

## **PNG FORESTRY REVIEW TEAM**

### **AUDITING FORESTRY PROJECTS CURRENTLY "IN PROCESS" FOR COMPLIANCE WITH THE REQUIREMENTS OF THE POLICY, THE FORESTRY ACT AND OTHER REGULATIONS AND GUIDELINES**

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**To:** Government of Papua New Guinea  
C/- The Interagency Forestry Review Committee  
Office of the Chief Secretary to Government

**From:** Review Team

**Date:** 12 December 2000

**Re:** **INDIVIDUAL PROJECT REVIEW REPORT NUMBER 2**

**ROTTOCK BAY CONSOLIDATED (WEST NEW  
BRITAIN PROVINCE)**

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#### **AUDIT CONCLUSIONS AND RECOMMENDATIONS:**

##### RESOURCE AND PLANNING ISSUES:

The sustainable timber yield principle has been complied with. However sensible operational procedures have not been complied with in that the resource data for the Rottock Bay component was not based on field inventory. The gross loggable area has been over-estimated by an estimated 35,000 ha, but this has been compensated for by other errors. The sustainable yield is high enough to support a conventional stand alone log export project.

##### LEGAL COMPLIANCE:

Due process has not been followed.

##### LANDOWNER ISSUES:

The PNGFA made inadequate effort to verify the effectiveness of the landowner awareness program and ILG process which was conducted by Landowner Companies seeking to advance this project. There is inadequate awareness at village level of project development options for landowner participation.

##### RECOMMENDATIONS (INCLUDING CORRECTIVE MEASURES IF REQUIRED):

That the PNGFA progress this project subject to the following recommendations:

- That the PNGFA undertake field inventory work in the Rottok Bay component, and recalculate the resource data for the consolidated project area.
- That the PNGFA undertake remedial ILG work (including landowner awareness programs) to ensure proper constitution of the ILGs and effective landowner participation in the project.
- That the application by Cakara Alam Ltd dated 24 January 2000 for the project to be treated as an extension be rejected.
- That the project be publicly tendered.
- That the PNGFA Board review the following matters:
  - The purported approval of Cakara Alam Ltd's application of 2 June 1999 for this project to be treated as an extension.
  - The transfer of the East Arowe Timber Permit.
  - The change of Cakara Alam Ltd's shareholding and its failure to amend registration particulars.
- That attendance of landowner representatives at all relevant Provincial Forest Management Committee meetings be arranged.

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**Note:** The individual project reports summarise the findings of the Review Team regarding material compliance issues, and present project specific recommendations for the consideration of the Interagency Forestry Review Committee. Separate reports produced at the end of the review process set out in more detail the audit procedures applied, and comments and recommendations regarding existing policies, legal requirements and project development processes.

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## **REVIEW REPORT**

### **SUMMARY PROJECT DETAILS:**

Project type:	Forest Management Agreement / Timber Permit
Processing stage:	Four FMA areas (Rottock Bay, Vanu Tamu, Aria Vanu Block 2 and Inland Rauto-Miu) consolidated to create a stand alone project at the Project Guidelines stage. Currently a proposal from Cakara Alam (PNG) Ltd for the area to be allocated as an extension to the existing West Arowe project is being considered by the PNGFA.
Gross FMA area:	208,000 ha
Gross loggable area:	140,000 ha
Net sustainable timber yield:	88,000 m <sup>3</sup> /annum (a) 92,000 m <sup>3</sup> /annum (b)

(a) Review Team estimate based on:

- Area information extracted from the PNGFA Geographic Information System (FIMS) for all four areas (excluding the old Rottock Bay TRP area – about 7,000 ha);
- Gross volume per hectare information from PNGFA field inventory work (FIPS) for all areas except Rottock Bay where the PNGFA applied an estimate;
- A standard reduction factor of 15% applied to gross loggable area;
- A standard reduction factor of 30% applied to gross volume per hectare; and
- A 35 year cutting cycle.

(b) As calculated by the PNGFA and presented in the Project Guidelines (based on an area estimate which includes the old Rottock Bay TRP area).

