



## COMMISSION OF INQUIRY INTO ASPECTS OF THE FOREST INDUSTRY

P.O. BOX 2554, Boroko

TELEX NE: 23290

PAPUA NEW GUINEA

The Right Hon. Rabbie Namaliu CMG MP  
Prime Minister  
P O Box 6055  
WAIGANI

28 June 1989

OUR REF:

YOUR REF:

TELEPHONE: 25 7099

My Dear Prime Minister

I have the honour to present you with Volume 4 of Interim Report No 6. This volume contains reports on the marketing practices of -

- 6 Open Bay Timbers Pty Ltd
- 7 Bismark Industries Pty Ltd
- 8 Lusco Enterprises Pty Ltd
- 9 Tonolei Development Corporation Pty Ltd
- 10 Madang Timbers Pty Ltd

Volume 1 of Interim Report No 6 is coming out of the word processor now and should be available for presentation tomorrow.

The Final Report thas been completed except for the concluding comments. Corrections are now being punched into the computer and it will be ready for presentation on Monday the 3 July 1989. (Photo copies of the final draft could be examined by your staff tomorrow if required).

Yours faithfully

A handwritten signature in black ink, appearing to read 'T E Barnett', with a long horizontal stroke extending to the right.

T E BARNETT  
.....  
Commissioner

**COMMISSION OF INQUIRY INTO  
ASPECTS OF THE FORESTRY INDUSTRY**

**INTERIM REPORT NO 6**

**LOG MARKETING**

**VOLUME 4  
APPENDICES 6 - 10**

**June 1989**

**APPENDIX 6**

**OPEN BAY TIMBERS PTY LIMITED**



## **CONTENTS**

<b>INTRODUCTION</b>	<b>1</b>
<b>OPERATIONAL BACKGROUND</b>	<b>1</b>
<b>CORPORATE BACKGROUND</b>	<b>7</b>
<b>MARKET POSITION OF SOBU TSUSHO</b>	<b>8</b>
<b>OPERATING BASE AND PERFORMANCE</b>	<b>10</b>
Roading Obligations	11
Bridging Obligations	12
Maintenance of Roads, Bridges and Crossings	12
Urban Development	12
Sawmill	13
Veneer Mill	13
Woodchip Mill (1973)	13
Kiln Drier	13
Pulp Mill	14
Wharf Berthing and Loading Facilities	14
Reafforestation	16
Chipmill (1984)	17
<b>FINANCIAL ASPECTS</b>	<b>19</b>
<b>MARKETING</b>	<b>27</b>
Ambit of Inquiry	27
Marketing Generally	28
1984	32
1985	36
1986	38
1987	44
<b>Summary</b>	<b>47</b>
<b>CONCLUDING COMMENTS</b>	<b>49</b>

## OPEN BAY TIMBERS PTY LIMITED

### INTRODUCTION

The history of the Open Bay area extends back to 1967/68 when timber rights to an area of 450,000 acres said to contain about 3,000 million superfeet of timber were acquired by the Administration for a cost of \$182,000.00.

The area was advertised for exploitation in 1970 and one of the two applicants Theiss Sohbu Open Bay Timber Pty Limited (which changed its name to Open Bay Timber Pty Limited) (OBT) on 16 May 1972) was selected to negotiate with the Government. What occurred in this project up to 1984 when a new Project Agreement was signed is well worth recounting before attention is turned to the present position and marketing.

### OPERATIONAL BACKGROUND

With such a large resource area available when this project was advertised in 1970, a large integrated timber processing operation and an extensive follow up agricultural project was envisaged. Negotiations commenced in late 1971 and eventually a Project Agreement was concluded and a Timber Permit issued on 22 June 1973.

The Project proposed by OBT did not dash official expectations. An industrial complex was proposed at Powell Harbour with processing facilities covering sawn timber, parquetry flooring, veneer and wood chip production.

Government equity was provided for and expectations as to revenue were high. The project was to have a capital base of \$13.5 million provided as to \$2.2 million by share equity, \$6.6 million out of log export cash flow and \$4.8 million from Japanese Government agency "soft" loans.

The Administrator's Executive Council was kept fully informed and acquisition of up to 26% Government equity was provided for. The agreement was signed, Permit issued and operations commenced.

The sad history of non achievement of the grandiose, planned development, and the Government attitude to that non achievement, are set out in an NEC submission dated 21 January 1981 (Schedule 1).

From 1973 to 1976 when its sawmill was completed (over 1 year behind schedule) OBT had operated solely as a log exporter. After July 1979 when its sawmill was destroyed by fire it had again operated solely as a log exporter. It had avoided all its other local processing obligations, had continued to export logs and had accumulated losses of K 7 million and debts of K13.5 million to its parent company. No penalties were levied, although provided for in the Agreement, for non fulfilment of conditions. These facts were reported to NEC by Forests Minister Aoe and the action recommended was to negotiate a new Agreement. By December 1982 nothing conclusive was achieved and NEC was advised cancellation of the Permit was proposed. The Information Paper is Schedule 2 and is scheduled as it also details the situation with the New Ireland Otsuka Project which has many similarities.

Final Cancellation action did proceed but short term permits were issued to enable operations to continue while negotiations for a new Project Agreement took place.

By March 1983 Minister Waka advised NEC against continuing the OBT project (see Schedule 3), obtained NEC approval and advised OBT in April 1983 that its permit would not be renewed after 30 June, 1983.

The reasons for Mr Waka's advice included these:-

- (a) The project as proposed will not be economically viable.
- (b) Only Sohbu Trading will benefit from the proposed project
- (c) The proposals relating to reforestation and woodchip processing are unacceptable;
- (d) Given the poor track record of OBT, it is unlikely it would abide by the terms of a further Agreement.

This decision not to renew its Permit prompted OBT into action. It forced further meetings to negotiate terms for being allowed to continue its operations. It proposed to capitalise the debt to Sohbu Corporation, waive past tax losses against future taxable income and to provide performance guarantee bonds. OBT also arranged for diplomatic pressure to be applied in its aid and for support to be expressed by the Deputy Premier of East New Britain. Minister Waka, in an amazing reversal, counselled review of the previous NEC Decision "in acknowledgement of the diplomatic efforts by the Japanese Government, and to prevent any accusations (even though unfounded) that the Government may be treating Open Bay Timber Pty Limited in an unfair manner".

Even more amazingly, when OBT's record is considered, NEC endorsed the proposed "surrender" and OBT was given another Interim Permit to December 1983 with a timetable to submit a revised proposal. The Japanese Government was to be advised accordingly. There then followed more than twelve further months of activity in amending proposals and negotiating. OBT was enabled to continue to operate by the issue of short term interim Timber Permits until a proposal was finalised. That proposal was for reafforestation, a chipmill and continued log exports and road construction. A draft Project Agreement was drawn up.

The substituted project, covered in the new agreement submitted to NEC, was described in summary as follows:-

"The Project as described in the proposed Agreement is for twenty (20) years. According to Open Bay Timber Pty Ltd the project will involve investment of over K20 million and employ 800 workers by year 5 increasing to 1,000 by Project Year 11."

1) **REAFFORESTATION** (Clause 5.2)

To establish and maintain plantations with a total area of 14,000 hectares (10,800 hectares will be reforested by Project Year 10). The forest plantation will be a national asset.

11) **CHIPMILL** (Clause 5.3)

To construct a chipmill (log input capacity of 260,000 m3 per year on a double shift basis) during Project Year 9 and 10, to commence production during Year 11. At capacity, production will be 90,000 Bone Dry Tonnes of woodchips per year.

Single species chips using only plantation pulpwood will be produced.

iii) LOG EXPORTS (Clause 21.1)

To export 100,000 m<sup>3</sup>/year of saw/veneer logs for the first 18 years. During the first 15 years, up to 36,600 m<sup>3</sup>/year of small logs will also be exported.

There will be no saw/veneer logs left in the bush after Project Year 18. Small volumes of sawlogs will be available at this stage from the plantations, and will be harvested for export.

iv) ROAD CONSTRUCTION (Clause 5.1)

It is proposed to construct a total of 20 kilometres of the East New Britain highway. Construction rate will be a minimum of 4 kilometres of main road during each Project Year.

v) FINANCE (Clause 16.1)

- To write off existing tax losses (normally these losses could be carried forward, to reduce company tax liability).
- To convert 11,000,000 kina of current debts into non-voting, non-cumulative, redeemable preference shares. No dividends would be payable, and shares would be redeemed, at par, only after chipmill commences operation.

- To convert the balance of current debts, 3,488,000 kina, approximately to a 'moratorium loan'. No interest would accrue to this loan, and repayment would take place over 20 years only after the chipmill commences operation.
- To obtain loan funds at soft interest rates from Japanese Government Agencies, supplemented by Japanese commercial bank loans.

Even after the Project Agreement was signed OBT continued to operate on short term interim Permits. The interim permit current at the time of the Commission's public hearing expired on 30 June, 1988.

Not much more needs to be said of the past history of this area. Since 1973 the OBT operation has been a log export operation which carried out some sawmilling for less than 3 years. It has exported logs and will continue to export logs in return for road construction until project year 18 (2007) when the natural resource will cut out.

It has assumed obligations to plant 14,000 hectares of forest plantation. By project year 11 (ie 1996) a chipmill is supposed to be constructed and operational and will be supplied for a short period from natural forest and then from plantations. After earlier grandiose plans have failed this will, if woodchips are then viable, be the return to PNG for some 30 years exploitation resulting in the cutting out of a very large resource, the vast bulk of which will have been exported in log form.

## CORPORATE BACKGROUND

It was originally proposed that OBT was to be owned by Theiss Holdings (Australia) (15%), Sohbu Adachi Ltd (Japan) (55%), Tonan Trading Co (Japan) (10%) and the State (20%). As matters turned out it became owned 80% by Sobu Tsusho (Sohbu Trading Corporation) of Japan and 20% by the State.

According to OBT's Managing Director Mr Toshifumi Ohira Sobu Tsusho was a timber import/export company in Japan and was part of the Heiwa Sogo Banking Group. In earlier times (from 1973) Sobu Tsusho imported and resold logs and sawn timber from the USA and Canada as well as South Seas logs but in the early 1980 ceased buying from the USA and Canada and dealt only in South Seas logs.

All OBT logs, whatever the destination of those logs, were sold by it to Sobu Tsusho from the time OBT began exporting in 1973 until Sobu Tsusho went into liquidation in 1985.

During 1985 Sobu Tsusho went into liquidation in Japan and it was apparently owned by or linked to the Heiwa Sogo Bank which arranged the sale of Sobu Tsusho's shares in OBT.

According to Mr Ohira the Heiwa Sogo Bank incorporated the Japanese Company Kowa Lumber Corporation in 1986 and the shareholding of Sobu Tsusho was sold to Kowa Lumber Corporation. Then in 1987 the Sumitomo Bank took over the Heiwa Sogo Bank with the result that Kowa Lumber Corporation which owns 80% of the share capital of OBT then became a subsidiary of the Sumitomo Bank which is itself part of the Sumitomo Group.

Mr Ohira said that Kowa Lumber took over the total timber trading operations of Sobu Tsusho and all of its employees.



### MARKET POSITION OF SOBU TSUSHO.

In his report (1983) Ashenden describes Sobu Tsusho as follows:-

- "i) Small trading company affiliated with the Heiwa Sogo Bank. Staff of 70 and total turnover of around 28,000 million yen
- ii) Logs marketed in the name of Sobu Lumber Co Ltd, a subsidiary of Sobu Trading in the same office.
- iii) Ranks 23 for total milling log imports all sources and 33 for South Seas Logs.
- iv) A major marketer of PNG logs (OBT) in the Tokyo area
- v) In addition to PNG logs handles small volumes from Sabah, Sarawak and Kalimantan. None recently from Solomons or Irian."

(Ashenden Report Volume 2 page 89)

Ashenden said that Sobu Tsusho sold mainly in the Tokyo and Shimizu areas and to Onahama with a little to Osaka.

Ashenden reported that in 1982 Sobu Tsusho imported a total of 249,294 m3 of Logs of which 100,610 m3 was imported from the South Seas log Market including 56,585 m3 from OBT. In 1982 it was Japans third largest importer of PNG logs accounting for 9.8% of PNG's total log exports.

This data tends to confirm Mr Ohira's understanding and to fix the date when Sobu Tsusho concentrated solely South Seas logs after 1982.

After this change to South Seas Logs only Mr Ohira estimated Sobu Tsusho's total imports of South Seas Logs as being about 100,000 m3 to 120,000 m3 per year and said that about 80% of that volume came from OBT.

He said Sobu Tsusho was a trader in logs (not a user) and sold from log ponds to a variety of customers consisting in the main of plywood manufacturers, sawmillers and small wholesalers.

About 50% of sales went to plywood mills and they bought in parcels of 2000 m3 to 3000 m3. There was one regular plymill buyer, Onahama Plywood, and another less regular buyer, Akimoku Plywood Co.

About 20% of sales went to sawmills and they bought in parcels of 1000 m3 to 1500 m3. There were a number of sawmill buyers of which the main ones were Toyoshima Forestry and Ogi Mokuzai.

The residual 30% of sales was to smaller users and wholesalers of whom there were a number, and they bought in parcels ranging from 50m3 to 500 m3.

Mr Ohira worked for Sobu Tsusho from 1982 to 1986 and thereafter for Kowa Lumber and though mainly involved in negotiating the (1985) Project Agreement for OBT, was able to say that the market position and pattern of sales of Kowa Lumber in effect represented a continuation of the position and pattern of Sobu Tsusho.

The staff of both companies was similar with about 10 employees engaged in timber purchases and resales.

Mr Ohira said that almost all OBT logs were resold in Japan though he was aware that Sobu Tsusho had sold some logs into the Korean and Taiwanese markets and that, during 1987, two shipments had been sold to Korean buyers through the Forest Industries Council and DOF.

#### OPERATING BASE AND PERFORMANCE

OBT began its operations under the June 1973 Project Agreement and the Timber Permit was issued pursuant to that Agreement.

When its original long term Timber Permit was cancelled on about 31 December 1982 for non fulfilment of onshore processing obligations, it was permitted to continue its log export operations on short term Timber Permits whilst a new Project Agreement was negotiated.

The New Project agreement was signed in 1984 and the outline of new obligations is set out above. The Commission sent OBT (and other companies) a questionnaire regarding performance of its obligations and on its marketing practices and replied to that questionnaire (Schedule 4). When the answers provided are considered it would appear as if OBT has a marvellous record of performance. That of course is a very false picture and is due to the facts that :

- (a) no reference is made to the unfulfilled obligations under the 1973 agreement.

- (b) very few additional obligations were imposed under the new 1984 agreement other than reforestation, a chipmill and some roading - indeed the chipmill is of lower capacity (90,000 BDU per year) than that originally provided for under the 1973 agreement (120,000 BDU per year)
- (c) the reafforestation obligations only begin to become substantial in Project Year 4 - 1988.
- (d) chip mill construction is not scheduled to commence until Project Year 9 (1993) and for completion and operation in Project Year 11 (1995).

In order to balance the position the totality of obligation and performance has to be studied.

#### 1. Roading Obligations

Under the 1973 Agreement OBT had obligations to construct part of the New Britain Highway. Up to 1984, under its original Agreement and later short term Permits (which allowed log exports in exchange for road construction), it had built 98 kilometres of that road which had been accepted. Its additional obligation under the 1984 Agreement was to construct a further 20km of road at a rate of 4km per year. It was up to date in performing this obligation and should complete this road in 1989. Under the 1973 Agreement OBT was obliged to construct a trans-island road from Open Bay to Wide Bay with a causeway over the Mevelo River and a bridge or causeway over the Bera River. The obligation was again imposed in the 1984 Agreement and a total 54km of road had been constructed with 15 km left to complete. It is believed this roadwork is completed.

## **2. Bridging Obligations**

By Project Year 5 (1989) OBT was obliged to bridge the Meloni, Nesai and Matalaili Rivers and by Project Year 7 (1991) to bridge the Loi and Sai Rivers. This involves construction of 7 bridges. The Loi River bridge was built in 1987 and two bridges were scheduled for 1988 two for 1990 and two for 1991. Doubtless, in view of past performance, the State will be constantly checking to ensure that the prescribed timetable is adhered to.

## **3. Maintenance of Roads Bridges and Crossings**

The obligations of maintenance to the standard of construction were imposed in both agreements. For the New Britain Highway the standard is "all weather roads trafficable in all weather conditions by conventional two wheel drive vehicles". In the case of the trans-island road the standard is "trafficable in all weather conditions by conventional four wheel drive vehicles". The obligation appears to have been complied with save that DOF is not satisfied that maintenance is that the standard of construction required.

## **4. Urban Development**

Under the 1973 Agreement OBT was obliged to build and develop a town with houses, medical facilities, police station and houses, airport and sports facilities and to provide town roads and services, including electrical power and telephones. It submitted its plan in 1981.

These obligations were confirmed in the 1984 Agreement and the only additional specific obligations imposed were construction of a basketball court and a soccer/rugby field. OBT is obliged to instal postal and telephone facilities.

It seems these obligations, whilst incomplete, have been carried out or are being carried out.

##### 5. Sawmill

Under the 1973 Agreement OBT was obliged to build a sawmill by 1975 with a capacity of 110,000 m3 of log input per year.

The mill was completed in about June 1976 and operated until it burned down in July, 1979.

The log input was only about 36,000 m3 per year - less than one third of the required capacity.

The mill was built through "soft loan" funding from the Japanese Government loan agency Japanese International Cooperation Agency (JICA) and was insured.

The insurance recovery was only K2.5 million though the mill was said to have cost K4 million.

The insurance money was remitted to Sobu Tsusho to repay the JICA loan. OBT witnesses could not explain how the mill, which was said to cost K4 million was only insured for K2.5 million or why the insurance money was not applied to construct a new sawmill.

##### 6. Veneer Mill

Under the 1973 Agreement OBT was obliged to build a veneer mill by 1975 with 75,000 m3 per year log input capacity. No attempt was made to comply. A feasibility study obtained in 1980 (five years after the mill was to operate) was negative.

##### 7. Woodchip Mill

Under the 1973 Agreement construction was to commence by 1979. No attempt was made to comply. Again a 1980 feasibility study (again one year late) was negative. (Also see 11 below).

#### 8. Kiln Drier

Under the 1973 Agreement a kiln drier capable of drying 60,000 m3 of sawn timber per year was to be constructed by 1977. No attempt was made to comply. The drier was of no relevance after 1979 when the sawmill burned down and there was clearly no intention to build another sawmill.

