

Masalai i tokaut

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Forestry officers conspire with loggers to defraud the State

***Masalai** has uncovered yet another case of clear corruption in the forestry sector. Named officers from the National Forest Service have conspired with logging company Kerawara Limited to defraud the State and tax payers.*

Illegal access, under-pricing, transfer pricing, and tax avoidance are all occurring on a daily basis while the authorities take no action.

*The Kerawara company is no stranger to controversy. In 2001 it was exposed for illegal logging at Pondo and in 2002 it was found to be illegally logging at Simbali (first exposed in **Masalai** No. 9, August 2002)*

In March this year a Government Review recommended that Kerawara and its subsidiaries (Hugo Sawmilling, SSG Services, Richard Gault Industries, BBL and Marhow) be bared from the logging industry.

However the Forest Industries Association successfully intervened to ensure that no action was taken against Kerawara. As a result the company is now again cheating landowners, the State and all tax payers and fuelling the growing corruption in the National Forest Service.

The State owns valuable Teak Plantations in several Provinces. In 2002 it was revealed how Forestry Officers had conspired to illegally allow logging companies (including Kerawara) access to the Brown River Plantation in Central Province.

An ensuing court action cost the government more than K2 million in damages but no official investigation was ever conducted and the officials involved were

not disciplined. That legacy has now returned to haunt the National Forest Service (NFS) at the Keravat Teak Plantation in East New Britain.

In 2002 the NFS decided to market some of the valuable teak resources that are owned by the PNG Forest Authority at Keravat. Rather than invite public tenders the NFS asked just two companies to submit bids for the harvesting rights – Lee Song (a small logging and sawmill company based in East New Britain) and Marhow Enterprises (a part of the Kerawara group of companies).

Although originally Lee Song offered to pay US\$60 a cubic metre for the teak and Marhow only K20 (about US\$6) the Provincial Forest Management Committee (PFMC) decided in December 2002 that it would split the plantation and give harvesting rights to both companies.

The reasons behind this decision were not only suspect because of the radical difference in the prices that the companies were offering to pay for the teak but because Lee Song has a sawmill at Vudal and they wanted to process the teak logs and export sawn timber and finished products. In contrast, Marhow was proposing to export the timber as cheap round logs with no down stream processing.

On February 6th 2003 the PFMC met again and decided to LOWER the price that they were going to demand for the teak (thus depriving the PNGFA of vital revenue) and to change their decision of December and to allocate the whole timber area to Marhow.

When the National Forest Board were informed of the decision by the PFMC in April 2003 they directed that the PFMC should revert to its original decision to split the resources between Marhow and Lee Song. However this Board decision has been ignored by the NFS and PFMC.

Lee Song responded to the situation by going to court and on 9th May the National Court ordered the PFMC to change its decision of 6th February and to allocate harvesting rights to both companies.

Four days later the PFMC met again and under the watchful eyes of a team of senior NFS officers who had flown in from Port Moresby to manipulate proceedings, the PFMC failed to follow either the National Court directions or the decision from the National Forest Board. Instead the PFMC again decided to only allow Marhow to harvest the teak.

Lee Song went back to court and on 21st July the National Court gave an order that Marhow's Timber Authority (TA 15-62) was illegal and invalid. The National Court decision states that the actions of the PFMC were "tainted with unfairness and bias" and the court ordered the PFMC to make a proper decision based on correct procedures and the strict appliance of proper criteria.

Senior NFS officers then instigated another PFMC meeting on the 30th July. The meeting was attended by Tonou Sabuin (Divisional Manager Resource Development, Port Moresby), Caroline Warokra (Senior Legal Officer, Port Moresby), Magdaleine Maihua (Projects Manageress, Port Moresby), Ishmael Libertino (Marketing Manager, Port Moresby) and Jerry Kowin (Area Manager).

Despite the two decisions of the National Court and the previous decision of the

National Forest Board, the PFMC under the direction of the named NFS officers decided to STILL exclude Lee Song from the teak plantation and to continue to allow Marhow to harvest the whole of the timber resource.

Why are senior NFS staff so keen to ignore their own National Forest Board and the National Court by favouring a company that wants to export cheap logs to the detriment of another company that has an idle sawmill and wants to process the timber?

So far the NFS has had to pay over K80,000 in legal fees to Lee Song and has had to pay its own costs of two court actions.

The State has also lost out on potential income from the teak that has been harvested and exported by Marhow at a very low price when Lee Song were offering much higher amounts.

There is also clear evidence that Marhow and SSG Services (the exporting company) have been defrauding the State through transfer pricing (declaring a log export value of US\$185, some 50% lower than the market value of US\$290).

The NFS and the Forest Minister should be forced to explain why they are allowing valuable teak logs to be exported at cheap prices while one teak-processing factory in East New Britain has already closed and another sawmill is standing idle. This is economic madness and directly contrary to government policy.

The NFS and Minister should also explain what immediate and effective action is being taken against:

- Marhow and the whole Kerawara group of companies
- Named forestry officers
- PFMC members

The Minister for Planning should also give a full declaration of all his connections and family interests in the Kerawara group of companies.

We hope that the Public Accounts Committee will also conduct its own investigation of both the Keravat and Brown River scams. Scams promoted by logging companies and facilitated by forestry officers that have cost the county millions of kina in legal costs, unrealised revenues and lost employment opportunities.

Until the public sees clear and decisive action to rid the NFS of corrupt officers and to rid the forest industry of companies involved in illegal logging and corruption we can only conclude that our government is weak, corrupt and under the control of foreign logging interests.

Kerawara is a corrupt logging company that unlawfully steals forest resources. It was exposed in the 2001 Independent Forest Review and the 2002 Review of Disputed Allocations. It has operated illegally in Pondo, Simbali and now Keravat. Senior NFS staff, politicians and the Forest Industries Association protect the company from any scrutiny.

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