## **A. FORESTRY AND PLANNING ASPECTS**

<p><b>1. SECTORAL PLANNING AND CONTROL</b></p>	
<p><u>PROVINCIAL FOREST PLAN</u></p> <ul style="list-style-type: none"> <li>• PNGFA Board endorsed Provincial Forestry Plan exists:</li> <li>• Is the Provincial Forestry Plan current:</li> <li>• Is the Project listed in the Provincial Forestry Plan:</li> </ul> <p><u>NATIONAL FOREST PLAN</u></p> <ul style="list-style-type: none"> <li>• Is the Project listed in the National Forest Plan as required under s54 of the Act:</li> </ul>	<p>Yes</p> <p>No – expired August 1999</p> <p>Three of the component areas are listed. Inland Rauto-Miu is not.</p> <p>Two of the component areas are listed. Rottock Bay and Inland Rauto-Miu are not.</p>

<p><b>2. PROJECT DEFINITION IN FMA DOCUMENT</b></p>	
<ul style="list-style-type: none"> <li>• Is the gross loggable area properly defined:</li> <li>• Has the total gross merchantable volume per hectare been properly estimated:</li> </ul>	<p>No. An area reduction factor has been applied to the gross FMA area to estimate the net loggable area. It should instead be estimated by applying the logging exclusion zones defined in the Logging Code.</p> <p>In part. Field inventory was undertaken for all areas except Rottock Bay (but sample very small). The field inventory data has been applied for the Aria Vanu Block 2 and Vanu Tamu FMA areas (these seem high at 54.9 and 41.3 m<sup>3</sup>/ha respectively). For the Inland Rauto-Miu FMA a gross loggable volume figure of 21.8 m<sup>3</sup>/ha has been applied being a 30% reduction of the inventory result of 31.3 m<sup>3</sup>/ha.</p> <p>For Rottock Bay PNGFA have estimated a gross volume per hectare figure (25 m<sup>3</sup>/ha) based on old TRP data – this represents non</p>

<ul style="list-style-type: none"> <li>• Has the net merchantable volume been properly estimated:</li> <li>• Have “Fragile Forest Areas” (OEC definition) been considered:</li> <li>• Have environmentally sensitive areas been considered:</li> <li>• Have conservation set asides been appropriately implemented:</li> </ul>	<p>compliance with standard operational procedures. Anecdotal evidence is that this non compliance resulted from pressure to progress this project.</p> <p>Yes. For three of the component FMA areas the standard 30% reduction is applied. For Rottok Bay the standard volume reduction factor was not applied, and for Inland Rauto-Miu this means that the reduction was applied twice (see above).</p> <p>No, because there is no agreed position regarding fragile forest areas. Exclusion of Fragile Forest Areas from logging would reduce the gross loggable area by 5% to 133,000 ha.</p> <p>In part. Large scale Gazetted conservation areas are excluded from the FMA area. Smaller scale Gazetted conservation areas are excluded from the gross loggable area definition.</p> <p>However the approach adopted to defining the gross loggable area (see above) may not adequately recognise the extent of the area excluded from logging by the Logging Code. In this case the FMA documents overstate the gross loggable area by about 35,000 ha.</p> <p>No. Whilst the standard FMA document reserves the right for the PNGFA to exclude up to 10% of the gross loggable area from logging for conservation purposes, this right (and its potential consequences) has not carried forward to the Project Guidelines.</p>
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<p><b>3. ESTIMATE OF SUSTAINABLE CUT</b></p>	
<ul style="list-style-type: none"> <li>• Has the sustainable annual cut been properly calculated:</li> </ul>	<p>Individual Development Options Studies (DOS) were prepared for the four areas. Each DOS sets out the estimate of the sustainable cut for that area only. Only for the Inland Rauto-Miu DOS is the data consistent with that presented in the FMA document – the key</p>