#### 9. Pulp Mill

Under the 1973 Agreement the feasibility of a pulpmill was to be assessed. Almost predictably, the study was negative.

#### 10. Wharf, Berthing and Loading Facilities

Obligations were imposed under the 1973 Agreement and were not satisfactorily performed. Under the 1984 Agreement specific obligations are imposed to construct a permanent wharf by 1990 and permanent berthing and loading facility with navigational aids by 1994 and to maintain them.

Overall the performance, or rather the lack of it, by OBT of its obligations under the 1973 Agreement was nothing short of disgraceful. It satisfied the roading, bridging and road maintenance obligations, but they were to a very large extent necessary for its log export operation. It satisfied the urban development obligations, but they too were largely necessary for its log export operation. It displayed a completely cavalier and cynical attitude towards the very comprehensive onshore processing obligations which were the very basis of the project in the first place. It built a token sawmill which never operated at anywhere near its proposed capacity and then burned down; made no attempt to comply with its other obligations and then obtained studies saying they were not feasible. In this way OBT has, for almost the whole project period, directed its total

production energies to log exports. OBT is a classical example of a company which promised large scale development in exchange for log exports, cynically set about exporting logs at the maximum available rate and failed to deliver the development it was to provide in exchange.

As Minister Waka originally advised NEC in March 1983 OBT's operation should have been shut down. Indeed the amazing fact is that it took so long to come to that decision - it should have occurred years earlier.

During the period of its log export operation up to 1984 OBT had been "bled dry" with massive debts to its parent company and massive accumulated tax losses and was in an impossible financial position. OBT witnesses, when asked if OBT had ever made a profit thought it may have done so in 1979. As the Commission has seen so often, when the prospect of closing down this failed and disgracefully exploitive foreign log export operation became a reality, the lobby began. It obviously took the usual form of talking about the number of Papua New Guinean citizens who would be put out of work, of closing down the only "development" project in the area and of leaving uncompleted roads. Landowners, local leaders and politicians would doubtless have been prominent in this lobby. Additionally in this case it seems that diplomatic pressures were exerted on the absolutely untenable basis of being "fair" to OBT and its Japanese parent company.

Again, as the Commission has seen so often, the political will and resolve to adhere to a decision which was so obviously correct and justified, dissolved in the face of this lobby and the Government "surrendered" to the pleas to "renegotiate" OBT's obligations. What that meant was to excuse and exonerate OBT from its past omissions and lack of performance. The new set of obligations imposed on OBT were



less onerous than the failed obligations OBT had originally agreed to. In this case that meant a little bit more roading was required, a woodchip mill (which was part of the original promise) was to be built (but built by 1995-sixteen years later than originally promised) and that reforestation obligations (for which favourable tax treatment is available) were imposed.

### **11. Reforestation**

Under the 1984 Agreement OBT has an obligation to establish seedling nurseries, clearfell and then plant forest plantations according to the following schedule:-

PROJECT YEAR		AREA TO BE PLANTED (HA)
1	(1985)	100
2		450
3		550
4	(1988)	900
5		1100
6		1100
7		1300
8		1300
9		1300
10	(1994)	1400
11		1400
12		1050
13		1050
14		600
15	(1999)	400

### **Analysis of Reforestation Performance**

OBT says that at the end of 1987 it was up to schedule with 1100 ha planted and with the vastly increased rate of 900 ha to be planted in 1988.

The experience of Stettin Bay Lumber Co. (See Schedule 6 to this Interim Report) indicates OBT will find it a real task to adhere to this schedule of planting. OBT's costs to the end of 1987 at a rate of K885.74 per hectare are very low compared to SBLC's costs and it is said by DOF officers that OBT's forest plantings are not up to the same standard as those of SBLC. In Schedule 6 to this Interim Report SBLC's efforts in reafforestation are dealt with in detail and the same general comments and criticisms as are made there would apply to OBT but more so in relation to negative aspects.

In evidence OBT witnesses told me that up to March 1988 only 100 ha had been planted (due to wet conditions) and that OBT would not meet its quota for 1988. (In fact it has since been reported by OBT to DOF that its 1988 plantings not only met the quota but were 1015 hectares). OBT witnesses frankly conceded it would be difficult to reach the increased planting quota of 1100 ha in 1989 but were optimistic. Of land availability they said 30,000 hectares of State land was available for reforestation but that a State Lease had not been granted to OBT.

It is expected by OBT that the plantations will yield 250 m<sup>3</sup> per hectare after a 10 year growth period and will be harvested to feed the chipmill. Replanting after harvest is planned but the depletion of soil quality cannot yet be gauged. OBT anticipates having to fertilise to produce a second planting crop.

## 12. Chipmill

Though OBT says it obtained a feasibility study in 1980 which indicated that a chipmill was not feasible it is obliged, under the 1984 agreement, to have a chipmill, with an input capacity of 260,000 m<sup>3</sup> of material per year on a double shift basis, constructed and operational by 1995.

The hopeless financial position of OBT was addressed in the 1984 Agreement to some extent. The total debt to Sobu and interest on it was to be capitalised and :-

- (a) K11 million (part of that debt) was to be converted to non voting interest free redeemable preference shares which are not to be redeemed without DOF approval or in any event before 31 December 1996.
- (b) the balance was to be converted to an interest free "moratorium loan" which is not to be repaid without DOF and Finance Department approval or before 31 December 1996 and when repaid is to be paid by instalments over a 20 year period.

The shares are not to be redeemed and the "moratorium loan" is not to be repaid until the chipmill is constructed and operational.

As at March 1988 the total debt due from OBT to Kowa Lumber (which by then owned the Sobu loans) was K2.07 million which means the moratorium loan was then of K9.7 million. In addition OBT agreed that its massive accumulated losses up to 31 December 1983 would not be available for tax purposes to offset against taxable income earned after that date.

(Financial aspects are dealt with more fully below).

The Commission did not visit the site of OBT's operations.

According to OBT there are 14 expatriates engaged in its operations (6 Japanese, 1 European and 7 Phillipinos) and the number has remained reasonably static since 1979 when sawmilling ceased. The Japanese employees are, and since 1982 have been, paid about 60% of their salaries in Japan and 40% of their salaries in PNG. These "offshore" payments are said to have been disclosed to the Taxation Office which doubtless will check the facts. Other expatriates are paid in full in PNG. OBT has an approved training and localisation plan to which it says it is adhering.

It has also submitted and obtained approval of 5 year and short term Forest Working Plans.

It says its operations are supervised by DOF and that a Forest Officer resides at Wide Bay and regularly checks bush operations, scaling and grading and is present during loading of exports logs.

#### **FINANCIAL ASPECTS**

The position regarding loans as at 31 December 1983 is set out above. At that date OBT had accumulated losses of K12,118,815.00.

In 1984 OBT made an operating profit of K20,326.00 and would have been obliged to pay a small amount in company tax.

In 1985 OBT made an operating loss of K350,000. Because OBT's loan arrangements with Sobu (which were transferred in 1985 to Kowa Lumber) were written in Yen the fluctuations in 1985 in comparative value between the kina and the Yen yielded an unrealised exchange loss of K1,788,314 additional to the operating loss.

In 1986 OBT made an operating profit of K507,566 which would not have attracted company tax because of the loss in 1985. The unrealised exchange loss on the yen loans in 1986 amounted to K1,382,302 for exceeding its operating profit.

In 1987 OBT made an operating profit of K1,235,533 and according to the accounts of OBT no provision was made for company tax liability. The unrealised exchange loss in 1987 on yen loans amounted to K1,606,241 - again for exceeding its operating profit had documented tax losses at 31 December 1987 of K247,209.

At 31 December 1987 :

- (a) Part of OBT's prior debt amounting to K11 million had been converted to redeemable preference shares.
- (b) Moratorium loans owed to Kowa Lumber amounted to K9,117,881.
- (c) Unsecured loans from Kowa Lumber amounted to K775,512.

In real terms the total debt owed by OBT to Kowa Lumber therefore amounted to K20,893,393.

Of future capital expenditure requirements under the 1984 Project Agreement the evidence proceeded in this way, after the above debt figures were agreed :-

- Q: How can OBT finance the chipmill and repay its indebtedness.
- A: We will borrow from the Japanese Development Bank and build the chipmill.
- Q: What capital is required.
- A: K9 million.

Q: The chipmill input will be from the reforestation plantations. What is the total cost of the 14,000 ha of forest plantations.

A: K1,000 per hectare which for 14,000 ha amounts to K14 million.

Q: Where will that K14 million come from.

A: We will try to borrow from the Japanese Development Bank, Japanese International Co-operation Agency (JICA) and Overseas Economic Co-operation Fund (OECF).

The questioning then turned to the 1984 Project Agreement under which OBT was only entitled to a 6 month interim Timber Permit (on approval of a short term Forest Working Plan). The grant of a longer term (10 year) Permit was subject to conditions which included :

- (a) OBT supplying the State with evidence of agreements to obtain loans necessary to comply with conditions (Clause 16.1)
- (b) supplying within 100 days of signing the Project Agreement various information including financial information (Clause 6).

The evidence continued :-

- As to the supply of evidence of necessary loan agreements.

Q: Have you given any evidence to the State.

A: No we cannot because the Japanese Development Bank cannot make that commitment.

- As to the supply of information.

Q: Have you submitted that information.

A: We submitted this except the financial.

- Q: The Project Agreement was intended to give a 6 months Permit only. Then within 100 days OBT must submit the financial and other data and the loan evidence and then obtain the 10 year Permit. You have not done this and yet continue as a log exporter only and you cannot hope to get the required finance because of your debt structure?.
- A: We are continuing on short term permits and we can borrow from our parent company whenever we are short.
- Q: In 1984 you made only K20,000 profit. In 1985 you made a loss, in 1986 you made a loss and in 1987 you made a loss.  
(The losses were shown in OBT's financial statements after deducting unrealised exchange losses due to currency fluctuations between the kina and the yen).  
You owe Kowa Lumber K20 million; you require K9 million for the chipmill and K14 million for the reafforestation - a total of K43 million.  
Four of the ten years have gone with a substantial loss.
- A: We can get finance from Kowa Lumber Company. For 10 years we don't have to pay back Kowa Lumber Company. We don't need the K43 million immediately. We don't need the reafforestation money immediately - not so much is payable over 15 years and in the meanwhile the trees grow and we harvest and get the chipmill and begin exporting.
- Q: Until the chipmill is required in 10 years you continue as a log export operation and just do a bit of roading and reafforestation. The most important infrastructure obligation is yet to be complied with and you are suffering repeated losses.

A: Thinking of operating profit or loss we cannot estimate the currency shifts so extraordinary items are included for unrealised losses. It is not an actual loss.

What was here being discussed was the practice of OBT, in its financial statements, of bringing to account year by year as a loss, the differential in kina value of the yen loans, which it has eventually to repay, because of depreciation each year of the value of the kina against the yen.

Though exchange losses, (even if actual let alone unrealised) are ignored for tax purposes, they are real and annual provision for them is a sensible device. Eventually those loans have to be repaid and the true financial position of a company is most fairly disclosed if the financial statements each year truly record the amount in kina (on current exchange rates) which will have to be repaid eventually to meet the yen loans.

This need would have been avoided if in the Project Agreement OBT had been obliged to have the yen loans converted to kina with repayment required at the then kina value (this eliminating escalations in the kina amount required to be paid due to the reducing value of the kina against the yen).

This whole financial scenario gives cause for very real concern as does the ultimate financial viability of the OBT proposal. OBT has paid up capital of only K2,215,000 in ordinary shares and K11 million in redeemable preference shares.



At 31 December 1987 its balance sheet showed against this accumulated losses of K15,482,144 resulting in a deficiency in shareholders funds of K2,267,144.

The redeemable preference shares represent conversion of a loan and will have to be redeemed - in a real sense they are "temporary" capital and if regarded as a loan would decrease the "permanent" equity base to K2,215,000 and increase the deficiency in shareholders funds to K13,267,144.

The company has an unenviable trading record and to the extent that it cannot finance its reafforestation obligations out of its log export operating profits, it will, as its witnesses said, have to rely on further borrowings from its parent company Kowa Lumber thus further increasing its debt load to its parent. One could fairly conclude that no financial institution (because they are not charities) would be prepared to lend OBT the funds it requires to fulfil its obligations. As the OBT witnesses have said, the Japanese Development Bank could not make the commitment. No sensible institution would.

These factors almost certainly explain OBT's failure to supply the financial data and loan commitment evidence required under the 1984 Project Agreement. That Agreement required the supply of such information within the term of the original 6 months Permit and it was clearly provided that when it was supplied the 10 year Permit would be issued.

What was not expressly provided for was what would occur if the information was not supplied during that period.

Quite clearly what would and should have occurred was that no further permit would issue.

That, of course, is not what has happened. OBT has continued to be issued with further short term Permits and has continued to operate as a log exporter while building the small amounts of road which it has to do for another year or two and planting its reforestation trees.

It has no firm financial commitment to meet its onshore processing obligation for some years yet and the only devices in place to ensure it fulfils that commitment are its investment in forest plantations and the prohibition on redeeming the redeemable preference shares and repaying the moratorium loan until the chipmill is built and operational. The OBT attitude to, and cost of, reforestation can be gauged by comparison with Stettin Bay Lumber Co. SBLC has budgetted for 22,500 ha of plantation to cost K75 million over a 20 year growth period, at rate of K3,334.per ha. OBT has budgeted for 14,000 ha of plantation to cost K14 million over a ten year growth period at a rate of K1,000 per ha.

SBLC expects a yield of 600 m<sup>3</sup> per ha over 20 years. OBT expects a yield of 250 m<sup>3</sup> per ha over 10 years.

Though OBT is planting for a chipmill and SBLC for higher value uses the contrast is quite marked in terms of cost. OBT's actual cost to early 1988 (K974,311 for 1100 ha according to its questionnaire answer and K867,185 according to its submission) was within its estimates but does not allow much margin for 10 years tending and plantation maintenance.

When all these matters are considered the realities of this project seem reasonably clear.

As long as OBT can keep obtaining short term Permits and keep exporting logs, does not have heavy infrastructural burdens (eg roading) and can reforest "on the cheap" it will do so. It cannot obtain a present commitment for the chipmill - on its financial record no one, not even a "soft loan" agency, would make the commitment.

When the time to construct the chipmill arrives (in Project Year 9 or 10) OBT will review its position and will have some part of its forest plantations in place. If a chipmill is then viable (that was its previous ploy) and finance can then be obtained the chipmill will be built. If it is not viable or if finance cannot be obtained OBT, which by then will have operated as a log exporter for over 20 years (1973 to say 1993), will have to review its position. There will then only be 7 or 8 years cutting left in the natural forest (which will cut out by Project Year 18-2002) plus the forest plantations. In such event past history would indicate that would be the time, if the Government forced the issue, to again seek to "renegotiate".

If the chipmill was not to be built the only detriment would be that OBT would not be permitted to repay the moratorium loan to, or to redeem the redeemable preference shares of, Kowa Lumber Co. Whilst that may be considered to be a device to force construction of the chipmill it may also have a different effect. Kowa Lumber Co. (and before it Sobu Tsusho) were prepared to finance the large accumulated losses of OBT. Their prospects of recouping those losses have not changed except by the "loss" investment being "locked in". If the "loss" investment was the price these parent companies were prepared to pay to be able to shift profits outside PNG by transfer pricing then by "locking them in" the result may be to entrench profit shifting

practices. This follows as there, is no point in OBT making a profit in PNG, from its parent company's point of view, because any such profit cannot be applied to repay the debt to its parent company. Some may consider the above analysis to be harsh or cynical.

When Minister Waka recommended against OBT's continued operations in March 1983 (Schedule 3) he considered there was real doubt, based on its record, that OBT would fulfil its then proposed substituted obligations. Little has occurred since to alter that view.

In December 1982 when Minister Waka spoke of cancelling the OBT Permit (Schedule 2) he said, after describing OBT's financial position,

"it appears that OBT and the parent company (Sohbu Corporation of Japan) want to continue operations leading to a query as to whether transfer pricing maybe taking place".

That query does not seem to have been pursued but, as reported below, it is quite clear that there has been large scale continuous transfer pricing on OBT log exports.

## **MARKETING**

### **AUDIT OF ENQUIRY**

The study of OBT marketing began with the Commission's Questionnaire and answers to it (Schedule 4) and with the related Marketing Tables for 1986 and 1987 supplied by OBT (Schedule 5 (1986) and Schedule 6 (1987)).

When I saw that five of the first eight shipments in 1986 were exported at exact MEP prices and a study of OBT invoices for all shipments from January to October 1986 showed that each shipment invoiced by species (or group) and grade at rates fixed by reference to MEP I directed that further study be made of OBT marketing back to 1984.

In the course of that study a pattern of very heavy grading into low sawlog grades was noted and was also tabulated. OBT complained about the performance of Forest Industries Council (FIC) and later DOF in marketing and that aspect was also studied.

OBT witnesses appeared in a hearing before the Commission. I report in relation to marketing generally year by year including grading manipulations and, in 1986 and 1987, on FIC and DOF marketing as well, because that had a very significant impact on OBT's invoicing and grading.

#### MARKETING GENERALLY

Except for the shipments offered to FIC in 1986 and 1987 OBT only ever offered its logs to one buyer - its parent company which was originally Sobu Tsusho, and later the Kowa Lumber Company. Its marketing was thus utterly uncompetitive.

At all times each parent company has not itself or through any related company used the logs bought from OBT. It has always been a reseller of logs with resale use patterns along the lines described above (at page 9). The parent company would obviously be seeking to make its resales at a profit and thus a classical structure for profit shifting or transfer pricing exists.

It terms of procedure OBT advises its parent company of the species and size mix available for shipment, price is concluded and the parent then arranges a ship.

Though OBT witnesses spoke of negotiating price it is quite clear tha without competition the price on each shipment was what the parent company was prpearpd to pay

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Under its 1973 permit OBT was allowed log exports up to a level of 75,000 m3 per year and under the interim Permit current in mid 1988 it was allowed log exports of up to 116,750 m3 per year (including up to 17,400 m3 of small logs harvested from land cleared for reafforestation).

The 1984 Project Agreement and interim Permit impose obligations to obtain the best price and to sell at "arms length" (ie. not to sell to an OBT shareholder). If a sale is not at "arms length" specific approval of DOF is required.

The 1984 Project Agreement also expressly prohibits transfer pricing which is defined as including a case where "the company provides goods and the money received by the company for those goods is lower than the value received by the other party".

