of the industry's future wood supply and when they set up their processing industry, when the natural supply that they're using starts to diminish, the plantations should be matured and pick up the resource supply for the operation.'

Bob Tate says it's a matter of simple economics:

'Plantations are far more cost effective. With improvements in processing technology, a lot of what we call small diameter logs that you wouldn't even look at ten years ago are now a viable raw material to input into manufacturing.'

SUSTAINABILITY & CERTIFICATION

PNG's industry has come under criticism in the past for allegedly illegal and non-compliance issues.

Bob Tate dismisses much of this criticism as misinformation:

'It's still true to say that PNG does manage the forest better than most countries ... we've had an industry since basically the late 1940s and, through selective logging and good forest management, we still have forest cover of about 65% of PNG. The forest we have lost unfortunately, or has been permanently converted, is for things like oil palm, other economic uses of the land and also the simple fact that the population has grown out of control.'

However, many international markets are demanding greater scrutiny of all timber producing countries. In early 2010 the Australian Government indicated that it was considering a ban on and criminalisation of the importation of illegally-logged timber. Australia and PNG already have certification agreements.

INTERNATIONAL STANDARDS

Pouru says internationally-accepted standards for the sale of forest products clearly need to be put in place, beyond the existing third-party inspections and certification for round log exports. 'International markets are now requiring these standards, they would like to be assured that any forest products they are buying are coming from forests that are legally authorised or under proper forest management,' he says.

Swiss certifiers SGS, which have run the round logs inspection and certification program in PNG for 15 years, has been awarded the tender—in partnership with other firms—to develop new standards. Pouru expects the standards to be available within two years.

The industry itself has already taken up the initiative, asking SGS to prepare a certification process that will be available to members on a voluntary basis.



THE PNG FOREST AUTHORITY'S KANAWI POURU

OUTLOOK IMPROVES FOR INDUSTRY: R H GROUP



Malaysia's Rimbunan Hijau Group is the largest forestry operator in Papua New Guinea. Managing Director James Lau tells *Business Advantage* that business is improving:

'After a tough 2008/9 due to the global financial crisis, PNG's forestry industry looks to be picking up again,' says James Lau, Managing Director of the Rimbunan Hijau Group in PNG. 'In 2010, we expect international markets for forest products to further stabilise and improve. 2010 will be definitely better than 2009.'

Lau views future prospects for RH's forestry operations as strong, particularly given the PNG Government's stated

desire to move towards value-adding and sustainability:

'Future prospects for Rimbunan Hijau's forestry business look promising. We have introduced a timber legality and traceability verification system in Papua New Guinea and are currently expanding the system to our other forestry operations,' he notes. 'Rimbunan Hijau is well positioned in regard to value adding. We are the largest processor of forest products in PNG and expect to maintain this leading position.'

R H Group is also one of several companies getting seriously involved in PNG's burgeoning plantations sector.

'Rimbunan Hijau will start major investments in timber plantations in 2010. We are [also] currently evaluating the developments in carbon trading from a commercial view point,' says Lau.

CARBON SINKS

The potential for generating income through forest conservation and replanting under international climate change regimes is also attracting a great deal of interest in PNG.

'The potential is great, which we all recognise, and we think that it is an opportunity that we as a country can participate in ... but what is not clear is how is this game going to play out,' says Pouru.

The PNG Forest Authority worked on drafting of a Policy Framework on Climate Change and Reduced Emissions for Deforestation and Forest Degradation (REDD) in 2009. But Pouru says the Government needs to establish a legal framework in line with international agreements, and there is still a lot of work to be done.

Tate believes a well-managed carbon trade business in PNG has great potential. 'The easiest, quickest and most cost effective way for climate change abatement is to plant trees. PNG's got the land, it has a long history of commercial and small holder tree planting all through the highlands, it is something that if we do right, [would be] good for the world, and bring lots of economic opportunities to PNG ...' It will be a real shame if it doesn't happen. You look at other countries, Brazil, Guyana, Costa Rica, Tanzania, several African countries, they've all taken steps to implement carbon projects, all focused around plantation establishment, rehabilitation, integrated forests. We've got the

'If you're not into the value-adding game, you're not going anywhere.'

technical knowledge base, we've got the labour base, we could do it with our eyes shut.'

NEW INVESTORS SOUGHT

PNG is looking for new investors in the forests sector, with Pouru saying potential investors are still most likely to come from within the region, particularly Asian neighbours such as Malaysia, Thailand and Korea. A visit by Indonesian President Susilo Bambang Yudhoyono in March 2010 focused partly on cooperation in the forestry sector and climate change.

But there is a limit to what can be sustainably cut each year. 'We have said that for PNG's forests to be harvested on a sustainable basis, we have factored on three million cubic metres per year,' states Pouru, a level that was not met, even before the global financial crisis.

'We're cautiously optimistic,' says Tate. 'As we found after the Asian currency crisis of the late 1990s, we got back to our full production capacity but the markets had changed. Japan had gone, China had emerged, Vietnam was just coming out of its shell. So, post-GFC, who knows what markets will survive, what markets may change?'

PNG Forest Authority

The Papua New Guinea Forest Authority promotes the responsible use of our country's natural resources and environment for the collective benefit of all Papua New Guineans as well as the conservation and replenishing of these resources for the benefit of future generations.

Working for today, PLANNING FOR TOMORROW

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