<ul style="list-style-type: none"> <li>• Is the estimated sustainable yield sufficient to support a financially efficient logging investment (min 30,000 m3/a):</li> <li>• Is the estimated sustainable yield sufficient to support a stand-alone log export operation (min 70,000 m3/a guideline set by PNGFA Board):</li> </ul>	<p>inconsistency for the other three is a reduction in the gross volume per hectare data. For Rottok Bay this is unexplained. For Aria Vanu Block 2 and Vanu Tamu this was done deliberately by Acquisition Branch because based on actual harvesting data from adjacent areas, they felt that the field inventory results were too high. There are also variations in area data depending on whether the old Rottok Bay TRP area is included or not.</p> <p>A combined set of Project Guidelines corrects the inconsistencies between the FMA documents and the DOS reports, except for the gross volume per hectare data for Aria Vanu Block 2 which remains at 24.0 m3/ha compared to the 54.9 m3/ha set out in the FMA document. The data set out in the Project Guidelines also corrects the failure to apply the standard gross volume reduction factor in the Rottok Bay FMA (see above).</p> <p>The combined Development Options Studies indicate a sustainable cut estimate of 91,000 m3/a (20,000, 37,000, 12,000 and 22,000 – for Aria Vanu Block 2, Inland Rauto-Miu, Rottok Bay and Vanu Tamu respectively). The Project Guidelines indicate a sustainable cut estimate of 92,000 m3/a (12,000, 37,000, 13,000, and 30,000 m3/a).</p> <p>A recalculation by the Review Team (accepting the gross volume per hectare estimate for Rottok Bay made by the PNGFA) indicates a sustainable cut of 88,000 m3/ha. However, as noted before the field inventory results seem high.</p> <p>Yes</p> <p>Yes</p>
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<p><b>4. CONSISTENCY BETWEEN DOCUMENTS</b></p>	
<ul style="list-style-type: none"> <li>• Is the area and volume data consistent between the FMA, the Development Options Study and the Project Guidelines:</li> <li>• Any other material inconsistencies regarding the resource:</li> </ul>	<p>No – as set out above.</p> <p>The species distribution data set out in the FMA and the DOS for Rottok Bay is inconsistent (there is no field inventory data). For the other three areas the field inventory data is the same as that set out in the FMA and the DOS.</p>
<p><b>5. ANY OTHER MATERIAL NON-COMPLIANCE REGARDING THE RESOURCE</b></p>	
<ul style="list-style-type: none"> <li>• The standard cutting cycle assumed in the sustainable annual cut calculation.</li> </ul>	<p>The National Forest Policy specifies a 40 year cutting cycle. In practice a 35 year cutting cycle is applied. No explanation is available.</p>

**RECOMMENDATIONS REGARDING FORESTRY ASPECTS:**

1. SECTORAL PLANNING AND CONTROL

- That the PNGFA pro-actively assist the West New Britain Provincial Government update their Provincial Forest Plan (s49), and facilitate the inclusion of the updated Provincial Forest Development Programme (s49(2)(b)) into the National Forest Development Programme (s47(2)(c)(ii)) as required under the National Forest Policy (Part II (3)(b)) as the basis for the PNGFA’s acquisition and allocation programme.

2. PROJECT DEFINITION IN FMA DOCUMENT

- That the PNGFA checks and amends if necessary the project area and gross volume per hectare information for all four component FMA areas, and in particular undertakes field inventory work for Rottok Bay.

### 3. ESTIMATE OF SUSTAINABLE CUT

- That the PNGFA recalculates and amends as necessary the permitted annual sustainable cut for inclusion in the Project Guidelines.

### 4. CONSISTENCY BETWEEN DOCUMENTS

- That the PNGFA checks and amends as necessary the species distribution data presented for the Rottok Bay FMA area.

### 5. ANY OTHER MATERIAL NON-COMPLIANCE REGARDING THE RESOURCE

- That the PNGFA either base their sustainable cut calculations on a 40 year cutting cycle (as required under the National Forest Policy) or provide justification for adopting a 35 year cutting cycle.

## **B . LEGAL COMPLIANCE**

### **SUMMARY OF LEGAL COMPLIANCE:**

- The right of landowners under section 28(3) to attend PFMC meetings appears to have been overlooked.
- In relation to Rottok Bay (Pre-consolidation) compliance was otherwise generally satisfactory.
- In relation to the other areas that are now consolidated, compliance is otherwise generally satisfactory.
- Doubts arise in relation to the treatment of the consolidated project as an extension, and its exemption from tendering. This appears to be a serious and unwarranted departure from the process.
- Cakara Alam has lodged an Environment Plan and therefore appears to feel certain of obtaining a Timber Permit even though a Project Agreement has not been executed, or even negotiated.

### **RECOMMENDATIONS REGARDING LEGAL ASPECTS:**

1. That the Form 89 Application by Cakara Alam Ltd dated 24 January 2000 for the project to be treated as an extension be rejected, and that the Consolidated Project be tendered under section 64.
2. That the landowners be extensively consulted in relation to the evaluation of project proposals.
3. That the formalities underlying the transfer of the East Arowe Timber Permit be checked and that action be taken to restore the permit to its original holder, if that is appropriate.