On pricing generally evidence was as follows (and it sets the basis for reporting):-

Q: What steps do you take to ensure that the price your parent company pays is true value as you know the parent company is onselling those logs?.

A: We sell to the parent at a reasonable price.

Q: How do you know it is reasonable?.

A: We inform the parent of estimated species volume and group and MEP price and market price in Japan and PNG. Then we negotiate with the parent company then agree on price and apply to the Secretary (of Forests) for approval to sell to the parent company. If the log sale price is very low DOF do not approve and then we re-negotiate with the parent company and agree on extra price and get the Secretary's approval.

(Documents were produced to prove this latter procedure).

Q How do you find the Japanese market price

A From the radio, newspapers and lumber journals and from the parent company. Kowa Lumber Company very often gives us information on the Japanese log market.

Q Which Japanese prices do you look at

A. South Sea log imports.

Q PNG only accounts for 10% of those logs and Malaysia the rest - what class of logs do you study.

A. Each grade

Q Have you been doing this since 1984 or have you just started getting Japanese market information recently.

A. Always since 1984.

Q I will give you tables of shipments since 1984 and will ask about the relationship between your prices and MEP prices since 1984 and questions about grading. Do you still say you always looked at market prices or is the real story that you looked at only MEP prices until late 1986.

A. We always conferred with the parent company on MEP or higher price. In times of a very bad market we stick on MEP. In good market we go higher than MEP.

Q. Was 1984 a good market

A. Yes but 1985 was very bad

Q. Your 31 December 1984 Directors report says "high export prices"

A. Yes

Q. Was 1985 a good year

A. No a bad year

Q. Was 1986 a good year

A. Yes a good year

Q. Was 1987 a good year

A. Yes a good year

Q. What impact did FIC involvement after mid 1986 have on OBT marketing practices

A. We sent one shipment through FIC in 1986 but a very severe inspector came from FIC and he rejected between 900 m3 and 1000 m3 of logs.

Q. Did you change your method of fixing prices

A. It was not changed

Q. When you were involved in making the offer to FIC were you fully informed about market price.

(Documents were produced regarding this shipment and were identified with the offer dated 14 November 1986).

Q. What was the price you asked.

A. USD58.00 per m3 but it was amended to USD62.00.

Q. Because FIC offered that higher price. In fact you got a price USD65.00 per m3 which gave a net return of USD 63.05 per m3 to OBT

A. Yes

Q. How come you offered at only USD 58.00 per m3

A. There were very quick fluctuations in 1986

Q. Has Kowa Lumber ever offered more than you asked for

A. No

Q. Up until 14 November 1986 the highest price ever paid by Kowa Lumber in 1986 was USD 55.50 per m3

A. Yes



Q. The FIC shipment on MV Jupiter Island was late so the two previous shipments at USD64.00 and USD70.00 were contracted after the FIC shipment being contracted for the MV Merchant on 18 November and MV Sanko Maru on December. Correct.

A. Yes, There were day by day changes in market prices.

At this point Mr Shimada of OBT said that the OBT witnesses had not been handling the marketing and that Mr Sikaki who had was away.

The questioning then turned to year by year analyses which I now report.

1984 (Schedule 7)

In 1984 OBT made 15 shipments of logs. DOF Marketing Section records were available for 12 shipments involving an aggregate 66,034 m3. Details on a shipment by shipment basis of vessel, volume, FOB and MEP prices and grading breackdowns were tabulated in Schedule 7 and the following will be noted:

- (a) The MEP and grading systems changed after shipment No 4 (INTERHILL KING) in March, 1984.  
(The MEP changed from Kina to US dollars and grading to the Sealpa log grading rule gradings)
- (b) Invoice number patterns suggest DOF does not have details for one shipment (No 2) in February 1984 and two shipments (No's 10 and 11) between August and October 1984.

Analysis is therefore confined to the 12 shpments for which DOF holds records.

All shipments were invoiced by OBT to its parent company Sohbu Trading Corp. of Minato Ku, Tokyo Japan. 9 of the 12 shipments for which documents were available were shipped at exact MEP prices and all invoices were detailed by species (or groups) and grade in exact accordance with MEP classes

On the three exceptional shipments (No's 3,4 and 5) the position was this:-

i) MV SELINA - No 3

Each and every species (or group) and grade except Taun was invoiced at exact MEP prices. Each grade of Taun was invoiced at exactly USD1.00 per m3 above the MEP price for that grade.

In the result the price on the shipment was on average 14 toea per m3 (0.29%) above MEP.

ii) MV INTERHILL KING - NO 4.

Each and every species (or group) and grade was set out in the MEP format and each species or (group) and grade was invoiced by reference to MEP rounded to the nearest 10 toea. Obviously, with the new MEP in prospect and rounding proposed, the practice was adopted on this shipment. In the result the price on the shipment was on average 3 toea per m3 above MEP levels or 0.05% above MEP.

iii) MV INTERHILL KING - No 5

The price on this shipment was fixed by reference to MEP price at a time when MEP was changing. Export was permitted at previous MEP prices and was invoiced by species (or group) and grade at exactly USD 4.28 per m3

above MEP levels. It was on average USD1.41 per m3 below the new MEP levels. In light of later evidence it is quite probable the price was fixed after the new MEP levels became known.

The pattern is chrystal clear - prices were fixed by direct reference to MEP, invoiced in exact MEP classes and usually at exact MEP prices. The evidence was this:-

Q. You have said 1984 was a good year and yet every shipment was sold to your parent company at exactly MEP.

A. I dont know

Q Shin Asahigawa was getting up to 30% to 50% above MEP prices during this period

A. 1984 was higher prices than 1983

Commission. You were basing your prices on MEP not on market value.

A. I dont know

The grading patterns also appear in Schedule 7. The pattern is clear and consistent for the first three shipments under the old grading system. When the system changes to the new SEALPA grading rules in May the shipment is graded as to over 50% into peeler grades with les than 50% graded as sawlogs.

As the years shipments progress the level of peeler grade logs declines and the level of sawlog grade logs increases with an increased sawlog grading into the lower SS2 class but no logs graded SS3.

In July 1984 there were 35 logs graded SSP yet right through until late 1986 when FIC became involved, no further log was graded SSP.

OBT was asked to explain this pattern and the evidence was this:-

A. The company had two graders. They did it all. I can't explain.

Q Mr Ohira says 50% of South Seas logs are resold to plywood factories for peeling. By late 1984 peelers drop to less than 30% and later to less than 10%. Is not that undergrading.

A I do not agree. Plywood manufacturers also use sawlogs for core - SS1 and SS2 are taken by plywood manufacturers especially pencil cedar.

Q. Do you agree buyers are not interested in Sealpa grades just log size

A. Yes

Q How do you advise your parent company

A In Sealpa grades

Q On ship No 7 - YUKOH 35 logs were SSP. For the rest of 1984, for all of 1985 and almost all of 1986 there were no more SSP logs. Can you explain that.

A I dont know

Q From March 1984 to late 1986 there was not one SSP log in the thousands of cubic meteres of logs exported until FIC became involved. That suggests manipulation of gradings

A (Mr Ohira) I dont know.

A (Mr Shimizu) I dont know. I left PNG then and I dont know about the past but at present the company would not interfere with graders results.

1985 (Schedule 8)

In 1985 OBT made 11 shipments of an aggregate 58,389 m3 of logs.

In this bad market year its export levels were reduced considerably from previous and following years. DOF records were available for all shipments.

Details and shipment by shipment basis of vessel, volume, FOB and MEP prices and grading breakdowns are tabulated in Schedule 8.

The first ten shipments were invoiced by OBT to its parent company Sohbu Trading Corp of 2-10 Shinibashi Minato Ku, Tokyo, Japan. The last was invoiced to its new parent company Kowa Lumber Corp of the exact same address.

All shipments (save one) were invoiced at exact MEP prices by species (or groups) and grade.

The exception was shipment No 9 (M.V SMILAX). ON this shipment all species (or groups) and grades were invoiced at exact MEP prices except Group 2 logs graded SS2 which were invoiced at USD40.00 per m3 whereas the MEP price was USD 36.87 per m3. The price of USD 40.00 was about halfway between the price for Group 2 logs graded SS2 and graded SS3.

If the grading pattern for the two ships prior to and two ships subsequent to, this particular shipment are studied, what occurred is plain. At least 15% more of the total volume of the shipment was graded SS3. It was suggested to OBT witnesses that what had occurred was that a large volume of SS2 logs were graded as SS3 and that grading was manipulated to produce a very low MEP price allowing a lower sale price which still appeared to be above MEP levels.

The pricing pattern (See Schedule 7) confirms this. The OBT witnesses could not venture an explanation.

The changed pattern of gradings in 1985 is of significant proportions suggesting undergrading on a massive scale and is clearly seen in Schedule 8. It assumes gross proportions from August 1985.

The three shipments disrupting a clear and consistently increasing pattern of undergrading are shipments No's 3, 6 and 9.

Shipment 3 was of four main species - Walnut, Taun, Erima and Terminalia and grading was very heavily loaded into SS1 grades. The shipment was of an unusually good well accepted composition of species which usually yield a percentage of peeler grade logs.

Shipment 6 was of Group 2 and Group 3 logs only, with lower value Group 3 logs graded, mainly, as SS1 and higher value Group 2 logs graded mainly SS2.

Shipment 9 is analysed earlier.

When all these factors are considered the only available conclusion is clear - deliberate undergrading. OBT witnesses did not offer any explanation and could not venture the later explanation of clear felled small logs from reafforestation areas, as only 100 hectares was planted in 1985.

1986 (Schedules 5 and 9)

This was the first year for which OBT submitted a Marketing Table (Schedule 5)

The Commission also prepared an analysis (Schedule 9)

In 1986 OBT made 19 shipments of an aggregate 91,212 m3 of logs. This was an increase of over 50% in export volume over the bad year in 1985. The first 18 shipments were invoiced by OBT to its parent company Kowa Lumber Corp. and the last was sold through FIC to a Korean buyer.

Importantly the FIC shipment was contracted before the last two 1986 shipments sold to the parent.

In terms of what the Commission was investigating 1986 was an important year and was studied in great detail.

The first 3 shipments were invoiced at exact MEP prices by species (or group) and grade.

On the first shipment all valuable species (Group 1) logs were graded in sawgrades. No explanation was given .

On the second and third shipments a number of logs typed in as being graded sawlogs were altered in pen as regraded into peeler grade logs. No explanation was given.

On the fourth shipment (TROPICAL RAINBOW) the invoice was by species (or group) and grade exactly USD1.86 per m3 above MEP prices. Two MEP scales were found and OBT was asked to produce its sales contract to show the price schedule. It did so and the price schedule did not relate to this shipment at all. (On the first 3 shipments the price schedule had been a copy of the MEP schedule).

What had occurred is that the MEP changed for this shipment and as is clearly seen from Schedule 9 so did the grading pattern with dramatic increases in the proportion of the shipment graded SS2 and SS3.

It was suggested that grading was manipulated to ensure new MEP levels were achieved; that the level of the true MEP price was under calculated and the the price thus exceeded the new MEP levels.

No satisfactory explanation was given.

The fifth and sixth shipments were invoiced at prices by species (or groups) and grade exactly USD3.00 and USD3.40 per m3 above MEP but with an FOB unit price level of USD 52 per m3. The grading pattern again changed with a marked increase in peeler gradings. OBT witnesses considered this change would be due to altered composition of the forest.

The seventh and eighth shipments marked a return to the old system being by species (or group) and by grade at exact MEP levels. It was here that OBT's system became quite apparent.



A sales agreement was produced for shipment 7 (Asian Argosy) dated 10 April 1986 showing the MEP prices at which the sale was made. In a proposed MEP notification sent by telex by FIC to all companies (including OBT) May 1986 species Group 2 was intact as one group. When the MEP altered and was acutally notified by telex dated 9 May 1986 to al companies (including OBT). Group 2 had been divided with some species in Group 219 and others in Group 2B with different prices. OBT witnesses were asked to explain how the schedule to a sales agreement dated 10 April 1986 came to attach an MEP schedule (03 of 1986) which could not have been known and did not come into existence until almost a month later. The evidence proceeded:-

A. No explanation

Q Because your parent company drew up the sales agreement first and you simply later attached to it the current MEP.

A. I dong know

On the ninth shipment (KYDWA OCEAN) the system was the same with prices by species (or group) and grade exactly USD1.80 above MEP levels.

The sales agreement for that shipment was produced; was dated 20 May 1986 but contained as a base for its prices the MEP (04 of 1986) which was not published until 3 June 1986 - the prices were all exactly USD1.80 per m3 above those MEP price levels. To compound matters the sales contract for shipment eight was produced and was also dated 20 May 1986 (without any price list attached). That shipment was sold at exact MEP prices shown in the later MEP 04 of 1986.

OBT could not explain either of these two occurrences.

The tenth shipment was invoiced by reference to MEP at exactly USD3.70 per m3 above MEP levels.

The eleventh shipment was divided between that loaded at Powell Harbour (USD6.00 per m3 above MEP) and that loaded at Henry Reid Bay (USD1.00 per m3 above MEP). The explanation was that OBT operates in both areas according to the weather but its witnesses agreed both prices were fixed by direct reference to MEP by species (or Group) and grade.

On shipments twelve to fifteen the pattern was the same with the price levels above MEP being USD3.50, USD5.15, USD3.50 and USD5.70 per m3.

Up to here it is quite clear that prices were fixed at or by direct reference to MEP. It is clear by looking at FOB unit prices (Schedule 9) that a shipment price of an even dollar or 50 toea price level was fixed and that OBT then worked around that level to fix prices by reference to MEP and to manipulate gradings to come up with prices at, or a fixed level above, MEP, which matched the fixed price level.

It was put to OBT witnesses that when the MEP prices changed in early June 1986 (with MEP 04 of 1986) that at the same time (Shipment 9-M.V KYOWA OCEAN) OBT changed its grading pattern markedly and that downgrading into SS3 grades rose from levels of 13% of a shipment to 66.7% of a shipment. The effect was to lower MEP levels on a shipment by downgrading.

OBT witnesses said this was explained by one or two shipments of small logs from areas being clearfelled for reafforestation.

The low level of peeler class logs and all valuable (Group 1) logs being graded SS1 and below on shipments 12 to 15 was pointed out with Taun on shipment 13 graded as follows:-

SS1 - 44 logs

SS2 - 55 logs

SS3 - 377 logs.

It was said that Taun was badly shaped and that it would seem the explanation was small clearfelled logs but OBT witnesses could not explain how their earlier estimates of two shipments being caused by this factor had become four shipments.

(Stettin Bay Lumber Co also clearfelled for reafforestation in 1986 and 1987 and though it had a sawmill operating its grading pattern over a series of shipments was studied for comparison with OBT - as to which see below).

The last three shipments in 1986 (shipments seventeen eighteen and nineteen) form a very different pattern in pricing and grading which is also reflected in part in shipment sixteen.

In October 1986 FIC began, in concert with DOF, asking companies to submit log offers of 25% of annual production for sale by the State (pursuant to State Purchase Option rights).

OBT made its first offer on 14 November, 1986. What occurred is fully reported in the Commissions Interim Report No 3 and is only briefly referred to here. OBT's original offer to FIC was USD58.00 per m3 which it later increased to USD62.00 per m3. FIC in fact obtained a price of USD65.00 per m3 gross.

After these events and FIC dealing on an "across the board basis" OBT's system of invoicing changed from a format of MEP species by species or group by group and grade by grade to an "across the board" format. This began in November 1986 on shipment 16 (OCEANIA STAR) and continued thereafter. FIC had also arranged to have its representative as well as the Korean buyers representative present during loading of its shipment from OBT. This was a prospect from the time FIC began negotiating and it was known to OBT and OBT could and would reasonably have expected FIC would make comparisons with OBT's previous grading spreads. Grading abuses were tropical at the time.

Though the FIC shipment (Shipment No 19 - JUPITER ISLAND) did not take place until December 1986 it was concluded about the same time as shipment 16 and before shipments seventeen and eighteen.

From and including shipment 16 the pattern of OBT's grading alters quite markedly. There was a vastly reduced proportion of logs graded SS3; a large increase in the proportion of logs graded in peeler classes and some logs graded SS3. The pattern is clear in Schedule 9.

This FIC shipment was transacted with great animosity and with FIC suggesting OBT was only making "rubbish logs" available. There was also animosity over shipping arrangements.

OBT recorded its complaints in written form (Schedule 10) the point, according to OBT, being that there are marketing advantages other than price and to seek to have care exercised in taking up the State Purchase Option.

The complaints of OBT were two:-

- (a) the harshness of the inspection of the Korean buyer's grader; and
- (b) delays in the arrival of the vessel which led to deterioration in the cargo.

On this second aspect it was quite clear OBT's complaint against FIC was quite unjustified. FIC had organised a vessel but OBT's parent company made its own arrangements over shipping in conjunction with SBLC's parent company Nissho Iwai Corporation. This angered FIC. SBLC then altered the vessel's loading rotation and Christmas arrived with the result that commencement of loading by OBT was delayed by 14 days. This was not FIC's fault.

1987 (Schedules 6 and 11)

This was the second year for which OBT submitted a Marketing Table (Schedule 6)

The Commission also prepared an analysis (Schedule 11 ).

In 1987 OBT made 17 shipments of an aggregate 94,261.341 m3 of logs.

Of these shipments all but one was invoiced to OBT's parent company Kowa Lumber. The one exception was sold by DOF pursuant to exercise of the States Purchase Option (-this was shipment 8 - M.V. MERCHANT). Throughout the whole of 1987 OBT continued the practice of "acrosse the board" invoices adopted in late 1986 with no apparent "ties" between sale prices and MEP prices.

Generally price levels obtained were well above MEP levels and it was quite clear that OBT's past practice of "tying" prices to MEP had been discontinued.

It was put to OBT witnesses that FIC marketing involvement had a substantial impact on OBT marketing practices by breacking links with MEP prices and achieving higher unit prices.

The witnesses agreed that in late 1986 and druing 1987 OBT prices fluctuated with the market prices. They said the change to "across the board" invoicing was adopted as it simplified the documentation.

The change in grading patterns which began in late 1986 continued in 1987 with quite dramatic changes after mid year. OBT witeses said this was due to changes in forest compesation and/or operating areas. The end of year pattern contrasted markedly with previous years and was said to be explained by operating all year on the Wide Bay side.

On the DOF shipment (Shipment 8) a DOF inspector inspected and check graded the shipment and the grading pattern alters quite significantly in all classes compared to earlier patterns.

