

# The Great “Illegal” Logging Swindle

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*Tim Curtin*

*Emeritus Faculty, Australian National University*

This Note is a summary of the author’s paper “What constitutes illegal logging?” *Pacific Economic Bulletin*, 22.1, 2007: 125-134.

The campaign by environmentalist non-government organizations (ENGOS) against “illegal” forestry in Africa, Asia, and the Pacific is attracting support from governments of OECD countries, notably USA, UK, and Australia. However these governments appear more concerned to protect their own timber industries from competition from producers in countries like Indonesia and Papua New Guinea (PNG) than in what differentiates an illegal from a legal timber resource, and this is what constitutes a fraud against the people of mainly S.E. Asian and African developing countries, whereby the cited OECD countries have co-opted the ENGOS’ attacks on commercial logging in developing countries to support their own timber interests.

Australia’s Minister for Fisheries, Forestry and Conservation (Eric Abetz), states (in his *Bringing Down the Axe on Illegal Logging*, 2006), that there are “significant volumes of illegally sourced timber and timber products that continue to be imported into this country [worth] an estimated A\$400 million”, citing the Jaakko Pöyry (JPC) report (*Overview of Illegal logging*, 2005) commissioned by his Department to support his stated objective of helping the Australian timber industry avoid competition from such imports.

Similarly a report partly funded by the British government (*Bulldozing progress: human rights abuses and corruption in Papua New Guinea’s logging industry*, Australian Conservation Foundation (ACF), 2006) made use of the JPC report. Governments with their own interest in protecting their domestic timber industries from competition with forest products derived from countries like Indonesia and Papua New Guinea find it attractive to require countries like Indonesia and Papua New Guinea to undertake costly certification programmes (e.g. Forest Stewardship Council (FSC), a timber export certification arrangement between the World Bank and WWF, and similar requirements under the World Bank and EU Forest Law and Enforcement and Governance (FLEG) programmes) that would reduce the competitiveness of the latter’s timber products relative to their own intrinsically higher cost domestic industry (because of higher wage levels and lower timber yields).

This link between attacks on the “legality” of logging in tropical countries and its impact on domestic timber products in other countries is explicit in a report by the American Forest Product Association (AFPA, 2004), *Illegal Logging and Global Wood Markets*, which claims that if all “illegal” timber exports were blocked, the price of roundwood would increase by 19%; lumber by 7%; and wood panel by 16%, and that eliminating “suspicious” timber from world trade would enable the USA to

increase its own sawnwood, wood panel and roundwood exports by over US\$460 million p.a. This year the US government, EU Commission and Australian government have announced programs to help Indonesia combat “illegal” logging.<sup>1</sup>

This impression that it is not the legality of forest products in countries like Indonesia and Papua New Guinea that is of concern is enhanced when inspection of the JPC Report and of similar reports by various ENGOs reveals that they provide no evidence that any of Australia’s or Britain’s timber imports have an “illegal” provenance.

JPC define “illegal logging” in a number of ways, including harvesting without authority in national parks or conservation reserves, and avoiding full payment of royalty, taxes, or charges, but fail to identify any violations of its criteria. Comprehensive audits of the PNG timber industry sponsored by the World Bank in 2000-2004 found full compliance with the country’s Forestry Act 1991, which itself was largely dictated by the World Bank (including defining a sustainable logging cycle for PNG at 35 years, see *Logging, legality, and livelihoods in Papua New Guinea*, Forest Trends, 2006).

Instead of doing fieldwork to prove illegality, JPC contented itself with ranking the source countries of Australia’s timber product imports, first by Transparency International’s Corruption Perceptions Index (TICPI), and then by JPC’s own assessment of their governance and management capacity (GMC). When TICPI gives a white OECD country a low rating, implying low corruption, then JPC gives that country a high GMC rating. If imports are from a country with the latter, then its exports of timber products to Australia are legal. But if non-European countries like Malaysia and Singapore are rated to have good (i.e. low) corruption by TICPI, they are invariably deemed by JPC to have medium or worse GMC ratings implying high probability that their exports are “suspicious” or “illegal” (see JPC’s Table 3.1 below). Then JPC considers that their *total* timber exports to Australia can safely be deemed illegal or at best “suspicious”, and so Singapore’s plywood exports are deemed to contribute to Australia’s A\$400 million of “illegal” imports.

With this useful criterion, JPC had no difficulty in concluding that 8% of Australia’s sawnwood imports have been sourced illegally, including ALL imports from the three countries with its lowest GMC ranking, Indonesia, Papua New Guinea, and Solomon Islands. No matter that *all* PNG’s sawnwood and woodchip exports derive from companies based in Japan or Malaysia that enjoy low TICPI, and for most of us except JPC, high GMC. The World Bank’s Forestry Review found that Sumitomo’s PNG Open Bay project is exemplary in terms of sustainable forestry, with 80 per cent of its output plantation-based, but this is not good enough for JPC, as all timber products imported into Australia from Papua New Guinea are illegal, even when as in the case of plywood, they derive entirely from a company (PNGFP) originally established in 1954 by the Australian government itself (and still part-owned by the “low GMC” PNG government), and are certified by the Plywood Association of Australia. The plywood is sourced from pine plantations established 50 years ago by

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<sup>1</sup> Yet JPC as well as working for the Australian government was also in 2005 promoting a timber investment in the north-west of the UK to produce at least two million m<sup>3</sup> a year (equivalent to PNG’s average log exports in the 1990s), with a projected value of timber products of over £500 million and creation of over 6,000 jobs. Robert Wilson, *Adding value in Forestry*, Jaakko Pöyry, 2005

the presumably illegal government of Australia, as JPC considers PNG's plywood exports illegal whatever their provenance.