4. That the matter of Cakara Alam Ltd’s change of share-holding be referred to the Board under section 112(1)(b) and regulation 213(3).

Appendices 1A and 1B set out the legal compliance checklist for Rottock Bay (pre-consolidation) and Rottock Bay Consolidated respectively.

**C. LANDOWNER ISSUES**

RESOURCE ACQUISITION	
1. Landowner Awareness	
<p><b>The Review Team was looking for evidence of an awareness package containing information explaining the purpose, benefits and otherwise to be expected from the project. This could include general conditions that could be used for all prospective projects.</b></p>	<p>No formal awareness package is in evidence, however, there have been innumerable interventions in the various blocks that now constitute Rottock Bay consolidated that a lot of landowner awareness must have been raised.</p> <p>Whether or not there has been enough consultation with the owners of the various blocks that NFS now wants amalgamated is another question.</p> <p>Compliance record claims that awareness patrols were carried out:</p> <ul style="list-style-type: none"> <li>• on 16<sup>th</sup> Nov 1994 by Authority assisted by staff of Kandrian Gloucester Integrated Development Program</li> <li>• and from 18<sup>th</sup> to 24<sup>th</sup> May 1998 by NFS</li> </ul> <p>There is no file record of this seen by the Review Team. Officials of Landowner companies (LANCOs) verified that these patrols were carried out.</p> <p>Visit to one village clearly showed that the degree of awareness of the project is negligible and the understanding of the role of the ILG was negligible.</p> <p>The people were convinced that they had conducted the Land Group incorporation according to the required procedures, except for a mix up in the name of the Mother Clan. They intend to change that as soon as possible. They do not have</p>

	<p>a copy of the ILG documents, except for copies of ILG certificates. The clans in Aria Vanu Block 2 presented a file that indicated that the ILG was conducted properly. If the quality is the same for the rest of the clans, then there is no reason to stop the process from continuing.</p> <p>People are still not clear on the type of benefits they would receive under an FMA. Some are aware that the money would be paid direct to the ILG, but most are yet to be fully briefed on the benefits that are awarded under the FMA.</p> <p>The resource owners who live in the villages are very much aware of the misappropriations that went on in the past and they want to be assured that, landowners living in town will not do the same in the future.</p> <p>The people we met in the village expressed a desire for the FMA to be put on public tender. They do not share the view that the project should be a "closed tender", as proposed by some of their clansmen living in Kimbe. A closed tender would not provide the same opportunities if the project went to an open tender.</p>
<p><b>2. Landowner Mobilisation</b></p>	
<p><b>Landowners are required to be mobilised by means of the Land Groups Incorporation Act. The Review Team was looking to find evidence of full participation by landowners in the ILG process particularly with regard to:</b></p> <ul style="list-style-type: none"> <li>• <b>Recognition that the resources are owned by individual land groups and not collectives of land groups</b></li> <li>• <b>The formation of representative bodies for project consultations and negotiations.</b></li> </ul>	<p>Landowners themselves sometimes with consultants have undertaken the mobilisation of landowners with Forestry assisting to get some groups through the system. Several items of correspondence indicate that the Forest Officers did not have a good grasp of the Land Groups Incorporation Act process.</p> <p>Landowners did not have a grasp of the importance of LGI Act in managing their land group (ILG) let alone management of their LANCO.</p> <p>ILGs from Aria Vanu Block 2 were done correctly. Landowners assured the Review Team that others were also done in the correct manner. Landowners agreed to carry out some remedial work on ILGs to satisfy individual land groups.</p>

	LANCOs involved in the mobilisation process led to rival companies which now have come together.
<b>3. Forest Management Agreement</b>	
<p><b>Must Specify:</b></p> <ul style="list-style-type: none"> <li>• <b>Monetary benefits for the customary group</b></li> <li>• <b>Area in agreement by map</b></li> <li>• <b>PFMC certificate as to:</b> <ul style="list-style-type: none"> <li>- <b>Authenticity of the tenure of the customary land</b></li> <li>- <b>Willingness of customary owners to enter into FMA</b></li> </ul> </li> <li>• <b>Review level of consultation with landowners</b></li> </ul>	FMA documentation contains signatures allegedly of ILG chairmen authorised to sign on behalf of their ILGs. NFS Legal Counsel has provided NFS Officers with protocols to ensure that these signatures are meaningful. There is no evidence that these protocols have been followed.