The evidence then proceeded:-

Commission: You were warned about your grader

A Yes

Commission: Did you ask DOF to send a check grader

A No

Q There were significant changes in MEP levels in August 1986 when the MEP prices of OBT logs jumped from USD 55 to USD 83 per m3.

A Yes

Q And with this your percentage of SS3 logs drops from levels of 28%, 24%, 40% down to levels of 8%, 6%, 7%.

A Yes

Q This is because the price variation between grades in various MEP categories was reduced and it was not worthwhile to inflate the percentate of SS3 logs

No answer

Q Look at the summaries for shipments 14-Sanyo Maru, 15 Merchant and 16 Campanilla. How is it that such a very high proportion of Group 1 logs are graded in saw classes.

A. It is a natural outcome. If the grader is wrong I find a new one. We have done nothing to interfere with grading and scaling. I knew it was happening but did nothing. I was at fault. I should have sacked the grader.

With this admission made I did not require any further persuasion. The picture was quite clear and was now admitted.

OBT also complained about the shipment sold on its account by DOF pursuant to exercise of State Purchase Option and again had reduced its complaint to writing (Schedule 12).

The gist of the complaint was similar to that made on the FIC shipment namely severity of the inspection and delay in shipping.

The complaint does show what can occur if there are shipping delays and an inspector is harsh. It equally points up the severe problem which arises where a log export operation does not have or does have access to a processing facility. In this case 422 m3 of reject logs were simply burned because no commercial use could be made of them by OBT. Such wastage is a disgrace.

### MARKETING SUMMARY

On the evidence before me it is quite clear that until October 1986 OBT sold only to its parent companies initially to Sohu Tsusho and then to Kowa timber. Its marketing was uncompetitive with no offers made to other buyers. That has remained its practice save for one shipment in 1986 sold through FIC and one shipment in 1987 sold through DOF.

Until October 1986 it sold at MEP prices or prices fixed by reference to and closely tied to MEP prices and not at market prices. Its invoices clearly show this. Its parent companies have been "traders" of OBT logs their business being to resell those logs at a profit. Only with FIC marketing involvement in late 1986 did OBT begin to disassociate its sale prices from MEP prices and alter its sale prices so that they became related to market prices and not to MEP prices. It also changed its invoicing practice to "across the board" prices.

OBT quite clearly resisted State marketing involvement, was inco-operative and was very vocal about detrimental effects flowing to it.

It is also clear that OBT has manipulated the MEP price levels applicable to its shipments by manipulating log grading. This has taken the form of boosting the number or percentage of logs graded into sawlog classes (especially into the lowest sawlog grade SS3) and reducing the number or percentage of peeler grade logs. This practice, because of the structure of MEP price fixing reduced the level of MEP price applicable to a given shipment. OBT witnesses were given every opportunity in public hearing to explain these matters and were unable to do so.



In effect they admitted and accepted them. They were also unable to explain patently false sales contracts which were based on MEP price levels which only became known well after the date of the contract.

Comparisons between producers are not easy to make as there are many variable factors. The Commission prepared a scatter of grading for Stettin Bay Lumber Company (SBLC) shipments during 1986 and early 1987 (Schedule 13). SBLC was chosen as it also has extensive reforestation obligations though it does have a sawmill operation. Its concession area is not considered to be of superior quality and is generally considered comparable to OBT.

The contrast in grading patterns is so remarkable that little more needs to be said.

At the conclusion of the hearing into OBT Counsel Assisting addressed me on what he submitted the evidence showed. OBT was invited to prepare written submissions which it did (Schedule 14). Those submissions consist of little more than a personal attack on Counsel Assisting and fail utterly to address the clear evidence before me and to take account of the admissions made in evidence before me. I am quite satisfied on all the evidence that OBT has been involved in gross undergrading and grading manipulations deliberately intended to lower the MEP price applicable to its log shipments.

I am also quite satisfied that OBT has sold its logs to its parent companies at prices fixed by reference to MEP prices and in doing so has sold in an uncompetitive fashion at less than true market prices. The true prices obtained by SBLC,

Shin Asahigawa, Gaisho and Lusco from other New Guinea Islands concession areas render this quite clear. The very structure of marketing from OBT to its parent company and then from its parent company to the true buyers facilities the reposing of a large part of the true market price with the parent company in Japan - indeed that is why such a structure exists.

In saying that I am mindful that the parent company does play a role within the Japanese market structure and may well provide credit to its resale customers.

When the obtainable prices and practices of other producers and marketers studied in detail by the Commission are considered I have no doubt OBT was engaged, with its parent company, in transfer pricing on a large scale up until October 1986. I am satisfied FIC marketing involvement had a profound impact on OBT's marketing practices after October 1986 and that is likely the level of transfer pricing abated after that time.

#### CONCLUDING COMMENTS

OBT is a company in which the State holds 20 percent interest and is represented on its Board. This equity has given the State no effective say in the management of the Company nor any return on its investment.

OBT<sup>abf</sup> affords a classical example of a foreign company which obtained rights to exploit a large natural forest resource in exchange for extensive infrastructural construction obligations (roading, shipping facilities and urban development) and promised onshore processing facilities (sawmill, veneer mill, woodchip mill, kiln drier and if feasible a pulp mill). It made reasonable endeavours to satisfy infrastructural obligations (largely because they

were of direct benefit to its operations) but failed miserably in performing its onshore processing promises. It built a sawmill financed by "soft" loan funding which operated at less than one third of its contracted capacity and then burned down.

It made no attempt to fulfil its other obligations and said they were not feasible.

Essentially OBT operated and was permitted to operate, as a log exporter for 10 years until the Government decided to curtail its operations. During this period OBT had been "bled dry" and was in a hopeless financial position with massive accumulated tax losses, massive debts to its parent company and a massive deficiency in shareholders funds. When advised of the decision to curtail operations OBT rallied support, including diplomatic representations and the Government's resolve dissolved and it capitulated to a plea to "renegotiate". Under the new Agreement eventually negotiated the burden on OBT was greatly reduced and its continued operation as a log exporter was guaranteed. It was required to reforest and to construct a chipmill (of lesser capacity than that originally promised). It was also required to rearrange its debt load to its parent company, to a moratorium on repayment of loans and to forego its massive tax losses.

There was to be short term Permit permitting operations to continue whilst financial data was submitted and evidence was produced of loan arrangements to finance the chipmill construction (which was to commence much later). OBT failed to provide the financial data and evidence and has continued to operate as a log exporter pursuant to a succession of short term timber Permits.

Its capacity to honour its renegotiated obligations must be dubious in view of its financial position.

In its marketing of its hundreds of thousands of cubic metres of log exports OBT has routinely sold on an uncompetitive basis to its parent company which resells OBT logs to buyers mainly in the Japanese market. Until late 1986 OBT sold at MEP price levels or price levels tied to MEP prices and also reduced the MEP price levels applicable to its log shipments by large scale downgrading manipulations. It has also been patently involved in constructing "after the event" price schedules to its sales contracts with its parent company. FIC intervention in its marketing forced marked changes in OBT's marketing patterns and practices with invoices altered to an "across the board" basis and prices dictated by market factors rather than MEP levels.

When I consider true export prices obtained by other producers and marketers and OBT's marketing practices I have no doubt that OBT sold its export logs to its parent company at a significant undervalue up to October 1986 and the indications are that the amount of undervalue would have reduced after that date.

In the absence of resale price information from Sobu Tsusho and from Kowa Lumber it is not possible to calculate the foreign currency earnings which have been lost as a result of OBT's marketing practices. A loss in the range of USD 5.00 to USD 10.00 per m<sup>3</sup> (with a figure towards the lower end of that range in 1985 and towards the higher end of that range in 1984, 1986 and 1987) would appear, from other evidence, to be indicated. If this is accurate the loss would be in the order of USD 700,000 in 1984, USD 300,000 in 1985, USD 900,000 in 1986 and USD 940,000 in 1987.

As OBT began with a "clean sheet" for tax purposes after 31 December 1983 I recommend that its marketing after that date be referred to the Chief Collector of Taxes for thorough investigation and, if warranted, for reassessment of OBT's company tax liability after that date. I leave it to the Chief Collector to determine whether investigation of marketing in earlier years is warranted in view of OBT's massive accumulated tax losses up to 1983.

The study of OBT illustrates many of the negative aspects of defacto forestry policy. It is an example of what should not have been permitted but was permitted. OBT has been given a "new deal" to which it was not entitled. All that can now be done is to constantly monitor its performance of that "new deal" and its marketing of logs with singular vigilance, to ensure that the lesser "benefits" now promised are delivered in full and on time.

SCHEDULE 1

INDEPENDENT STATE OF PAPUA NEW GUINEA

CONFIDENTIAL

035

File: 3-2-2/47-14-3

MINISTER FOR FORESTS

DATE: 21 January 1981

INFORMATION PAPER 5 /81  
FOR MEMBERS OF THE NATIONAL EXECUTIVE COUNCIL  
OPERATIONS OF OPEN BAY TIMBER COY. - W.N.B.P.

(a) Purpose of Submission

To inform the Members of Council on the state of this Company's observation of the Terms and Conditions of the Agreement between the Government of PNG and the Company, signed 22nd June 1973, and Timber Permit No 279, issued on the 22nd June 1973.

(b) Facts and Considerations

Open Bay Timber Co. signed an Agreement, undertaking certain obligations on the Company concerning processing the timber resources of the area, and building a town, at Open Bay, WNBP, in return for the right to export certain volumes of logs and do certain other things. The Government of PNG holds 20% of the share equity of the Company. Loans are raised overseas through Sohbu Corpn, the parent Company holding 80% of the shares in OBT. Sohbu Corporation is a Japanese Banking Company.

Briefly the Company undertook to

1. Build a town infrastructure, including housing, power generation, hospital, police station etc, certain Govt.

housing and an airstrip (Category C) in a series of stages. To date, the town plan has been accepted, and stage 1 in general completed; including airstrip, hospital, police station, and certain housing.

2. Build a sawmill capable of processing a log input of 50 million super feet (110,000 m<sup>3</sup>) to come on stream at the end of year 2.

A large mill was built and commissioned in 1976, i.e. more than one year late. The mill was unfortunately completely destroyed by fire in July 1979.

3. Commence construction of a veneer mill within 2 years of the start of the Permit capable of taking a yearly throughput of 30 million super feet (75000 m<sup>3</sup>) by year 6. To date the Company has carried out a feasibility study of veneer production in 1980, which has proved negative.

4. Commence construction of a woodchip mill within two years of the start of the Permit, capable of processing 120,000 BDU (Bone dry units - i.e. 2400 lbs of bone dry wood) per year by year 6.

To date the Company has carried out a woodchip production feasibility study in 1980, at the suggestion of the Office of Forests, but its viability caused some doubts in the minds of possible collaborating pulp Companies, and the Company has indicated it does not feel the time is ripe to begin construction of the woodchip mill.

5. Construct a drying kiln capable of drying up to 60,000 m<sup>3</sup> of sawn timber per year, by year 4.

To date, only an air drying shed has been constructed.

6. Carry out certain feasibility studies for the establishment of a pulp mill, and a plywood mill, by certain Project years. They have not yet been carried out.

Royalties were specified on a sliding scale, and certain cash penalties for non fulfillment of these processing volume clauses were established. Due to its non fulfillment of the processing clauses, the Company has not yet been registered with NIDA.

7. Construct roads necessary for the bush operations (including the part of the Rabaul Kimbe Highway inside the TP boundaries and the first trans Island road in New Britain, to Wide Bay/Tol); power supply for the town, certain navigation aids for the shipping entering Powell Harbour, and whatever wharfage and harbour works are required by the industry. With the exception of the wharf and harbour works, the above conditions have been met.

Provided the above conditions were met, the Company was given the right to export the following volumes of 50 cms + logs unprocessed:

Yr 1	10 million sup ft. (25,000 m <sup>3</sup> )
Yr 2	30 " " " (75,000 m <sup>3</sup> )
Yr 3	30 " " " (75,000 m <sup>3</sup> )
Yr 4	30 " " " (75,000 m <sup>3</sup> )
Yr 5	20 " " " (50,000 m <sup>3</sup> )

The Director of Forests was given the right to vary the export volume of logs if the company failed in its undertakings.

#### Present Position

The operations of the Company have left much to be desired. Due to rather poor early management decisions, poor staff selection and poor administrative and operational control,



the Company amassed a large deficit which amounted to more than K7 million at the end of October 1980, and owed its parent Coy and others loans, of up to K13.5 million, interest on which was held in abeyance, until the crippling losses with the sawmill (up to K100,000 per month) stopped at the destruction of the mill by fire in July 1979. A coroner's enquiry into the fire has not yet been able to establish who or what caused the fire. Since that date, the Company has operated a log export trade and has written off a small part of the accumulated losses, while carrying out the above mentioned feasibility studies on woodchip and veneer production. In the interests of attempting to keep the Company afloat the Director has allowed the Company to continue log exporting and road construction while carrying out the feasibility studies mentioned. Also, no cash penalties have yet been levied for nonfulfillment of the processing requirements, as this would quickly force the Company's liquidation.

#### Intended Procedure

There is still a considerable volume of both large and small (pulp sized) logs available on the Timber Permit Area - sufficient to sustain an operation as large as that envisaged for Kapuluk Timber Area in WBNP by Halla Resources Corporation of the Republic of Korea.

The Open Bay area is rather unique in PNG in that there is contained within the Timber Permit boundary an area of approx 20,000 Hectares of Government owned land, suitable for reforestation with satisfactory species. So a woodchip proposal would be favourably received, as there is adequate volumes of pulp logs to sustain an industry for 15 years during which the Govt. land available would be reforested to give the woodchip industry a life in perpetuity, free of the land acquisition

problems which constantly obstruct the reforestation of the Gogol area.

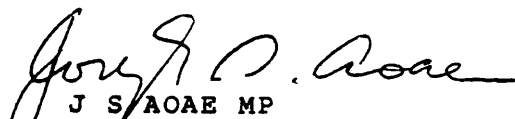
The Company has recently improved its management and pruned its overheads. It is currently operating at about K800,000 per year gross profit. Further, it should be mentioned that when the mill burnt down, no employee was dismissed, and this must have added severely to the overheads burden.

Action Taken

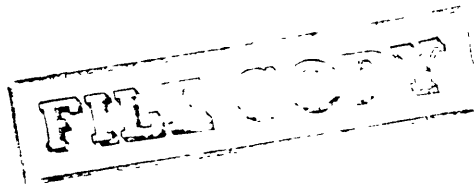
Notwithstanding the Company's successful efforts to improve its position in 1980, I have decided that we cannot support the constant log export drain of the major resource in this area as it now operates, receiving only wages, royalties, export taxes and road construction as benefits for PNG. I have advised the Company it has until June 30th 1981 to

1. decide the processing methods it will institute and
2. sign an Agreement to that effect before 1st July 1981, otherwise I will request NEC approval to institute proceedings to cancel the Permit and terminate the Agreement.

The Council is assured I will keep it informed of progress in this problem area. I intend to review all other Permits/Agreements during 1981 and will be advising Council of my decision affecting each Timber Company as these are reached.

  
J S AOA MP

MINISTER FOR FORESTS



OPEN BAY TIMBER COMPANY

THE MINISTER FOR FORESTS MR JOSEPH AOAE TODAY EXPRESSED THE GOVERNMENT'S DISSATISFACTION WITH THE CURRENT OPERATIONS OF OPEN BAY TIMBER COMPANY. MR AOAE SAID THAT THE COMPANY HAS NOT FULLY MET THE TERMS AND CONDITIONS OF THE 1973 AGREEMENT WITH THE GOVERNMENT OF PNG. THE MINISTER SAID THE COMPANY WAS ISSUED WITH A TIMBER PERMIT IN 1973 TO HARVEST THE LARGE TIMBER RESOURCE IN THE OPEN BAY AND WIDE BAY AREAS OF THE EAST NEW BRITAIN PROVINCE. WHEN THE MULTI MILLION SAWMILL WAS DESTROYED BY FIRE IN JULY 1979, THE GOVERNMENT SUGGESTED TO THE COMPANY THAT IT UNDERTAKES FEASIBILITY STUDIES FOR A WOOD-CHIP PLANT AND COME UP WITH A DEFINITE PROPOSAL BY DECEMBER 1980.

THE MINISTER SAID THE COMPANY HAS NOT SHOWN ANY DEFINITE DIRECTION OF ITS FUTURE COMMITMENT TO CONTINUE ITS OPERATIONS IN THE TIMBER AREA.

MR AOAE SAID THE GOVERNMENT CANNOT ALLOW OPEN BAY TIMBERS CONTINUE WITH A MINIMUM ROAD CONSTRUCTION FOR LOG EXPORT OPERATION INDEFINITELY IN A LARGE TIMBER RESOURCE LIKE THE OPEN BAY AREA.

MR AOAE SAID THE COMPANY IS EXPECTED TO UNDERTAKE A MORE INTEGRATED APPROACH TO FOREST DEVELOPMENT IN THE AREA.

HE SAID HE HAS ALREADY COMMUNICATED WITH THE COMPANY CONVEYING THE GOVERNMENT'S INTENTION TO ENCOURAGE AN INTEGRATED OPERATION INCLUDING:-

- (A). WOODCHIP PLANT
- (B). ROAD CONSTRUCTION FOR LOG EXPORT
- (C). REFORESTATION OF 20,000 HA. GOVERNMENT OWNED LAND IN THE OPEN BAY AREA.

MR AOAE SAID THE COMPANY HAS UNTIL 30TH JUNE 1981 TO COME UP WITH A DEFINITE PROPOSAL FOR THE GOVERNMENT TO CONSIDER. HE SAID IF THE COMPANY FAILS TO MEET THIS DEADLINE HE WOULD CONSIDER RECOMMENDING TO NATIONAL EXECUTIVE COUNCIL THE TERMINATION OF THE CURRENT AGREEMENT WITH THE GOVERNMENT.

MR AOAE REITERATED THAT HE INTENDS TO REVIEW ALL THE MAJOR TIMBER OPERATIONS THROUGHOUT THE COUNTRY THIS YEAR, 1981.