The World Bank's Reviews had "found that forest resources were being managed according to four main elements of the statutory framework, including supervision of all large-scale logging operations by the statutory Forest Authority, broad conformity with the National Forest Plan, and licensing of all large-scale operations in accordance with the relevant legislation" (Forest Trends, 2006). Those disappointing findings impelled the environmental NGOs including Forest Trends to establish their own definitions of illegality, whereby even legally sanctioned logging operations are nonetheless illegal if they are not being conducted "sustainably". Their arbitrary definition of sustainability is a logging cycle of not less than 40 years or even as long as 75 years, even though it was the World Bank that imposed the 35 year cycle in both Indonesia and Papua New Guinea. None of the NGOs provide independent authority for determining that tropical forests require at least 40 years to regenerate. While tropical timber specialists working in Papua New Guinea and Solomon Islands have demonstrated that shorter logging cycles are perfectly sustainable (Webb et al 1980), Forest Trends (2006 2:61) endorses claims that a resource volume of 44 m<sup>3</sup> per ha. is "unrealistically" high – this for a tropical forest, while in drought stricken Australia, volumes for eucalyptus that never reach 50 dbh - the minimum acceptable level for PNG's log exports to China - reach 180 m<sup>3</sup>/ha (West 2004:97-98). Alder (1995:93) reports resource levels of 241 m<sup>3</sup>/ ha in Ghana; for a 35 year logging cycle, this implies an annual yield of 6.89 m<sup>3</sup>/ ha when logging begins. PNG's only plywood operation in 2006 achieved an average yield of 5.6 m<sup>3</sup>/ ha from its plantation resource of 9,000 ha. (130 m<sup>3</sup> from the clear felled 35-year old coupe of 277 ha. and 36 m<sup>3</sup> from thinnings from coupes of 292 ha.) – but that is "unsustainable" even after 50 years of continuous harvesting, according to the ENGOS.

The other main basis for deeming that all logging in Papua New Guinea is illegal is the claimed lack of informed landowner consent. However there is no documented landownership of any of Papua New Guinea's forest areas (Curtin and Lea 2006). Its customary land tenure system is based on individual usufruct rights to one's own home and cultivated gardens. In the primary forest there is no cultivation, and no usufruct. Instead the forest is a commons in which all living therein have rights of access for hunting and gathering, but there are no rights of any one individual or family to exclude others. Excludability is the main criterion for determining land ownership. Ignoring this it is too easy for NGOs to find disaffected putative "landowners" in the vicinity of a timber permit area eager to claim that they knew nothing of the project before its inception, gave no consent, and have gained no benefit in the form of royalties paid by the logging contractor. Yet the World Bank's Review reported that even at the alleged illegal Wawoi-Guavi project, the operator was compliant with the requirement to effect payments to identified *de facto* landowners, to the tune of no less than US\$11.6 million between 1997 and 2003.

Forestry is the largest single natural and renewable resource of countries like Indonesia, Papua New Guinea and the Solomon Islands. Their resource endowment is such that they will hardly be able to produce - let alone compete with - temperate countries' production of beef, wool, lamb, wheat, bananas, and sugar. Thus if they are not allowed to export their forest products to Australia or the UK without undergoing costly certification tests, then however much financial "aid" the latter provide, these

and other timber producing developing countries will never achieve the income growth that their resources justify.

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**Table 3-1:  
Top 25 Sources of Sawntimber Imports to Australia 2003-04**

Country	Volume '000 m <sup>3</sup>	Value \$ '000	TICPI <sup>†</sup>	Governance and Management Capacity <sup>‡</sup>
1. New Zealand	435.81	255	Low	High
2. Canada	126.21	72	Low	High
3. Czech Republic	68.51	23	Med	High
4. Malaysia	54.57	39	Low	Med
5. Indonesia	43.82	34	High	Low
6. Papua New Guinea	22.34	13	High	Low
7. Austria	18.37	5	Low	High
8. Finland	18.31	9.6	Low	High
9. Chile	12.84	7.1	Low	Med
10. United States of America	12.77	12	Low	High
11. Estonia	10.84		Low	High
12. Germany	8.25		Low	High
13. South Africa	6.82		Low	High
14. Sweden	5.67		Low	High
15. Fiji	5.66		*	Med
16. Solomon Islands	5.58		*	Low
17. China	2.12		Med	Med
18. Ghana	1.60		Med	Med
19. France	1.53		Low	High
20. Brazil	1.46		Med	Med
21. Singapore	1.21		Low	Med
22. Ecuador	0.92		High	Med
23. Peru	0.84		Med	Med
24. Philippines	0.64		High	Med
25. Latvia	0.61		Med	Med
<b>Other</b>	<b>3.78</b>	<b>32.19</b>		
<b>Total</b>	<b>871.10</b>	<b>501.90</b>		

Source: JP Research, ABARE and ABS

<sup>†</sup> Values based on Transparency International Corruption Perceptions Index 2004 (TICPI)

<sup>‡</sup> JP Consulting's assessment of the countries governance and management capacity

\* Insufficient survey data for TICPI calculation

Source: Jaakko Poyry, Canberra (DAFF), 2005.