<b><u>RESOURCE ALLOCATION</u></b>	
<b>1. Development Options Study</b>	
<p><b>The Review Team was looking to see if the Development Options Study:</b></p> <ul style="list-style-type: none"> <li>• <b>Catered for landowner concerns and aspirations and if</b></li> <li>• <b>All options presented for the resource development had a realistic chance of being pursued.</b></li> </ul>	<p>DOS states two options: consolidation, or a small scale sawmilling operation with export to Australia.</p> <p>About 8600 hectares belonging to the Saikou and Kaluvia were excluded from the signed Rottok Bay FMA. This area is being developed separately under the EU Eco- Forestry program. Because the proposed logging project is taking a long time to be developed some clans are considering pulling out from the FMA and joining up with the eco-forestry program.</p> <p>We simply told the people that the issue is outside our terms of reference and that they should seek assistance to sort out their request. Several letters seeking EU intervention on the</p>

	issue were sighted.
<b>2. Project Guidelines</b>	
<b>Draft guidelines must be discussed and developed in consultation with the resource owners</b>	No evidence of this in the files.
<b>3. Project Agreement</b>	
<b>Authority is required to involve landowners in selection of the “developer” and in negotiation of the Project Agreements according to the terms of the FMA.</b>	No Project Agreement drafted yet.
<b>4. Environmental Plan</b>	
<b>EP is produced by the preferred developer according to the prescription of the Environmental Planning Act. Evidence of consultation with landowners is important.</b>	A detailed Environmental Plan for Rottok Bay Consolidated has been prepared in advance of approvals by Cakara Alam.

Additional notes are presented in Appendix 2.

## **CONCLUSIONS REGARDING LANDOWNER ASPECTS**

Difficulties in communications ensure that there is no adequate understanding of the project. Landowner companies some with dubious history from previous projects, such as Rottok Bay TRP, are the main promoters of the project. The grass roots are simply carried along to benefit or suffer as it unfolds. Involvement of “developers” ensures that there is no transparent adherence to the system of allocation. The landowners and the LANCOs do not have any adequate planning of development options.

Having seen the operations of an EU sponsored project nearby, many landowners would opt out of the project in favour of eco-forestry if they were given a chance.

## **RECOMMENDATIONS REGARDING LANDOWNER ASPECTS**

Irrespective of the progress of the project to a stand alone FMA there must be a lot of attention paid:

- To empowering the landowners by training at village level of ILGs.
- To developing options for development within the parameters of the project and securing assistance for the landowners to pursue these options, e.g. wokabaut somil for salvage logging. Examine options under S.5 of the FMA.
- To discovering LANCO ownership records to indicate credentials to represent landowners from individual ILGs.

## APPENDIX 1 A : CHECKLIST OF COMPLIANCE WITH LEGAL REQUIREMENTS

### ROTTOCK BAY (Pre – Consolidation)

Step	Rottock Bay
<b><u>1. Landowner consultation</u></b>	
Awareness campaign	
Vesting of title	
or consent of landowners	
PFMC certificate	12/9/95
Landowner attendance at PFMC	?
<b><u>2. FMA</u></b>	
Form/content	Yes
Execution	4/1/96
Ministerial approval	4/1/96
<b><u>3. DOS</u></b>	
Board to arrange	Yes
Exemption	N/A
Directions from PFMC	?
DOS given to Minister and PFMC	?
<b><u>4. Project Guidelines</u></b>	
PFMC consults l/owners and Prov Govt	?
PFMC to prepare draft	see note 1
Landowner attendance at PFMC	No
PFMC submits final draft to Board	?
Board to issue final Guidelines	?
<b><u>5. Advertisement (Tender)</u></b>	
Project advertised	Yes

Expressions of interest received	(2) Aug 96
<b><u>6. Feasibility Studies</u></b>	
No applications appear to have been lodged	
<b><u>7. Project Proposals</u></b>	
Registration of proponents	Confirmed
Placed in the tender box	Confirmed
Proper as to form, content and time	Confirmed

At this point a decision was made to combine this area with others And for the project to become Rottok Bay Consolidated. See next checklist (Appendix 1 B).