INDEPENDENT STATE OF PAPUA NEW GUINEACONFIDENTIAL

MINISTER FOR FORESTS

Reference: 3-2-2

151-15-1

151-16-16

151-10-2

Date

7 December 1982

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INFORMATION PAPER NO. 55 / 82

FOR MEMBERS OF THE NATIONAL EXECUTIVE COUNCILCANCELLATION OF TIMBER PERMITSA) Purpose of Submission

(1) To advise members of the National Executive Council that it is the intention of the Minister for Forests, to exercise the delegated power of advice to the Head of State in all matters relating to the forfeiture of timber permits, to advise the Head of State to cancel the following timber permits:

TP 279      Open Bay Timber Pty. Ltd., East New Britain Province;

TP 3004      New Ireland Otsuka Development Pty. Ltd., Central New Ireland;

TP 10-2      West Sepik Development Corporation Pty. Ltd., Sandaun Province.

(2) To advise NEC, in broad terms, on particulars of the Timber Permits which are currently proposed for cancellation.

B) Facts and Considerations

The Minister for Forests is empowered under the Forestry Act to issue Timber Permits and Licences, but the statutory power for the cancellation of these documents rests with the Head of State on the advice of the National Executive Council. This power of advice to the Head of State has been delegated to the Minister for Forests by Statutory Instrument under Section 149(4) of the Constitution dated 13/12/1977.

During the past few years the timber companies listed above have failed to meet the terms and conditions of their Permits and Agreements. The State is unable to reallocate the forest resource to other interested developers until these Agreements and Timber Permits either expire or are cancelled by the State.

Under the Forestry Regulation Section 15(1) and 15(3) the procedure for the cancellation of Timber Permits is:

- 1) Companies in breach of their permit must first be asked, by the Departmental Head, to "show cause" (within one month) why their Permit should not be cancelled;
- 2) after one month the Head of State acting on the advice of Council may proceed with cancellation of the Permit.

The Statutory Instrument under Section 149(4) of the Constitution dated 13/12/1977 delegates its "powers of advice to the Head of State" to the Minister responsible for Forests.

The following three timber permit holders have failed to comply with certain conditions of their Agreements and Timber Permits.

- (1) Open Bay Timber Pty. Ltd. - Timber Permit 279 (File 151-15-1).

Location:	East New Britain Province
Date of Agreement:	22/6/1973
Date of Permit Issue:	22/6/1973
Duration:	20 years
Date of Permit Expiry:	21/6/1993
Area:	Approximately 200,000 hectares known as the OPEN BAY and the MOKOLKOL EXTENSION TIMBER RIGHTS PURCHASE AREAS and including some 26,000 hectares of State owned Land.
Equity:	80% (1,772,000 K1 shares) SOHBU CORPORATION JAPAN; 20% (443,000 K1 shares) PNG DEPT. OF FINANCE.
Conditions in breach:	1) <u>Sawmilling</u> ; minimum PNG production schedule of 120,000 m <sup>3</sup> log input to a sawmill per year,

after June 1978 has not been met. Sawmill was destroyed by fire in July 1979 and was not replaced. Accumulated damages for this failure are estimated to be K1.6 million.

- 2) Veneer; minimum PNG production schedule of 70,000 m3 log input per year to a veneer mill after June 1978 has not been met. A Veneer mill was never constructed. Accumulated damages for this failure are estimated to be K1.1 million.
- 3) Woodchip; minimum PNG production schedule of 120,000 BDU output per year after June 1978 from a woodchip mill has not been met. A Woodchip plant was never constructed. Accumulated damages for this failure are estimated to be K0.8 million.

Despite accumulated losses in excess of K8 million for the PNG based Open Bay Timber Pty. Ltd. and outstanding loans of some K13 million, it appears that OBT and the parent company (Sohbu Corporation of Japan) want to continue operations leading to a query as to whether transfer pricing may be taking place.

Because of the above breaches OBT, under Clause 27 of the project agreement owes the State approximately K3.5 million.

Open Bay Timber Pty. Ltd. is continuing to operate under an interim arrangement allowing a quota of log export per kilometre of road constructed on the New Britain Highway alignment. This arrangement ceases, and all activity should cease, on 31st December 1982. The State should not incur any liability if Timber Permit 279 is cancelled after 31st December 1982.

The OPEN BAY TIMBER AGREEMENT shall be terminated by written notice to the company following formal cancellation of the Timber Permit.

It should be noted that the Open Bay airstrip and township is established on freehold land abutting Powell Harbour. The freehold land is owned by Open Bay Timber Pty Ltd.

Termination of the Open Bay Timber permit will not change the status of the freehold land so that any new incoming project would have to either:

1. negotiate with OBT for the purchase of the land and the fixed assets, or
2. negotiate with the State for the lease of other State owned (but swampy) land abutting Powel Harbour and construct its own infrastructure and fixed assets.

Following termination of the agreement Open Bay Timber Pty Ltd would be free to dispose of its freehold land, fixed and mobile assets as and to whom it so desired.

(2) New Ireland Otsuka Development Pty Ltd - Timber Permit No. 3004.  
(File 151-16-16)

Location:	New Ireland Province
Date of Agreement	14/7/76
Date of Permit Issue:	9/11/77
Duration:	20 years
Date of Permit Expiry:	8/11/97
Area:	Approximately 100,000 hectares known as Central New Ireland Timber Rights Purchase Area.
Equity:	90% (900,000 K1 shares) OTSUKA FURNITURE INDUSTRY CO. LTD JAPAN; 10% (100,000 K1 shares) NIFA Pty Ltd a PNG Company established to represent Landowners in the Timber Rights Purchase Area but currently with only 2 issued shares.



Conditions in breach:

<u>Activity</u>	<u>Due date</u> (per Agreement)	<u>Comment</u>
1) Wharf Plan by	9/2/78	Overdue - Plan not yet submitted despite repeated demands.
Wharf completion by	March 1979	Overdue - No construction started or mooted.
2) Township for 2000 people at Karu	throughout Permit period	Land lease granted 12/12/78 3 houses 1 workshop 1 sawmill 100 metre road - is total effort to date. Very disappointing.
3) Sawmill operational by	14/6/80	Late completion. Sawmill was opened 20/3/82. Operating well below agreed minimum log input.
4) Furniture Factory Plan	May 1979	Overdue - Not yet submitted despite repeated demands.
Furniture Factory operational by	November 1980	No construction started or mooted.
5) Preservation facilities operational by	November 1982	Early completion. Dip diffusion plant with sawmill 20/3/82. Cannot sell non preserved sawn-timber for use in government buildings.
6) Planing Mill operational by	9/11/81	Overdue - no construction started or mooted.

- |    |                                  |               |                                   |
|----|----------------------------------|---------------|-----------------------------------|
| 7) | Kiln Dry Plant<br>operational by | November 1983 | No plans made.                    |
| 8) | Reforestation:                   |               |                                   |
|    | 75 ha Forest<br>plantation       | 9/11/82       | 1.5 hectares only<br>established. |
|    | 250 ha enrichment by             | 9/11/82       | No attempt made.                  |
|    | Plan for years 5-20              | 9/11/82       | No known preparation.             |

Under Clause 19 (Damages) of the Project Agreement New Ireland Otsuka Development Pty Ltd. could be held liable for damages to the State "for loss of indirect benefits the sum of K8,000 in respect of each delayed processing facility for each calendar month ..... of delay" and K3.00 per cubic metre "production damages" for each cubic metre of log by which it fails to meet the minimum processing requirement for each year.

At 31 December 1982, an estimated of those damages is:

"Construction Damages":	K832,000
"Production Damages":	K165,000

These damages do not accrue if "force majeure" occurs, but under the definitions in the Project Agreement "force majeure" has not occurred nor been notified by the company to the State.

Under Clause 47 (Guarantee) of the Project Agreement the Shareholder (Otsuka Furniture Industry Pty Ltd) undertook to provide a guarantee not exceeding K400,000 on 10/11/1980 to give assurance that the developments required under the Project Agreement would be established by NIOD P/L. This guarantee has not been lodged and the infrastructure has not been established. The sum of outstanding damages and guarantee is approximately K1.4 million.

Clause 45 (Variation) allows for variation of the Project Agreement by agreement and to this end NIOD, in November 1981, presented a series of proposals for possible renegotiation of the Agreement.

The proposals, in short, called for the PNG government to buy out the Shareholder in NIOD (i.e. Otsuka Furniture Industry Company P/L Japan). These proposals have only been tentatively discussed by the Office of Forests and NIOD. Office of Forests does not favour further negotiation, because, Under Clause 42 (Termination) of the Project Agreement if NIOD or OFI default in performance of the agreement, and that default is material and goes to the root of the fundamental undertakings of the parties then the State may by notice in writing given to the NIOD and OFI, terminate the Agreement. Termination of the Agreement and reallocation of the timber resource is a more efficient and less costly option than the proposals for changes to the Agreement made by OFI.

It is anticipated that Otsuka Furniture Industry will continue to seek to purchase PNG logs for its processing facilities in Japan and it may also seek to involve itself in timber industry management contracts in PNG. However, OFI's poor performance on this project should preclude them from management consideration for any Forest Development Corporation.

New Ireland Otsuka Development Pty. Ltd. exhausted its log export quota in May 1982 at which time it closed up operations dismissing 140 staff, retaining only a skeleton maintenance crew. The New Ireland Otsuka Development Agreement shall be terminated by written notice to NEW IRELAND OTSUKA DEVELOPMENT PTY. LTD. and OTSUKA FURNITURE INDUSTRY CO. LTD. following completion of formal cancellation procedures for the Timber Permit.

(3) WEST SEPIK DEVELOPMENT CORPORATION Pty.Ltd. - Timber Permit No.10-2  
(File 151-10-2)

Location:	West Sepik Province
Date of Permit Issue:	1/7/1979
Duration:	5 years
Date of Permit Expiry:	30/6/1984
Area:	Approximately 9000 hectares of Waterstone State Land, immediately east of Vanimo.
Equity:	100% SANDAUN PROVINCIAL GOVERNMENT (2 KI shares)

Conditions in breach:

- 1) Failing to obtain the approval of the Director of Forests on the cessation of the company's Management Agreement with Goldore Pty. Ltd..
- 2) Failing to comply with the minimum cut requirement.
- 3) Failing to submit annual working plans.
- 4) Failing to submit monthly log classification and measurement return forms.
- 5) Exporting logs in respect of which logs, royalties had not been paid.
- 6) Failing to comply with road construction requirements.
- 7) Failing to establish and/or upgrade the sawmill at Vanimo.

The prime reason for the failure of WESDECO would appear to have been lack of company and business acumen on the part of the Board of Directors, who, without the approval of the the Office of Forests and specifically against a condition of the Timber Permit, dismissed a moderately competent management company and appointed an inexperienced, incompetent "friend" who proceeded to make massive debt commitments for the Company without ever getting the company in a position of positive cash flow. The result was inevitable.

West Sepik Development Corporation is in liquidation with unpayable debts exceeding K800,000. Logging Operations ceased in July 1981.

C) Views of other Ministries affected

Minister for Foregin Affairs and Trade

Comments and advice are being sought on how and when the Japanese Ambassador and the Japanese Government should be approached to advise the intention of Minister for Forest to terminate (for non-performance) the Timber Agreements with 2 Japanese companies.

Minister for Health

Comments are being sought on the effect of cancellation of Open Bay Timber Pty. Ltd. Timber Permit on the staffing, maintenance and supply of the Open Bay Hospital.

Minister for Labour and Industry

Comments are being sought on the effects of closing the Open Bay Timber Pty. Ltd. operation on the 150 remaining employees who will be laid off.

Prime Minister's Department

Comments are being sought.

Minister for Police

Comments are being sought on the effect of closure of the Open Bay Timber Pty. Ltd. operation on the staffing and maintenance of the Open Bay Police contingent.

Department of Finance

Departmental comments are being sought. The Department is believed to support the submission.

Department of Justice

Departmental comments are being sought. The Department is believed to support the submission.

National Planning Office

Comments are being sought. The Office is believed to support the submission.

National Investment and Development Authority

Comments are being sought. The Office is believed to support the submission.

EAST NEW BRITAIN PROVINCIAL GOVERNMENT

The Provincial Executive Council supports early termination of the Open Bay Timber Permit, but requests early instigation of a replacement project in order to maintain employment and road construction activity within the Open Bay Area.

NEW IRELAND PROVINCIAL GOVERNMENT

Comments are being sought, but it is known that the New Ireland Provincial Government is not happy to see continued log export without substantial infrastructure development.

SANDAUN PROVINCIAL GOVERNMENT

The Sandaun Provincial Government holds 100% West Sepik Development Company Pty. Ltd. shares. The Company is now in liquidation and the Provincial Government will accept incorporation of the Waterstone Land area in the Greater Vanimo Timber Area as is now proposed.

D) Financial Implications

New Ireland Otsuka Development Corporation and West Sepik Development Corporation have already ceased Logging activity. The cessation of Logging at Open Bay will reduce the royalty revenue to both the National and East New Britain Provincial Governments by some K200,000 per year. National Government has never received any company taxes from these loss making companies.

E) Staffing - Implications

Nil.

F) Legislative Implications

Nil.

G) Constitutional Implications

Nil.

H) Political Implications

Open Bay Timber Pty Ltd Equity is 20% Papua New Guinean, the shares being held by Dept. of Finance, and 80% Japanese - Sohbu Corporation. New Ireland Otsuka Development Pty Ltd Equity is 10% Papua New Guinean, the shares being held by NIFA Pty Ltd. a Company established for the Timber Rights Purchase agents of the landowners of the area. West Sepik Development Corporation is a 100% Sandaun Provincial Government venture.

The Japanese Government may be disturbed by the termination (for non-performance) of the Agreements between the PNG Government and two Japanese Companies.

I) Planning Implications

West Sepik Development Corporation; the Waterstone area can be absorbed into the Greater Vanimo Timber area.

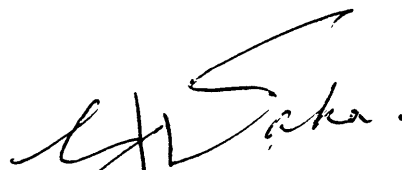
Open Bay Timber area and the Central New Ireland Timber Area will have to be rescheduled onto the priority list for development by either foreign investment or PNG Forestry Development Corporations.

J) Previous Policy Reference

Nil.

K) Conclusion

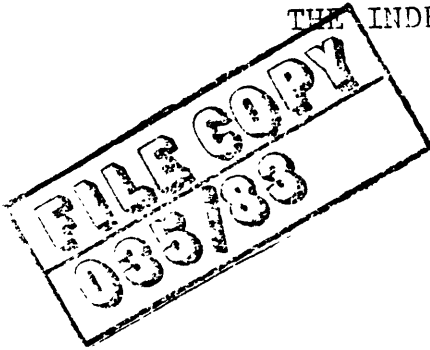
The National Executive Council notes the intention of the Minister for Forests to advise the Head of State to cancel the Open Bay, Otsuka and West Sepik Development Corporation Timber Permits, and, to formally terminate the Open Bay and Otsuka Timber Agreements.



LUCAS J. WAKA

MINISTER FOR FORESTS

THE INDEPENDENT STATE OF PAPUA NEW GUINEA

"CONFIDENTIAL"

MINISTER FOR FORESTS

FILES: 350-2-1/3-2-2

DATE: 23 MARCH 1983

POLICY SUBMISSION NO: .....57/83  
FOR MEMBERS OF THE NATIONAL EXECUTIVE COUNCIL

OPEN BAY TIMBER AREAA. PURPOSE

- (1) To advise Cabinet of the receipt by the Government of a revised development proposal from Open Bay Timber Pty. Ltd.
- (2) To advise Cabinet of the salient details of this proposal.
- (3) To advise Cabinet of the conclusions derived from evaluation of this proposal.
- (4) To seek National Executive Council support for the course of action which the Minister for Forests intends to pursue in order to promote timber development of the Open Bay Timber Area.

B. FACTS AND CONSIDERATIONS

Following Cabinet advice to the Minister for Forests in December 1982 that the Open Bay Timber Agreement should not be terminated at that stage, a new Timber Permit No. 15-19 has been negotiated and issued, permitting Open Bay Timber Pty. Ltd. (the 'Company') to continue logging operations until 30th June 1983.

As a condition of this Permit, the Company was required to 'submit to the Director of Forests, by 28th February its detailed proposal (in line with the 1979 Forest Policy) for a continuing forestry development project'.



A proposal was, indeed, submitted to the Director of Forests on 28 February 1983. Unfortunately that proposal is incompatible with the 1979 Forest Policy, and so cannot be accepted as a basis for negotiation.

#### SALIENT DETAILS OF PROPOSAL

##### (1) REFORESTATION

It is proposed that 11,600 hectares be reforested during the first 13 years of the project.

##### (2) CHIPMILL

It is proposed to construct a chipmill (log capacity of 260,000 m<sup>3</sup>/year) during years 12 and 13 to commence production in year 14.

Production will be 114,700 Bone Dry Tonnes of woodchips per year.

##### (3) LOG EXPORTS

It is proposed to export logs totalling 170,000 m<sup>3</sup>/year (150,000 m<sup>3</sup> saw/veneer logs and 20,000 m<sup>3</sup> small logs) for the first 13 years.

At the proposed rate of log export, all the remaining saw/veneer log resource would be logged out by year 13. There will be no saw/veneer log resource left in the bush after year 13.

##### (4) ROAD CONSTRUCTION

It is proposed to construct a total of only 45 kilometres of main road. This includes 20 kilometres of the Rabaul road and 25 kilometres of the Trans-Island road. Construction rate will be 9 kilometres of road per year.

(5) FINANCING

It is proposed to convert 2.8 million Kina of the amount currently owing to Sohbu Trading Corporation\* to redeemable preference shares. The remaining outstanding debts of 10.5 million Kina to Sohbu Trading Corporation are scheduled to be repaid during the first 14 years of the project (70% within the first six years). Additional loans totalling 26 million Kina would be obtained, mainly from the Japan International Corporation Agency.

PROPOSAL EVALUATION CONCLUSIONS

Following careful evaluation of the proposal by several Government departments, the following conclusions have been reached.

(1) The project, as proposed, will not be economically viable.

This conclusion is based on data contained in the proposal, and on a cash flow schedule developed by Office of Forests staff on information derived from the proposal.

This cash flow schedule (notably absent from the otherwise highly detailed proposal) indicated that the rate of return on investment to the Company would be unacceptably low, under normal circumstances. The project has a negative net present value if discounted at 10% per year. The precise rate of return depends heavily on the method of valuation of reforested land, but the conclusion that the project is not viable is unaffected.

