



# Log-in for new growth

Papua New Guinea's forestry sector is poised for expansion as it begins a gradual transition from export logging to producing processed products and plantation timber.

**E**ighty-four per cent of PNG's landmass is covered by forest, and 5.6 million hectares are potentially production forests. The nation's more than 60 commercial timber species fall into three broad categories: major hardwoods, commercial hardwoods and major conifers. Among the most valuable hardwoods are kwila and rosewood.

PNG produces a range of forest products, including furniture, plywood and prefabricated buildings, for domestic and export markets. Processed products are exported to Australia, New Zealand and PNG's South Pacific neighbours. Veneer is mainly sold to China and South Korea. Plantation products account for about 15% of exports.

For the time being, exports are primarily in the form of round logs. The Bank of Papua New Guinea reports that 1.8 million cubic metres of logs were exported in 2009, with an average export price of K212 (US\$82) per cubic metre. The average price has continued to rise since then, to K263 (US\$102) per cubic metre in the September quarter of 2010, driven predominantly by demand from China.

Most of PNG's log exports go to 11 Asian countries: 89% to China, followed by Japan, Korea, India, the Philippines, Taiwan, Thailand and Vietnam.

## New policy

Since January 2010, government policy has dictated that all newly approved forest projects must contain a strong element of downstream processing. Producers already generate sawn timber, veneer sheets, plywood and processed timber exports, but these sectors will receive greater emphasis.

PNG Forest Authority (PNGFA) Managing Director Kanawi Pouru says companies will have five or six years to make the transition.

'We're reviewing what support the Authority can offer,' he says. 'The government has made it clear that institutions like the Timber Industry Training College in Lae need to also recognise the government's policy shift and train people in all phases of processing, wood shedding, treatment operators and so on. All this training is being done but may need to increase in capacity to cope with the needs of the industry. 'There is a lot of job creation now, and perhaps it now opens up more opportunities for cottage industries that can process wood to specifications.'

*'Government policy has dictated that all newly approved forest projects must contain a strong element of downstream processing.'*

## Expansion plans

Opportunities for the expansion of PNG's forest industry include the rising domestic demand for timber and wood products driven by PNG's major new resources projects, establishing plantations, and forest enhancement under climate change protocols.

With five major producers already certified or in the process of becoming independently certified for legal origin and chain of custody, new export opportunities should arise in markets requiring third party verification. These include Australia, the US and European Union.

## Leading players

Major industry participation includes Cloudy Bay Sustainable Forestry Ltd's logging, sawmilling and timber sales in Port Moresby (see box); Innovision (PNG) Ltd at Makarapa, Western Province; Open Bay Timber Ltd's export of logs and plantations in East New Britain; PNG Forest Products Ltd's sawmilling plywood, and manufacturing at Bulolo, Morobe; Pac-Rim Hardwoods (PNG) Ltd's sawmilling and timber exports in Port Moresby; Rimbunan Hijau (PNG) Ltd's export logging, downstream processing and other interests PNG-wide; Stettin Bay Lumber Co. Ltd's export of logs, sawmilling and plantations in West New Britain Province; and Turama Forest Industries Ltd's log exports from the Gulf Province.

Rimbunan Hijau, a wholly owned subsidiary of Malaysian company Rimbunan Hijau, is by far PNG's most influential forestry player, expanding from its inception as a small operator in 1989 to become the country's biggest exporter and manufacturer of timber products, with interests in shipping, media, retail and property development. It employs close to 7500 people across the country, the majority of them in its forestry operations. The company has spent more than US\$100 million on infrastructure in rural areas since 1993. This includes roads, bridges, community and education facilities and health facilities. Managing Director James Lau says the company is also exploring opportunities in timber plantations and carbon trading.

## CLOUDY BAY LEADS THE NEW WAY



Credit: Cloudy Bay Sustainable Forestry

*Cutting wood at Cloudy Bay Sustainable Forestry is a high-tech affair.*

Cloudy Bay Sustainable Forestry is paving the way for a new kind of forestry industry in Papua New Guinea, one based on value-adding to logs. The company holds the first 100% downstream processing licence to be issued by the PNG Forest Authority (PNGFA), and produces a range of value-added products.

While Cloudy Bay is the leader, this style of operation will be the norm. Since January 2010, the PNG Government has required that all newly approved forest projects are for processing-based operations.

Cloudy Bay's 148,900-hectare Forest Management Area Project lies about 250 kilometres south-east of Port Moresby. Under the terms of its permit, the company can harvest 60,000 cubic metres of logs annually for its new saw mill in Bam. The timber is then sent to a wood processing centre on the outskirts of Port Moresby.

Wood harvested by Cloudy Bay is milled, dressed, moulded, kiln-dried and pressure-treated before being turned into a variety of products including processed timber, exotic furniture, kitchen units, pre-fabricated homes and offices.

Managing Director Mike Janssen says the company's timber

framing and high-end joinery sections will drive its growth.

Under the company's Project Development Agreement with the PNGFA, it must deliver a range of infrastructure over 20 years, including schools, health centres, churches, sports facilities, bridges, roads and a police station. This investment will be worth K48 million (US\$18.6 million). The agreement also requires the company to actively support the socio-economic development of the local landowners, who number about 6000 in the concession area.

Janssen believes community forestry, where landowners cultivate and harvest their own trees, will also be an integral part of the sector's growth.

The company has recently undergone independent environmental auditing aimed at acquiring Forest Stewardship Council (FSC) certification. PNG's major markets for processed forest products increasingly require evidence of legal origin and chain of custody certification for timber products.

'We're now working through the non-compliances and expect the process to be complete by the end of 2011,' says Janssen.

## 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*

[www.forestry.gov.pg](http://www.forestry.gov.pg)