## **APPENDIX 1 B : CHECKLIST OF COMPLIANCE WITH LEGAL REQUIREMENTS**

### **ROTTOCK BAY CONSOLIDATED**

<b>Step</b>	<b>Rottok Bay</b>	<b>Inland Rauto-Miu</b>	<b>Aria Vanu Block 2</b>	<b>Vanu Tamu</b>
<b><u>1. Landowner consultation</u></b>				
Awareness campaign	To stage 7 see other checklist.			
Vesting of title				
Or consent of landowners				
PFMC certificate		3/11/98	18/2/98	18/2/98
Landowner attendance at PFMC		No	No	No
<b><u>2. FMA</u></b>				
Form/content		Yes	Yes	not sealed
Execution		26/11/99?	6/4/98	6/4/98
Ministerial approval		26/11/98	6/4/98	6/4/98
<b><u>3. DOS</u></b>				
Board to arrange		Nov 1998	?	June 1998
Exemption		N/A	N/A	N/A
Directions from PFMC		3/3/99	20/5/98	20/5/98

DOS given to Minister and PFMC		?	27/7/98	27/7/98
<b><u>4. Project Guidelines</u></b>			From this stage it proceeds as a consolidated project	
PFMC consults l/owners and Prov Govt	?			
PFMC to prepare draft	5/8/98			
Landowner attendance at PFMC	No			
PFMC submits final draft to Board	31/8/98			
Board to issue final Guidelines	15/6/99			
<b><u>5. Advertisement (Tender)</u></b>				
Project advertised	No			
Expressions of interest received				
Extensions may be exempted	see note 2			
Expressions of interest received				
<b><u>6. Feasibility Studies</u></b>				
No applications were made				
<b><u>7. Project Proposals</u></b>				
Registration of proponent	see note 3			
Sent to M/D	19/6/98			
Proper as to form and content	Confirmed			
Referred to PFMC	?			
L/owner attendance at PFMC meeting	?			
PFMC reports and recommends	31/8/99			

The process appears to have stopped at this point. Cakara Alam however have submitted and Environment Plan even though no project agreement has been signed. See note 4.



## LEGAL CHECKLIST NOTES

### Note 1 Landowner attendance at PFMC meetings

It is clear from the WNB PFMC minutes that have been sighted (which are generally very well kept) that no landowner representatives were present at any meeting at which the project was considered. Section 28(3) seems to have been overlooked.

The PNGFA on at least one occasion however, did remind the PFMC of the need to have landowner representatives present. This is noted in a letter from the Managing Director dated 7 June 1996.

### Note 2 Exemption from Advertisement/Tender

The decision to consolidate a number of areas in the vicinity of Rottok Bay appears to have been the exercise of sound judgement.

This decision was made after the Rottok Bay area was advertised. There had been two expressions of interest lodged in respect of this small project area.

There is a point sometime in 1999 when it appears to have been accepted that the consolidated project would proceed as an extension to the neighbouring Arowe projects. Accordingly the consolidated project was never advertised.

A number of general concerns are noted in this regard –

- (a) the consolidation was aimed at making it a viable stand-alone project.
- (b) the project proposal submitted by Cakara Alam in June 1998 indicates an expected annual cut over 35 years of between 80,000 – 120,000 cubic metres. This is well in excess of the Board's 70,000 cubic metre presumption of viability for a stand-alone project. This is later confirmed in Cakara Alam Ltd's premature Environment Report which indicates a figure of 92,000 cubic metres per annum. The annual harvest rate is therefore no basis upon which to deem this project to be an extension.
- (c) there had been two interested proponents when the small Rottok Bay area was advertised and presumably the larger area would have been considered by potential developers to be even more attractive.

Of greater concern are the following apparent irregularities in process –

- (a) On 8 June 1999, and then again on 24 January 2000, Cakara Alam lodged Form 89 applications seeking that the project be treated as an extension to its project areas in East, Central and West Arowe;
- (b) Included in both applications were draft Form 88 Board approvals for the applications.

This practice of developers sending pre-prepared forms should be discouraged. It is clear that the NFS has a good understanding of the Forms prescribed in the Regulations and that it is well able to prepare them and arrange for their proper issuance.