There is evidence to support this conclusion in the proposal itself. The project has persistent liquidity problems throughout the 20 years for which projections are provided, with no suggestion of any improvement thereafter. Outstanding loans increase from 10.5 million Kina at year 1 to 16.1

\* Sohbu Trading Corporation holds 80% of the equity of Open Bay Timber Pty. Ltd. with the State of Papua New Guinea holding the remaining 20%.

million Kina at year 20. The debt/equity ratio rises from 2.1 : 1 at year 1 to 4.3 : 1 at year 20 (assuming that preference shares are redeemed at par). These are not the characteristics typical of a successful project.

It is difficult to predict the precise date at which the Company would be declared bankrupt, and put into the hands of a receiver. This would depend on when further loans to alleviate the liquidity problems ceased to be made available (note, too that it is likely that PNG Government guarantees would be sought for these loans).

- (2) Only Sohbu Trading Corporation will benefit from the proposed project.

As mentioned earlier, Sohbu Trading Corporation is currently owed approximately 13 million Kina by the Company.

The Company will be forced to default on these debts if a new Agreement is not made with the Government, permitting the Company to continue operations. It is proposed, however, that these debts will be repaid to Sohbu Trading Corporation in the early years of the new project. Whether or not the project eventually collapsed would be a matter of little concern to the Sohbu Trading Corporation.

The proposal places considerable emphasis on the 'benefits' which will accrue to Papua New Guinea if the project were to proceed. Employment costs, and export sales of logs and chips, are classed as 'monetary contributions'. This is very misleading, since no allowance is made for the accrual of 25% of employment costs to expatriate employees, or for the considerable import expenditure by the project (including substantial equipment imports from Japan, possibly from Sohbu Trading Corporation itself).

Instead of 'benefiting' from the project, Papua New Guinea will in fact 'lose' on certain counts if the project proceeds. The Forest resource in the Open Bay Timber Area will be further depleted, but with no prospect of sustained

economic development in the area. The project may in fact hinder the economic development of the area, by preventing the establishment of an alternative, viable, forest development project.

In addition, if loans to the project are obtained on the basis of Papua New Guinea Government guarantees, severe financial costs will be incurred when the Company eventually collapses.

- (3) The proposals relating to reforestation and woodchip processing are unacceptable.

This component of the project is itself of dubious financial viability.

In addition, the Proposal indicates that reforestation and woodchip processing would be conducted by a joint venture company, but provides no details of this joint venture. The delay of 14 years before commencement of woodchip processing by an unspecified joint venture company would be unacceptable, even if the Project was, in fact, viable.

- (4) Given the poor track record of the Company, it is unlikely that the Company would abide by the terms of a further Agreement.

In the 1973 Agreement, the Company was required to install a sawmill, veneer mill, and a woodchip mill. The construction of the sawmill was delayed, and was finally completed in 1976. It was destroyed by fire in 1979. The sawmill has not subsequently been replaced. The requirements for construction of a veneer mill and a woodchip mill have not been fulfilled. Accumulated damages due to the Papua New Guinea Government for these breaches of the Agreement are estimated to exceed 3.5 million Kina.

It would be optimistic to expect that a company with this type of track record would fulfill its obligations under a new agreement.

### 1979 FOREST POLICY

The following quotations are taken from the Policy Submission which established the 1979 Forest Policy.

"... the forest industry sector could make a meaningful contribution to the objectives relating to:

- (1) Revenue generation
- (2) National ownership, and
- (3) Regional economic development and political stability"

"new foreign investment ..... should be attracted to this country with a view to complement, rather than compete with, Papua New Guinean owned enterprises."

"the efforts of the Government should be concentrated over the next few years on the efficient utilisation of existing and firmly proposed processing capacity, and on the formation of a number of Papua New Guinea owned log export operations."

"Foreign enterprises under this category will be required in conjunction with log exporting, to undertake an activity which ..... will sustain economic activity in the timber area on a permanent basis."

"Approved enterprises will be those which, in the opinion of the National Government, provide national benefits at least as great (net present value) as an alternative Papua New Guinean log exporting enterprise."

"It will be firm policy to allow increased exports of logs with the aim of ..... increasing PNG ownership in the timber industry; increasing National Government resources, Provincial Government resources, and incomes to the people of forest areas; ..... ensuring social stability in logging areas."

The Proposal fails to satisfy any of the objectives and requirements specified in these excerpts from the 1979 Forest Policy.

PROPOSED COURSE OF ACTION

I consider that negotiation with the Company on the basis of this Proposal is clearly incompatible with the interests of Papua New Guinea. The proposed project would in effect result in a 'gift' of over 10 million Kina from Papua New Guinea to the Japanese Sohbu Trading Corporation (10 million Kina being the amount scheduled to be repaid by the Company in the early years of the Project). Papua New Guinea, in the meantime, will lose the opportunity to develop a viable forest development project in the Open Bay area.

Following advice received from staff of several Government departments, I have also decided that it would not be in the interests of Papua New Guinea to attempt to negotiate either with this Company, or the Sohbu Trading Corporation itself, in the absence of an acceptable proposal. A State negotiation team (which in any case has not been established) would have no satisfactory information base on which to frame a draft agreement, and to develop a sound negotiation position. The Team would not be able to protect properly the interests of Papua New Guinea during negotiations. It would be highly irregular and unorthodox to attempt to negotiate in this manner. In addition, the Department of Finance has advised that, under taxation legislation, it would be difficult to prevent the losses accumulated by this Company being transferred to any new, Sohbu-controlled company. In consequence any new company would probably be able to avoid tax liabilities.

I have consequently decided that the establishment of a nationally owned, independently managed, Forestry Development Corporation is now the most appropriate course of action, to ensure stable and sustained development in the Open Bay area. I intend to instruct that steps to implement this decision be taken as a matter of urgency, to minimise the short term disruptive effects on the incomes of the people of the Open Bay area.

I have therefore decided not to renew the current Timber Permit No. 15-19, issued to Open Bay Timber Pty. Ltd, which expires on 30 June 1983.

C. VIEWS OF OTHER MINISTERS

To be sought in Cabinet.

A telex received by the Director, Office of Forests, from the Secretary, Department of East New Britain, indicates that the proposal submitted by the Company is unacceptable. If a feasible project cannot be developed, the Provincial Government would fully support any termination action taken by the National Government.

D. FINANCIAL IMPLICATIONS

In the long term, the establishment of a Forestry Development Corporation would result in higher export earnings, and consequently higher export taxes and royalties, than would result if the Company's proposal was accepted. Substantially higher company tax revenue would also result, as it is unlikely that Open Bay Timber Pty. Ltd. would ever pay company tax.

During the 12-18 month period which would be required to establish a Forestry Development Corporation, export earnings will cease, with consequent postponement of log export tax receipts and royalties by the East New Britain Provincial Government.

To prevent the closure of the Open Bay airstrip and aid post during this interim period, a small allocation of funds from either the National or Provincial Government may be required. Detailed estimates are not yet available, but the requirement is not expected to exceed 50,000 Kina - trivial in comparison to the value of the forest resource in the Open Bay area.

With the closure of Open Bay Timber Pty. Ltd, it may be possible to recover part of the damages due to the State as a result of the Company's failure to provide industrial infrastructure as required under the 1973 agreement. These damages are estimated to exceed 3.5 million Kina.

E. STAFFING IMPLICATIONS

Nil.

F. LEGAL IMPLICATIONS

The State Solicitor has been requested to investigate any legal obligations on the State to negotiate with this Company, and, if an obligation exists, to assess the possible damages which may result if that obligation is not fulfilled. A written opinion should be available for this Council meeting.

A preliminary opinion from staff of the State Solicitor's Office indicates that there is an obligation in the State to respond to the Company; but that there is no obligation to prepare and present a draft agreement to the Company. By failing to submit a proposal in line with the 1979 Forest Policy, the Company has failed to meet the conditions of Timber Permit 15-19.

The legal procedures necessary to recover at least part of the damages due to the State from Open Bay Timber Pty. Ltd. will require further investigation.

G. CONSTITUTIONAL IMPLICATIONS

Nil.

H. DECENTRALISATION IMPLICATIONS

The termination of this Company's project, and the subsequent establishment of a viable, nationally owned Forestry Development Corporation should provide stable development in the Open Bay area - fully consistent with objectives to promote decentralisation and economic independence.

I. POLITICAL IMPLICATIONS

Given that the East New Britain Provincial Government supports the termination of this Company's project, and provided that the airstrip and aid post in the Open Bay area are maintained by the State during the interim period necessary to establish a Forestry Development Corporation, no serious objections by the people of East New Britain to my proposed course of action are anticipated.



It may be desirable for diplomatic reasons that the Minister for Foreign Affairs & Trade instructs his Department to inform the Japanese Government of my decision not to renew the Company's Timber Permit at the same time as the Director, Office of Forests, notifies the Company itself.

J. PLANNING IMPLICATIONS

Nil.

K. PREVIOUS POLICY REFERENCES


1. 1979 White Paper on Forest Policy
2. December 1982 Policy Submission recommending cancellation of the Open Bay Timber Pty. Ltd. Timber Permit.

L. RECOMMENDATIONS

It is recommended:-

1. That Council notes the receipt of a revised development proposal from Open Bay Timber Pty. Ltd.
2. That Council notes the conclusions reached after evaluation of this proposal.
3. That Council notes that the proposal is inconsistent with the 1979 Forest Policy, and that Open Bay Timber Pty. Ltd. has therefore failed to comply with the conditions of Timber Permit 15-19.
4. That Council instructs the Minister for Forests to establish urgently a nationally owned, independently managed, Forestry Development Corporation in the Open Bay area.

5. That Council instructs the Minister for Forests not to renew the current Timber Permit issued to Open Bay Timber Pty. Ltd., which expires on 30 June 1983.

  
LUCAS WAKA MP  
MINISTER FOR FORESTS

CONFIDENTIAL



## PAPUA NEW GUINEA GOVERNMENT

## NATIONAL EXECUTIVE COUNCIL

Decision No: 46/83

Meeting No: 13/83

Subject..... OPEN BAY TIMBER AREA

On 6th April, 1983, Council:-

- (a) noted the receipt of a revised development proposal from Open Bay Timber Pty. Ltd.;
- (b) noted the conclusions reached after evaluation of this proposal;
- (c) agreed that the proposal is inconsistent with the 1979 Forest Policy, and that Open Bay Timber Pty. Ltd., has therefore failed to comply with the conditions of Timber Permit 15-19;
- (d) directed the Minister for Forests to establish urgently a nationally owned, independently managed, Forestry Development Corporation in the Open Bay area; and
- (e) directed the Minister for Forests not to renew the current Timber Permit issued to Open Bay Timber Pty. Ltd., which expires on 30th June, 1983.

M T SOMARE

Chairman

I certify the above to be a correct record of the  
Decision reached by National Executive Council.

J WINARE

Secretary, N.E.C.

Date: 7th April 1983

# SCHEDULE 4

## COMMISSION OF INQUIRY INTO FORESTRY

### QUESTIONNAIRE

Name of Timber Area: OPEN BAY TIMBER AREA, EAST NEW BRITAIN PROVINCE

Name of Permit Holder: OPEN BAY TIMBER PTY., LTD.

Name of Contractor (if any): -

A. Compliance with Conditions of Timber and/or Project Agreement or Letter of Intent or other authorisation

Please briefly summarise each condition or obligation in Column 1 and briefly indicate whether the Company has complied with the condition in Column 2. (Attach additional sheets of paper if necessary).

(1) Condition	(2) Degree of Compliance
<u>Road Construction</u>  Conditions (design, standard, gravelling, culverts, bridges etc.)	
(1) The construction of 4 kms	Fully completed since 1985.
new Road on the New Britain	Total: 12 kms completed as per new Project
Highway (Rabaul) from 1985	Agreement. Cost of: K774,897.
each year (Total 20 km)	
(2) Trans Island Road	Total 54 km of this road completed ahead
Open Bay - Wide Bay	scheduled time limit. Cost: K1,009,340.

(1) Condition	(2) Degree of Compliance
<p><b><u>Road maintenance</u></b></p> <p>Obligations imposed, etc.</p> <p>Maintain Highway (total 102 km) and Transisland road (total 54 km) in trafficable condition.</p>	<p>The company maintains all highways in good conditions, rebuilding them after heavy rains where necessary.</p>
<p><b><u>Special Bridge Construction requirement</u></b></p> <p>By the end of 1991, Seven bridges to be constructed on main roads.</p>	<p>The company constructed the Loi River Bridge by permanent material in 1987, at a cost of K 310,000-.</p> <p>Two bridges will be completed in 1988.</p>
<p><b><u>Local processing condition</u></b></p> <p>(Construction of sawmill, etc.)</p> <p>A Chipmill with 260,000 M3 yearly capacity to be constructed by the end of 1995.</p>	<p>A chipmill will be constructed in Project year eleven 1995. All studies, surveys, and chip marketing arrangements are on way. Two mobile type sawmill have</p>
	<p>been constructed in Open Bay and in Wide Bay.</p>

(1) Condition	(2) Degree of Compliance
<u>Reafforestation/Regeneration requirement</u>	
14,000 hectares clear felling and planting with Kamarere in 15 years (1999)	The agreed schedule is fully complied with and up to 31/12/87 1100 hectares were cleared and planted at a cost of K974,311 - 900 hectares will be planted in 1988.
<u>Follow up Land Use requirements</u>	
(eg: agriculture project)	
No requirement	The company will replant all reforested areas harvested for chip production creating continuous industry year by year.
<u>Other conditions imposed for public benefit</u>	
Urban development, housing, sport, shopping facilities	The company continuously constructing houses for workers, maintains medical facility for the whole area, provides electricity, etc. The company has completed such infrastructures as police station, police men's houses, health center, airport, sports ground, etc

**B. Marketing Table**

Please prepare and attach a Marketing Table covering all your log shipments in 1986 and 1987 in accordance with the attached instructions.

A specimen Marketing Table is supplied for producers.

A handwritten table is acceptable if typing would lead to delays. You will be expected to be able to produce documents substantiating the content of this table if summonsed by the Commission to do so.

**C. Log Sales Procedures**

Explain in short simple terms the procedure by which you negotiate sales of your logs.

- (1) The company inform the buyer of the estimated quantity and assortment  
of the proposed log shipment with its offer price taking account of  
quality, species assortment, MEP and market overseas.  
Detail conditions are negotiated with the buyer including not only price  
but time of shipment, terms of payment etc. and then an approval of  
Department of Forest on the proposed shipment is applied for.
- (2) If the application is rejected we have to renegotiate a better condition  
until it is approved by the Department of Forest. Without their approval  
we are unable to finalise our sales.

**C. Fair Market Price**

By what means or method do you decide whether the price obtained is a fair market price for a shipment or part shipment?

We consider following factors:

(1) The Government MEP

(2) Market information given by FIC and market news papers

(3) Examination and approval on price by Department of  
Forests.

**D. Sale to End Users**

Do you sell direct to end users or consumers? ~~Yes~~/No.\*  
If not why?

End users are very numerous and small quantities and species required by various users at various locations would create unsurmountable shipping problems and payment proceedings, and therefore it is not practically possible to sell direct end users or consumers.

**E. Relationship with Purchasers**

Do you have a relationship with any person or company which was a purchaser of logs from you in 1986 or 1987? Yes/~~No~~.  
If yes, supply full details of such relationship; eg:

- . Member of the same company group;
- . Purchaser or his company group supplies financial assistance (giving details)
- . Long term sales and purchase agreement.

Kowa Lumber Corporation owns 80 % (The Government 20 %) of  
the Company, and provides financial assistance when needed.

\* When answering Yes/No questions in this Questionnaire cross out whichever word is inapplicable.



**F. Agents**

(a) Do you sell through agents? Yes/~~No~~. If yes, why?

Only when state bought our logs by state's purchase option.

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(b) Supply the names and country of all agents used in 1986 or 1987?

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Forest Industry Council, Papua New Guinea.

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Department of Forest, Papua New Guinea.

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(c) Are any of your agents based in preferred tax areas (eg: Singapore, Hong Kong)? ~~Yes~~/No.  
If yes, give details.

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(d) What rate of commission is each of your agents paid and who pays such commission?

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We paid Forest Industry Council 3% of FOB Value.

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- (e) Do you or any person or company with which you have a relationship have any arrangement in the nature of commission sharing with any such agent? ~~Yes~~/No.  
If 'Yes' give full details.

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**G. Sale to middle man**

- (a) Do you sell to any person or company which resells logs supplied by you? Yes/~~No~~.

- (b) If yes, why do you sell to such person or company?

Our buyer buys our logs in bulk and resells them to many endusers  
mostly in Japan. We are unable to market in small quantities.

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- (c) Does such person or company resell at a higher price than you obtain? Yes/No. Not known to us.

- (d) What is the range of additional or higher prices obtained in 1986 and 1987?

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Not known to us.

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- (e) Do you or any person or company with which you have a relationship have any arrangement whereby the higher price obtained is shared or participated in whether in whole or part. ~~Yes~~/No. If yes, supply full details.

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**H. Shipping**

- (a) Who arranges shipping (ie: becomes party to a Charter Party or Fixture Note) for logs sold by you?

We sell FOB basis. Our buyer arranges shipping and pays freight.

- (b) Do you independently ascertain the freight rates available for each shipment? ~~Yes~~/No. If yes by what means do you do so?

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- (c) What is the range or freight rates paid for shipments by you; N/A

- (i) To Japan in 1986 \_\_\_\_\_
- (ii) To Japan in 1987 \_\_\_\_\_
- (iii) To South Korea in 1986 \_\_\_\_\_

- (iv) To South Korea in 1987 \_\_\_\_\_
- (v) To Taiwan in 1986 \_\_\_\_\_
- (vi) To Taiwan in 1987 \_\_\_\_\_
- (vii) To India in 1986 \_\_\_\_\_
- (viii) To India in 1987 \_\_\_\_\_

(d) Do you or does any person or company with which you have a relationship:

- (i) own or operate any vessel used by you to ship logs? ~~Yes~~/No.
- (ii) share or participate in freight paid for shipment of logs by you? ~~Yes~~/No.
- (iii) charter any vessel used by you to ship logs? ~~Yes~~/No.
- (iv) share or participate in charterers fees paid for shipment of logs by you? ~~Yes~~/No.
- (v) act as broker for any vessel used by you to ship logs? ~~Yes~~/No.
- (vi) share or participate in brokerage paid for shipment of logs by you? ~~Yes~~/No.

If "Yes" to any of the above supply full details on a separate sheet.

1. M.E.P.

(a) Explain in short simple terms the relevance to you of MEP in relation to your log sales.