- (c) The Form 88 sent with the June 1999 application bears a signature and purports to be an approval by the Board for the project to be treated as an extension. It also invites Cakara Alam to submit a project proposal.
- (d) The application from Cakara Alam is dated 2 June 1999. The Form 88 Board approval is dated 8 June 1999.
- (e) No Board meeting was held between the 2<sup>nd</sup> and the 8<sup>th</sup> June 1999.
- (f) The Board's power under section 64(3) to deem a project to be an extension and to exempt it from tender was not the subject of a delegation at that time, and is not at this time.
- (g) When the June 1999 application was lodged Cakara Alam was not the holder of any adjoining Timber Permit despite its assertions in the application. The most that could be said was that it was the contractor to the permit holders in the three Arowe areas. Under Regulation 92 only the holder of the Timber Permit may make such an application. And yet this is the application that appears to have been approved and upon which it seems that the project was thereafter considered to be an extension rather than a stand-alone project.
- (h) The company's January 2000 application no longer asserts that Cakara Alam holds all three adjoining Timber Permits. It is restricted to the East Arowe area only. A signed Form 126 (Managing Director's Notice of Minister's Approval of Transfer of Timber Permit) has been sighted in respect of the transfer of the East Arowe Timber Permit from the landowner company to Cakara Alam. This is dated 21 January 2000. This was apparently an exercise of the Managing Director's delegated power. No notification to the Board of this exercise has been sighted.

The Minister's approval for the transfer (Form 132) has been sighted. Both the PFMC and the Area Manager were not aware of the transfer. There are indications that landowners have been surprised by this action also.

- (i) On the 29 September 1999 at Meeting No. 60, the PNGFA Board considered a Submission from the NFS in which it was asserted that both the PFMC and the Board had approved Rottok Bay Consolidated to be an extension, and that Cakara Alam had been endorsed as the developer. There can be no doubt that the PFMC had endorsed this position. This was done at its meeting 03/99 and at a meeting held prior to that. On 31 August 1999 the PFMC submitted a Form 95 to the Board recommending that negotiations be held with Cakara Alam. Apart from the approval purported to have been given on 8 June 1999 there has been no evidence sighted of the Board's approval for the project to be an extension and for public tender to be avoided. The approval of 8 June 1999 was not validly given. The Board was incorrectly advised at Meeting No. 60 when told that the project was an approved extension.
- (j) In July, August and September 1999 representations from landowners were made in writing to the PFMC, the Minister and the Board. These parties were not favourable to Cakara Alam. These communications were followed up by letters from the landowners' lawyer in October 1999. In an uncharacteristic fashion it appears that the PNGFA have allowed these letters to go unanswered. The landowners' lawyer is

well informed as to the processing of this project to date. The storm clouds are gathering.

Note 3 Registration as a Forest Industry Participant

A company search of Cakara Alam indicates that there has been a substantial change of shareholders and Directors since the company's registration under section 105 was approved. The company's entry on the register has not been altered to reflect these changes. Regulation 213 may have been breached and if so, action could be taken under section 112 in respect of the company's registration.

Note 4 Environment Plan

Although no Project Agreement has been executed, or even negotiated, Cakara Alam has prepared an Environment Plan. This has been submitted to the OEC for approval.

On 5 April 2000 the PNGFA advised the OEC not to present the Report they "have not yet completed the allocation process and negotiated a project agreement over the Rottok Bay Consolidated area."

## APPENDIX 2 : NOTES ON LANDOWNER ASPECTS

### Notes taken from files:

- 1 After the FMA was signed some landowners wanted to operate a wokabout somil and were refused permission.
- 2 It appears that the LANCO was working with Rimbunan Hijau Ltd. A move then was launched to topple the executive and put in another lot to work with Cakara Alam.
- 3 An awareness campaign was to be launched to amalgamate Rottok Asengeng etc to form a "sustainable" area. (28.5.97)
- 4 LANCO immediately demanded a huge wish list to be included in the agreements for the amalgamated area. NFS advised that such projects must be funded out of the PDL.(4.9.97)
- 5 LANCO then said they wanted the 40% ILG share to go to the LANCO.(30.6.98)
- 6 PFMC recommend Cakara Alam for the consolidated area.
- 7 Luke Metta tries to rescind this in favour of Dominance Resources. Advised that the consolidated area had to be advertised. (22.6.98)
- 8 Cakara Alam jump the gun by submitting an environmental plan before invited to do so. (22.6.98)

### Aria Vanu LFA

- 1 Gaho Malaisa Investments and Miu Timber Resources PL are in dispute over borders in the western portion.
- 2 2/5/95 Cakara Alam pushed by a national minister. Complaint by Asirim Timbers
- 3 August '96 audit of RH performance of existing project prior to extending it!
- 4 4/11/96 All outstanding ILGs to be completed. ILG work done by Andrews Investments
- 5 26/2/97 ILGs done in block 2
- 6 3/4/97 7 extra ILGs to be "done" at the signing of the FMA. Citing financial constraint preventing any extra patrol. This clearly demonstrates a gross lack of understanding of the ILG process.