We understand that MEP is the indication of minimum  
export price only and therefore we always to obtain  
higher price than MEP.

(b) Did you, in 1986 or 1987 sell logs below the prevailing MEP? Yes/No.

If yes:

(i) did you obtain dispensation. Yes/NoX

(ii) what were the reasons for not obtaining MEP price?

The company applied for dispensation for 564m<sup>3</sup> of logs  
rejected by the buyer nominated by the State. (State  
Purchase Option) in June 1987, which is the only  
dispensation the company applied for since started  
operations.

**J. Letters of Credit**

Are letters of credit for your sale of logs to overseas buyers routinely established in the name of, and with the bankers of, the PNG producer company? Yes/NoX  
If not, then why?

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**K. Offshore Payments**

(a) Is any part of the FOB sale proceeds for sales of your logs not remitted to Papua New Guinea? ~~Yes~~/No.

(b) If so, specify:

- (i) The part payment left offshore and the manner in which it is calculated.
- (ii) The country in which the part payment is left.
- (iii) The person or company to which the offshore payment is made.
- (iv) The purpose of leaving the payment offshore.

- (c) Is any person or company to which any such moneys are paid outside Papua New Guinea a person or company with which you have a corporate or similar relationship? ~~Yes~~/No.

If Yes, explain the relationship.

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- (d) Has the approval of the Bank of Papua New Guinea been obtained in respect of such non remittances? ~~Yes~~/No.

N / A


**STATUTORY DECLARATION**

I, TOSHIFUMI OHIRA of P.O.BOX 1020, RABAUL.  
(Name: please print) (Address)

do solemnly and sincerely declare that -

1. I am the MANAGING DIRECTOR  
(Position: Secretary, Manager, etc.)  
of OPEN BAY TIMBER PTY. LTD.  
(Name of Company)
2. The information disclosed in the answers to the questionnaire and any attached pages is true to the best of my knowledge and beliefs.

And I make this solemn declaration by virtue of the Oaths, Affirmations and Statutory Declarations Act 1962 conscientiously believing the statements contained therein to be true in every particular.

Declared at Port Moresby )  
on the 4th day of March, 1988 ) 

Before me -

  
H.B.C. LOVE  
COMMISSIONER FOR OATHS

Justice of the Peace/Commissioner for Oaths and Affirmation.

SCHEDULE 5  
SPECIMEN OF MARKETING TABLE

No. 1

SHIPMT NO.	VESSEL	MONTH	NO. OF LOGS	VOLUME OF LOGS	FOB PRICE TO PRODUCE (US\$)	FREIT RATE	NAME & COUNTRY OF PURCHASER	NOTIFY PARTY	MEP PRICE (US\$)	MEP COMPARISON AMOUNT ABOVE / BELOW	%	ROYALTY LEVY	EXP. DUTY	PRODUCE CER
1986 1	NIPPO MARU	JAN	1723	6046.103	271.734	-	KOWA LUMBER CORP. JAPAN.	KOWA LUMBER CORP.	271.734	NIL	0	28,794	32,283	209,010
	VOY. 53													
2	KYOWA OCEAN	FEB	1960	5581.965	259,030	-	"	"	259,030	NIL	0	26,551	30,346	198,104
	VOY. 11													
3	NIPPO MARU	MAR	2185	5881.586	299,220	-	"	"	299,220	NIL	0	27,728	34,044	229,212
	VIY. 54													
4	TROPICAL RAIN- BOW VOY. 136	MAR	350	1.045.359	54,359	-	"	"	47,933	6,426 ABOVE	13.4+	4,998	5,976	41,710
5	NIPPO MARU	APR	1,946	6.104.210	317,656	-	"	"	299,344	18,312 ABOVE	5.1+	29,071	33,988	242,467
	VOY. 55													
6	MERCHANT	MAY	1.918	6.426.489	347,103	-	"	"	325,253	21,850 ABOVE	5.7+	30,779	36,304	261,457
	VOY. 9													
7	ASIAN ARGOSY	JUN	839	3.200.883	174,696	-	"	"	174,696	NIL	0	15,100	19,223	133,122
	VOY. 24													
8	MERCHANT					-								
	VOY. 10	JUN	1699	6.103.444	337,800		"	"	337,800	NIL	0	28,778	37,467	256,916
9	KYOWA OCEAN					-								
	VOY. 13	JUN	721	2.715.925	138,552	-	"	"	133,663	4,889 ABOVE	3.7+	12,640	15,176	106,206
10	SARUNTA II	JUL	1.745	5.677.949	312.108	-	"	"	291.100	21,008 ABOVE	7.2+	27,552	33617	244,460
	VOY. 95													
11	SANKO MARU	AUG	1.514	4.449.915	244.629	-	"	"	225.185	19,444 ABOVE	8.6+	21,257	25,594	19,202
	VOY. 22													





SHIPMT		MON OF	NO. OF	VOLUME	FOB PRICE	FREIT	NAME & COUNTRY	NOTIFY	MEP PRICE	MEP COMPARISON	BREAK UP OF PROCEEDS (KINA)				
NO.	VESSEL	SHIPMT	LOGS	OF LOGS	TO PRODUCER (US\$)	RATE	OF PURCHASER	PARTY	(US\$)	AMOUNT ABOVE / BELOW	%	ROYALTY LEVY	EXP. DUTY STEVEDORE	PRODU- CER	
1987 1	SANKO MARU	JAN	1,686	6,356,944	444,986	-	KOWA LUMBER	KOWA LUMBER	342,830	102,156 ABOVE	29.8	29,745	37,921	394,741	
	VOY. 27						CORP. JAPAN.	CORPORATION							
2	SANYO MARU	FEB	1,620	6,504,606	442,313	-	"	"	375,179	67,134 ABOVE	17.9	31,362	40,287	341,538	
	VOY. 15														
3	BOW'S BROTHER	MAR	1,664	6,499,211	428,948	-	"	"	366,545	62,403 ABOVE	17.0	31.109	39,568	325,873	
	VOY. 124														
4	NIPPO MARU	APR	1,609	6,026,522	385,697	-	"	"	343,487	42,210 ABOVE	12.3	28,973	35,984	319,601	
	VOY. 73														
5	MERCHANT	MAY	832	3,033,639	194,153	-	"	"	126,485	67,668 ABOVE	53.5	14,227	13,867	144,932	
	VOY. 20														
6	SANKO MARU	MAY	1,778	6,332,490	392,614	-	"	"	352,238	40,376 ABOVE	11.5	31,069	36,974	281,974	
	VOY. 31														
7	SANKO MARU	JUN	897	2,936,298	199,668	-	"	"	171,554	28,114 ABOVE	16.4	14,399	20,325	143,567	
	VOY. 33														
8	MERCHANT	JUN	1,669	5,999,445	395,963	21.55	SAMSAN TIMBER	SAN SAN	337,922	58,041 ABOVE	17.2	28,474	40,532	282,290	
	VOY. 22						KOREA	TIMBER							
9	SARUNTA II	JUL	1,080	3,808,503	258,978	-	KOWA LUMBER	KOWA LUMBER	217,239	41,739 ABOVE	19.2	18,610	26,537	186,940	
	VOY. 11						CORP. JAPAN	CORP.		Approved Dispensation for logs rejected by Korean Buyer (S.P.O.)					
10	SANYO MARU	JUL	186	564,118	25,385	-	"	"	31,156	5,771 BELOW	18.5	29,338	47,980	348,470	
	VOY. 21		1472	5638,873	439,832	-			327,009	112,823 ABOVE	34.5				
11	BOW'S BROTHER	AUG	1,685	6,609,039	555,159	-	"	"	552,025	3,134 ABOVE	0.6	31,460	55,991	410,450	
	VOY. 131														

## SPECIMEN OF MARKETING TABLE

SHIPMT		MON. OF	NO. OF	VOLUME	FOB PRICE	FREIT	NAME & COUNTRY	NOTIFY	MEP PRICE	MEP COMPARISON	BREAK UP OF PROCEEDS (KINA)			
NO.	VESSEL	SHIPMT	LOGS	OF LOGS	(US\$)	RATE	OF PURCHASER	PARTY	(US\$)	AMOUNT ABOVE / BELOW	%	ROYALTY LEVY	EXP. DUTY STEVEDORE	PRODU- CER
1987 12	SANKO MARU	SEPT	1,515	6,330,444	550,749	-	KOWA LUMBER	KOWA LUMBER	536,816	13,933 ABOVE	2.6+	30,247	54,127	401,851
	VOY. 36						CORP. JAPAN.	CORPORATION						
13	BONA STAR	SEPT	1,524	5,853,125	526,781	-	"	"	496,333	30,448 ABOVE	6.1+	28,002	51,351	384,649
	VOY. 140													
14	SANYO MARU	OCT	1,649	6,534,938	601,214	-	"	"	570,571	30,643 ABOVE	5.4+	33,198	58,764	447,533
	VOY. 24													
15	MERCHANT	NOV	1,596	6,401,138	588,904	-	"	"	572,639	16,265 ABOVE	2.8+	39,286	58,915	436,534
	VOY. 25													
16	CAMPANILLA	NOV	835	3,308,650	314,322	-	"	"	293,484	20,838 ABOVE	7.1+	17,582	31,769	226,987
	VOY. 1													
17	NAUTILUS PRIMO	DEC	1,310	5,523,358	535,766	-	"	"	464,447	71,319 ABOVE	15.4+	28,030	52,217	392,418
	VOY. 1								6,477,959	3-3-73 761,734				
				94261.341	1,281,532 1,281,452									

SUBMISSIONS MADE BY OPEN BAY TIMBER  
PTY. LIMITED ("OBT") TO THE COMMISSION OF  
ENQUIRY INTO CERTAIN ASPECTS OF THE FORESTRY  
INDUSTRY FOLLOWING EVIDENCE GIVEN TO THE ENQUIRY  
BY MR. T. OHIRA, MANAGING DIRECTOR

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These submissions are made under the following headings:-

1. Introduction
2. History of OBT
3. Financial Arrangements
4. Marketing
5. Grading
6. General

1. Introduction

Counsel assisting the Commission (Mr. J. Reeve) has submitted to the Commission:

- A. That OBT was in substantial default under the 1973 Agreement;
- B. That OBT is in such a financial position as will prevent its complying with its obligations under the 1984 Agreement.
- C. That OBT has been engaged in "transfer pricing" by not attempting to sell its logs at "arms length" prices and by deliberately lowering the grade of the logs sold.

Mr. Reeve has produced no evidence to prove these allegations. They are inferences drawn by him from the documents put before the Commission.

OBT denies these accusations. It has not engaged in "transfer pricing" either by way of deliberately failing to secure the maximum price for its logs or by deliberately lowering the grade of those logs.

Just as Mr. Reeve is unable to produce evidence to prove his allegations, neither can OBT produce evidence to disprove them. The following points are made in an attempt to provide a more balanced understanding by the Commission of the circumstances under which OBT operates and markets its product:-

(a) There is no "world market" for PNG logs. There is, therefore no "world market price". The price that can be obtained for a PNG log is what a particular buyer is prepared to pay at a particular time for a load of mixed logs lying on a beach in PNG. That price will depend on a number of factors, including what his end buyer or buyers is prepared to pay at that time, what species are contained in the shipment and the quality of the logs. It is easy to sell high quality logs of certain species. What is more important to a producer based in a remote area of PNG with an average quality resource is:-

(i) regular off-take;

(ii) a willingness to take a variety of mixed species plus lower grade logs;

- (iii) a preparedness to take product even in very difficult market conditions when it becomes available; and
- (iv) an ability to identify satisfactory end purchasers with the infrastructure to deliver to such purchasers.

OBT has found that these factors have only been obtained by selling its product to its parent company.

(NOTE. We observe that a comment was made at the Commission hearing on 24 May 1986 because OBT's parent company, Kowa, was not an end user of the product it was not an appropriate purchaser for OBT's production, and that this should be sold to a company with processing facilities in Japan. With respect this reveals a basic misunderstanding of the nature of economic activity in modern Japan. The strength of the modern Japanese economy has been largely built on the success of the "shosha" or trading houses, who act as combined buying agencies for raw materials and supply the same to a whole range of industrial end-users, none of whom on their own has the demand or financial capacity to deal with their suppliers on beneficial terms.

These trading Companies provide the financing for the acquisition of raw materials then distributes those materials amongst end users, many of whom may be small family based businesses which developed Western economies would describe as "cottage" industries. Kowa, although in a much smaller way, plays the same role in the timber industry in Japan as do the "shosha" within the general economy. The products it buys from OBT will be distributed amongst a number of end users in different segments of the industry.)

OBT is quite prepared to concede that on occasions this method of marketing might have resulted in it not obtaining the absolute maximum price that it might have obtained (if it had the marketing experience and facilities available to it at Open Bay) for some of the higher grade logs of some of the species sold by it. But in the long term and on a shipment by shipment basis, OBT is satisfied that this method of marketing has achieved the best possible financial result for OBT and has not resulted in OBT transferring to its parent any "profits" that would otherwise have been made by it in PNG. OBT believes its experience with the State Purchase option (see infra) supports this view.

- (b) OBT is conscious that, having chosen this method of marketing its products, it would be the subject of accusations of "transfer pricing". The 1984 Agreement entered into with "The State contains detailed provisions covering non arms length transactions.

For each shipment not sold at arms length the company must give full details in advance to the State and must obtain the State's prior approval to that shipment.

In addition the State has available to it the mechanisms of the State Purchase Option ("SPO") and the Minimum Export Price ("MEP").

In the case of sales between January, 1985 and December, 1987:

- (i) OBT has obtained prior State approval to each shipment to its parent company;

5.

- (ii) OBT has achieved, and in 32 shipments (or 70%) has exceeded MEP; and
- (iii) OBT has offered SPO to the State on 10 separate occasions, only two of which have been accepted, with disappointing results for the company (see infra).

It is difficult to know what more the company can do to satisfy its obligations. It cannot do more than point to these factors and to this performance in an attempt to disprove the allegations made by Mr. Reeve against it.

It appears that it bears the onus of doing so.

## 2. History of OBT

OBT was incorporated in 1971. In June, 1973 it entered into a Development Agreement with the PNG Government in respect of the Open Bay timber forest area. In October, 1973 the company commenced logging pursuant to a 20 year timber permit.

In December, 1973 there occurred what has become known as "the First Oil Crises" when OPEC dramatically increased the world price of oil. A major economic downturn resulted and commodity prices, such as timber, fell dramatically.

Much of the obligations imposed by the 1973 Agreement became non-viable as a result. Notwithstanding this in 1976 some K5,000,000.00 was expended by the company in construction of a large scale saw mill. This was destroyed by fire in July, 1979.



During 1979 the company, at the Government's request, conducted feasibility studies on a chip mill and veneer mill. Neither were found to be feasible in the then economic conditions. The company made further submissions in 1981 in relation to the reconstruction of the saw mill and reforestation. These were rejected.

In July, 1981 the Government served on OBT a notice to show cause why the timber permit should not be cancelled. The company made detailed submissions but in April, 1983 the Government decided to cancel the permit.

Detailed and extensive negotiations then took place between the company and the State which resulted in:-

- (i) the company and its shareholders agreeing to a financial re-structuring (see infra) at a cost to the company's parent company of some K20 Million in capitalization of loans and foregone tax losses; and
- (ii) a new development agreement being entered into in December, 1984 for the area involving new obligations in reforestation and the construction of a chip mill ("the 1984 Agreement").

While the company concedes that it did not comply fully with its obligations under the 1973 obligation, there were external economic reasons partly excusing this but that in any event this issue was fully and frankly discussed between it and the Government over many months of negotiation and put to rest as an issue by the execution of the 1984 Agreement which terminated OBT's obligations under the 1973

Agreement. Unless the Commission intends to re-open all these questions (including the related questions of non performance by the State of many of its obligations under the 1973 Agreement) OBT sees little purpose in debating further these allegations.

OBT believes it would be more useful for the Commission to have its attention drawn to the company's performance under the 1984 Agreement, which may be summarized as follows:-

1985 - 1987

<u>Obligation</u>	<u>Performance</u>	<u>Cost of Investment</u>
Roads and Bridges		
New Britain Highway	12 km	K 774,896
Road & Bridge Maintenance		K1,178,218
Bridges	1 permanent	K 277,881
	7 wooden	K 186,327
Reforestation	1100 hectares	K 867,185
Other infrastructure		K 301,995
	TOTAL	K3,586,502

(A full schedule is Annexure "A" hereto)

This represents 100% performance of the company's obligations under the 1984 Agreement. 1988 performance is also on schedule, despite difficult weather conditions in the early part of the year.

8.

A summary of contributions made by OBT under the 1984 Agreement is Annexure "B". You will observe:

- . the company has paid K3,140,277.00 in royalties, export taxes and salary and wages deductions.
- . the company has spent K2,497,600.00 in salaries and wages.
- . the company has spent K3,586,502.00 in infrastructure development.
- . the number of employees of the Company as at 31st May 1988 is 636

3. Financial Arrangements

A. In agreeing to the terms of the 1984 Agreement:

- (a) the company agreed to waive accumulated tax losses of K10,897,342.00;
- (b) the company's parent company agreed to convert K11,000,000.00 of debt to non voting non interest bearing redeemable preference shares which can only be redeemed after December, 1996 and then with the consent of the Secretary for Finance; and
- (c) converted Y1,260,000,000.00 (approximately K9,000,000) to a non interest bearing subordinated loan, not repayable until 1997.

It will be seen that this was a considerable financial cost to the company's parent company.

- B. The Commission has been informed that the company's present financial position will not permit it to comply with its future obligations under the 1984 Agreement. It is also alleged that the company has never made a profit in PNG.

The company disputes this allegation. Operating profit for each year of the 1984 Agreement are:

1985	(K 350,000)
1986	K 508,000
1987	K1,235,000
1988	(four months to April, 30)
	K 474,000

In each of these years the company has made a loss after taking into account unrealized foreign exchange losses due to the recent and present strength of the Yen. It should be noted, of course, that if the Yen moves weaker against the Kina this situation will be alleviated and could, of course, be reversed. These exchange losses are beyond the company's control. For these reasons the company believes its operating profits listed above are a more accurate reflection of its trading performance.

As at 31st December, 1987 accumulated tax losses were K247,209.00. It is expected that these will be absorbed during 1988, and provided there is no marked deterioration in market conditions, and notwithstanding its substantial investment in infrastructure development, the company will in 1988 commence to pay PNG corporate tax and continue thereafter to do so.