### Resource Survey and Acquisition Rottok Bay TRP Jan74-Feb99 87.14.1

- 1 Finalise the documentation of ILGs for Rottok Bay
- 2 12/10/95 Execution of FMA

### Resource Survey WNB general data and investigations 87-14-0 1973-5/2/1999

### Rottok Bay TRP Kula Lumber 151-14-56

- 1 Sept 94 LANCO was paid the premium as per LMA
- 2 16 Nov NFS would not encourage other clauses in the FMA
- 3 Can LANCO be a permit holder?
- 4 Evinpio LANCO Ivan Kandi fighting a take-over bid.
- 5 Since the project is listed as an extension it is appropriate that the potential permit holder's performance in existing projects must be audited before any extension can be granted. One of the villages visited also agreed with this.

Meeting with Henry Gorea and Evan Iewago 15/11/00

- 1 The transfer of the permit from one of the landowner companies to Cakara Alam was done without the knowledge of the management company nor the landowners of the Arowe concessions (other than the one who did the deal).
- 2 Administrator John Maila
- 3 New Governor is experienced in private sector and is very thorough about what is happening.
- 4 New PFMC has developed a Five Year Forest Plan
- 5 One landowner leader paid himself K1 million in one year. A problem for tax and for the books.
- 6 Alleged that NFS marketing people are corrupt giving evidence of cover up and total unwillingness to provide information to the LANCO. In conjunction with this the allegation was made that the on the ground SGS people were also corrupt. When questioned whether SGS certify shipments both at the port of loading and the destination it was stated that they don't do the destination. This therefore is a waste of time. Cross checking of insurance should be performed.
- 7 Iewago is very concerned that the landowners are not receiving training and that the performance of the LANCOS will never improve without training. He stated that the ILGs were not functioning and this contributes to the failure of LANCOS.

Meeting with landowner representatives at PG Headquarters Kimbe Tuesday 22.11.00

Present:

Lukis Romaso and Tony Power from Forestry Review Team  
Gabriel Bakani from the Kulu Dagi Project (did not speak) Former National Minister

Markus Enep	Miu Timber Project
Lukas Nembu	Miu
Alois Ragas	Miu
Anton Lavu	Kuli Dagi Project
Michael Bigo	Aria Vanu block 2
Robert Lawrence	Rottock Bay Project (Former Premier)
Henry Kuri	West Arowe Project
Joseph Palio	Inland Rauto
Ivan Kandi	Rottock Bay
Lawrence Sakail	Rottock Bay
Jacob Bele	Rottock Bay
Carolyn Aigilo	Vanu Tanu (Governor's Secretary)
John Namulil	
John Valilio	Inland Rauto

When questioned about the extent and reliability of the land groups Ivan Kandi was adamant that the work was done properly at the beginning. He was incensed that we could think otherwise. According to his lights maybe they were done properly but the reality is that they don't understand the first thing about the meaning of the LGI Act. They actually resent ILGs and the fact that ILGs are now the recipients of the royalties saying that the ILGs will not be able to spend it wisely and no development will ensue. They

said that the World Bank must put up money to build roads to enable people to have access to services. Then there would be no pressure to cut all the forest in a hurry.

Carolyn Aigilio had a copy of the DOS

One Chairman wanted ILG chairmen to have ID cards.

It was reported that some illegal logging had begun in Miu as a result of frustration from long delays.

Representatives want the project to go ahead and are unhappy with any delays even though their efforts to short cut the system may cause the delays. Three or 4 LANCOS have been formed, one long ago has delivered zero to the people. They want to claim to be the spokesmen for the ILGs. LANCOS having no resources are virtually forced to form alliances with logging interests to do anything including the ILG work. This sets up a conflict of interest from the very outset.

A second meeting with some of the same representatives on Thursday 23 Nov 2000 more or less recapitulated the main points that they want. They want the project to go ahead without delay and they want a new permit and then a closed tender for Cakara Alam Ltd.