If it is acknowledged that "the slate was wiped clean" in 1984, this must be regarded as a satisfactory financial performance, given the unfavourable marketing conditions in 1985 and early 1986.

- C. The company has been and will be unable to provide evidence of long term financial support for the implementation of the major infrastructure component of the 1984 Agreement, the construction of a chip mill, until final details of the proposal have been agreed, although an expression of support in principle has been obtained from Japan International Cooperation Agencies ("JICA") a Japanese Government lending agency. Mr. K. Watanabe, Director of JICA responsible for Forests and Fisheries, repeated this commitment in principle to the then Minister for Forests, Mr. L. Waka, in a meeting in Tokyo on 6th March, 1985.

The company submitted detailed proposals for an increased reforestation programme and the development of the chip mill (in joint venture with Sanyo Kokusaku Pulp Co. Limited a company with much experience in this field) to the PNG Government on 4th March, 1988. No response has yet been received.

As soon as the nature and scope of the development has been agreed upon, long term financing can then be arranged.

The company is satisfied that its other obligations under the 1984 Agreement including reforestation, can be funded by support from its parent company and out of available cash flow.

4. MarketingA. Arms Length Transactions

As has been stated, the company believes that the method of marketing adopted by it is in the long term in the best interests of the company, particularly to maintain a cash flow during difficult market conditions. It believes this view is supported by the fact that:-

- (a) in 1985 (a difficult marketing year) the company achieved MEP on all occasions. It is understood that a number of companies applied for and were granted during this period exemptions from MEP; and
- (b) out of 10 offers to the State of the SPO, eight were rejected, and the two that were accepted resulted in losses to the company as a result of late arrival of ships and/or excessive rejection of lower grade logs.

B. State Purchase Option

As indicated above, this has been exercised twice, both in rising markets, in November, 1986 and May, 1987.

The November, 1986 option resulted in a net price after F.I.C. commission of US\$63-05 per m/3 to the company. By way of illustration, the shipments prior to that resulted in a net price to the company of US\$64 (shipment No. 17/86) and US\$70 (shipment No. 18/86) - both more than 17% above MEP, - and the shipment after resulted in a net price of US\$70 or 29% above MEP.

Notwithstanding clearly favourable marketing conditions, this shipment under the SPO was characterized by late arrival of the vessel and excessive rejection of lower grade logs.

The results of the second SPO are summarized in the attached letter from the company to the Secretary of Forests dated 20th August, 1987 (Annexure "C").

5. Grading

As advised at the hearing, the company does not interfere in any way with actions or decisions of the qualified licensed log graders.

Again, it is extremely difficult to counter unsubstantiated allegations drawn from a selective collection of facts. However, the following comments are made:-

- (a) It is simply impossible and illogical to compare patterns between different exporters without taking into account the overall relative quality of the forest resource being utilized, weather conditions, marketing strategies and such like.
- (b) OBT's timber area could not be regarded as anything other than average in terms of all-round timber quality.
- (c) During July to November weather conditions normally require that ship loading be undertaken on the Open Bay side of the permit area. This side has been extensively logged and consequently produces lower grade logs

resulting from salvage logging of the secondary forests. During the rainy season in Open Bay (November to March) logging takes place on the Wide Bay side of the permit area. This area has not been so extensively logged and accordingly shipments from here have consistently resulted in higher average grades. However, the change of shipping location twice a year results in two "cleaning up" processes, where all available logs (including lower grades) are shipped. The grading patterns reflect this pattern of logging.

- (d) The company also adopts as a marketing strategy that it maximizes logs suitable for plywood manufacture in one shipment, and then ships all of the lower grade logs then available on the following ship, so far as possible together. The analysis clearly shows the operation of the strategy.

There is no evidence that the company deliberately interferes with the grading of logs, and the company strenuously denies this allegation. The above submissions clearly establish that the analysis of grading patterns made for the Commission is capable of explanations other than those surmised by Mr. Reeve.

6. Summary

The allegations that have been made against the company are extremely discouraging. The company admits



that certain aspects of the 1973 Agreement were unsatisfactory, but believes that having regard to world economic factors at that time, its performance was acceptable. The cost of that performance is clearly illustrated by the amounts written off or subordinated by the parent company. Indeed the performance of the Government in respect of its obligations under that Agreement was equally disappointing to the company. The company believed, as it was entitled to do, that all this was put behind it by the negotiations leading to and the execution of the 1984 Agreements. It has complied 100% with its obligations under the 1984 Agreement, and has achieved in its operating results, a satisfactory financial performance. It is making a significant contribution to the infrastructure development of the New Britain Provinces, and has the full support of the Provincial Government authorities. It has replanted 1100 hectares of PNG forest lands.

The continuation of unfounded and unsubstantiated allegations of the type made by Mr. Reeve to the Commission does not serve to encourage future investment, either by OBT or any other company, in the forest industry in Papua New Guinea.

The company would be pleased to have the Commission visit its operations at Open Bay to see for itself what the company is doing and what progress has been made. The company feels sure that this would place the Commission in a better position to arrive at an informed view.

PROGRESS REPORT  
COMPLETED WORKS & INFRASTRUCTURE

ANNEXURE "A"

<u>ITEMS</u>	<u>COMPLETED</u> <u>UNDER 1973</u> <u>AGREEMENT</u>	<u>COMPLETED UNDER NEW PROJECT AGREEMENT</u>				<u>SCHEDULE</u> <u>IN</u> <u>1988</u>
		<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>TOTAL</u>	
<u>(1) ROADS &amp; BRIDGES</u>						
New Britain Highway	105.0 km	4.0 km	4.0 km	4.0 km	12.0 km	4.0 km
Trans Island Highway	56.0 km	20.0 km UPGRADED	( REPAIR & MAINTENANCE )			REPAIR & MAINTENANCE
Logging Road	150.0 km	9.7 km	20.2 km	16.0 km	45.9 km	10.0 km
Bridges	28 WOODEN BRIDGES	1 WOODEN BRIDGE	6 WOODEN BRIDGES	1 CONCRETE BRIDGE	1 CONCRETE & 7 WOODEN BRIDGES	2 CONCRETE BRIDGES
<u>(2) REFORESTATION</u>						
Reforestation		100 ha	450 ha	550 ha	1,100 ha	900 ha
Nursery Bed		82 beds	24 beds	54 beds	160 beds	40 beds
Work House		1			1	
Germination House		1	1		2	
<u>(3) HOUSES</u>						
Company Mess	1		2		2	
Manager's House	20			1	1	
Married Quarter	18	7		3	10	5
Single Man's Quarter	13	3	3	1	7	4
Mobile Houses	20	7	2	5	14	10
Houses for Policeman	4					
Houses for Nurses	1					
<u>(4) OTHER INFRASTRUCTURES</u>						
Airstrip	1					
Airstrip Building	1					
Clinic	1			1	1	
Police Station	1					
Sports Ground	1					
Club House	1					
Movie Theater	1					
Trade Store	1		1		1	
Company Office Building	2			1	1	
Log Pond Office Building	2			1	1	
Mobil Sawmill	2					1
Planer Mill	1					
Warehouse for Sawn Timber	1					
Workshop Building	2	2		1	3	
Generator Building	2	2			2	
Warehouse	1					
Fuel Tank	1	1			1	
Loading Jetty		1			1	
Other Buildings	7					

CONTRIBUTIONS UNDER NEW PROJECT AGREEMENT

<u>ITEMS</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>TOTAL</u>
<u>(1) EXPORT SALES..... (A)</u>	K2,387,279	K4,773,836	K6,557,341	K13,718,456

(2) TAX PAYMENT

Royalty	262,024	432,138	460,400	1,154,562
Export Tax	272,521	511,100	684,159	1,467,780
FIC Levy	12,734	19,611	20,266	52,611
Group Tax	105,241	104,267	109,326	318,834
Import Duty	18,606	51,830	76,054	146,490

Total..... (B)	K671,126	K1,118,946	K1,350,205	K3,140,277
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(B) ÷ (A)	28.1%	23.4%	20.6%	22.9%
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(3) INVESTMENT - INFRASTRUCTURE

New Britain Highway	275,381	232,234	267,281	774,896
Road Maintenance	296,567	421,380	460,271	1,178,218
Reforestation	197,099	290,066	380,020	867,185
Bridge Construction	31,615	203,812	228,781	464,208
Building & Camp Maint.	92,777	100,859	108,359	301,995

Total..... (C)	K893,439	K1,248,351	K1,444,712	K3,586,502
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(B) ÷ (C)	K1,564,565	K2,367,297	K2,794,917	K6,726,779
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(B + C) ÷ (A)	65.5%	49.6%	42.6%	49.0%
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<u>(4) SALARIES &amp; WAGES</u>	K679,300	K841,800	K976,500	K2,497,600
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(5) NUMBER OF EMPLOYEES (As at end May, 1988)

Expatriate	15
National	517
National (Casual)	104
Total	636

# OPEN BAY TIMBER PTY. LTD.

Annexure "C"

P.O. Box 1020, Rabaul  
Papua New Guinea.

Rabaul Phone: 92-2233  
Telex: NF92809  
Facsimili 92-2275  
Open Bay Phone: 92-1622  
Telex: NF92908

20th August, 1987.

Mr. Andrew Tagamasau,  
A/Secretary for Forests,  
P.O. Box 5055,  
BOROKO. N.C.D.

Dear Sir,

We deeply regret that the shipment effected last June by the exercise of the state purchase option (for Korea per M.V. "MERCHANT") has brought about a great loss to our company. We report on the background and result of the shipment as follows:

1. On 1/5/87 with regard to the state purchase option we submitted to you our offer (See Annex 1) on the following conditions:
  - (1) Volume: About 6,000 m<sup>3</sup>
  - (2) FOB Price: US\$64/m<sup>3</sup>
  - (3) Date of Shipment: On or around 20/5/87
2. On 13/5/87 we received your advice (See Annex 2) of exercising the option on the following conditions:
  - (1) FOB Price: US\$67/m<sup>3</sup> (including a commission of US\$1 to a Korean sales agent), accordingly OBT's net FOB price is US\$66/m<sup>3</sup>.
  - (2) Buyer: Sam San Timber, Inchon, Korea.
  - (3) Sales Agent: Mr. Park, Seoul, Korea.
3. At this stage, we explained to you the bitter experience we had when we exported the logs to Korea last year through the state purchase option (deterioration of logs due to long delay in log ship's arrival and severe inspection by the buyer's inspector) and expressed our grave concern over the shipment to Korea, stating that it would be safer to sell logs to our regular buyers in Japan if the difference of FOB price is only US\$2.00/m<sup>3</sup>.
4. Nevertheless, you turned down our advice and instructed us to make a sale to Korean buyer as planned.
5. Although we decided to make a sale to the Korean buyer according to your instructions, we asked you to negotiate by all means with Korean buyer for (1) causing no delay in ship's arrangement and (2) making no too severe inspection, for the purposes of preventing recurrence of the last year's failure.
6. As a result of the negotiations for the above 2 points, you informed us that you had confirmed that (1) there would not be long delay in ship's arrival and (2) the buyer's inspector would make reasonable inspection.

7. However, the result was, as we worried, that the Korean's buyer's arranged ship arrived at Wide Bay on 16/6/87, 26 long days behind our original offer (20/5/87).
8. On the other hand, we built up 6,280 m<sup>3</sup> of log stock at the Wide Bay's log pond prior to the ETA (20/5/87) of the originally promised log ship. The buyer's inspector arrived at Wide Bay on 10/6/87 to start inspection and he carried out an unusually severe inspection insisting the logs were not fresh and finally rejected 986 m<sup>3</sup> (See Annex 3) of long (the reject rate of 15.7%). It was for the first time since the commencement of our operations that logs were rejected in such a great volume.
9. The main cause of the above reject was that because of about one month delay in arrangement of the buyer's ship some logs (mainly "White" species) had deteriorated while the Korean inspector set up a very high inspection criterion, accepting only such logs as were satisfactory to himself. We were not at all responsible for the deterioration of logs caused by the delay in ship's arrival. Since the buyer had to be responsible for it, we requested you to persuade him into lessening the reject. Unfortunately, you accepted the buyer's argument, which resulted in a loss to OBT alone.
10. We finally managed to sell to a Japanese buyer 564 m<sup>3</sup> of 986 m<sup>3</sup> of the above reject at FOB US\$45, but ended up in failing to market the remaining 422 m<sup>3</sup> due to their advanced deterioration. With regard to our produced logs, our Japanese regular buyers have been accepting delivery of the total volume at each shipment without requiring rejection. If we had sold the logs to a Japanese buyer last time as we advised, we would not have lost 986 m<sup>3</sup>. The details of the losses we suffered through the recent shipment to Korea are as follows:

(Total Income from Recent Sales to Korea)

5,269 m <sup>3</sup> x US\$66 = US\$347,754	
564 m <sup>3</sup> x US\$45 = US\$ 25,380	
422 m <sup>3</sup> x US\$0 = US\$ 0	
<hr/>	
Total 6,255 m <sup>3</sup>	US\$373,134 (@US\$59-65/m <sup>3</sup> ) .....(1)

(In Case of Total Volume Sold to Japan)

$$6,255 \text{ m}^3 \times \text{US\$64} = \text{US\$400,320} (@\text{US\$64-00/m}^3) \dots\dots\dots(2)$$

(Loss of One Month Interest by Delay in Shipment)

$$\text{US\$400,320} \times 9.50\% \text{ p.a.} \div 12 \text{ months} = \text{US\$3,169} (@\text{US\$0-51/m}^3) \dots\dots(3)$$

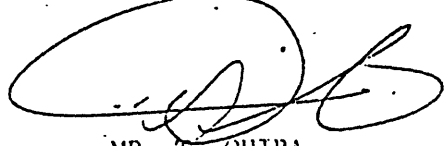
Total Amount of Loss ( (2) + (3) - (1) ) - US\$30,355 (-US\$4-85/m<sup>3</sup>)

11. In addition to the loss shown by the above figures, our company suffered the following losses:
  - (1) The delay in receipt of sales proceeds caused by the delayed shipment also aggravated the company's cash-flow.
  - (2) Assortment of 986 m<sup>3</sup> rejected logs and further assortment for exporting of 564 m<sup>3</sup> and burning of 422 m<sup>3</sup> pushed up the operating hours of log loaders and the working hours of employee at the log pond and thereby substantially increased the log pond operation cost.

12. As mentioned above, the recent sales to Korea resulted in the recurrence of the last year's failure and the loss exceeding that of last year. We cannot refrain from regretting the recent shipment as we had expressed in advance our great concern over it.
13. As can be seen from the above experience, as far as the log sale is concerned a judgement on whether it is profitable should not be formed from the viewpoint of superficial FOB prices alone. The buyers most valuable to the shippers are:
  - (1) those who never fail to arrange for a ship as agreed upon and to open L/C without delay, and
  - (2) who take delivery of the total volume of produced logs including those of poor quality to a small extent, and
  - (3) who purchase on a stable basis, not only when market is good but also when market is depressed.
14. Therefore, what we would like to ask you to do is to carefully consider the abovementioned factors in the event of your exercising the state purchase option and not to form your judgement from superficial FOB prices only. In our opinion, it would be more safer and profitable to make a sale to long-term stable buyers if the difference of FOB prices is US\$1 to 2.

Your kind understanding of the abovementioned will be highly appreciated.

Yours faithfully,  
OPEN BAY TIMBER PTY. LTD.



FOR. MR. T. OHIRA,  
Managing Director.

SCHEDULE 7

OPEN BAY TIMBER PTY LTD

1984 SHIPMENTS (Following Returns to Forests)

NO	VESSEL	VOL (m³)	INVOICE	FOB AU	MEP AU	SSP R	SP1 S	SP2 SS	SS1	SS2	SS3
1	BOWS BROTHER (JAN)	6451	Prices fixed in detail exactly at MEP	K47.17	K47.17	1091/ 5645.907 86.31%	306/ 755.482 11.55%	88/ 152.104 2.32%			
3	SELINA (MAR)	6122	Prices fixed in detail in detail at MEP except Taun which is at USD1.00 per m³ above	K48.10	K47.96	1096/ 5241.343 85.61%	338/ 791.698 12.93%	53/ 89.026 1.45%			
4	INTERHILL KING (MAR)	6224	Prices apparently fixed in detail at MEP rounded to nearest 10 toea	K54.39	K54.36	1167/ 5201.422 83.56%	379/ 876.66 14.08%	87/ 146.249 2.35%			
M E P   S Y S T E M   C H A N G E S   H E R E											
5	INTERHILL KING (MAY)	6557	Prices fixed in detail at exactly USD4.28 ABOVE MEP. It was below new MEP.	USD 63.77	USD 59.49 OLD 65.18 NEW	NIL  212.66 3.91%	335/ 1407.626 21.46%	444/ 1876.737 30.15%	822/ 2955.272 45.06%	158/ 317.527 4.84%	NIL
6	INTERHILL KING (JUNE)	6527	Prices fixed in detail at exactly MEP	62.08	62.08	NIL  804.712 12.33%	187/ 804.712 12.33%	259/ 1032.846 15.82%	1143/ 4319.794 66.18%	166/ 369.542 5.66%	NIL
7	YUKOH (JULY)	5436	Prices fixed in detail at exactly MEP	61.77	61.77	35/ 212.66 3.91%	124/ 510.318 9.38%	242/ 912.597 16.78%	945/ 3424.085 62.99%	196/ 376.002 6.91%	NIL
8	OVER WAVE (JULY)	3060	Prices fixed in detail at exactly MEP	63.26	63.26	NIL  558.099 18.23%	118/ 558.099 18.23%	183/ 739.143 24.15%	431/ 1596.446 52.16%	95/ 116.615 5.44%	NIL
9	INTERHILL KING (AUG)	3301	Prices fixed in detail at exactly MEP	60.49	60.49	NIL  357.35 10.82%	83/ 357.35 10.82%	157/ 520.186 15.75%	617/ 1892.972 57.33%	221/ 530.923 16.08%	NIL
12	YASHAT (OCT)	6696	Prices fixed in detail at exactly MEP	59.66	59.66	NIL  600.926 8.97%	144/ 600.926 8.97%	285/ 1011.055 15.10%	1278/ 3793.695 56.65%	880/ 1290.197 19.26%	NIL
13	TERESTA (DEC)	1789	Prices fixed in detail at exactly MEP	61.40	61.40	NIL  254.307 14.21%	40/ 254.307 14.21%	73/ 350.251 19.57%	230/ 1026.797 57.38%	68/ 158.10 8.83%	NIL
14	YASHAT (DEC)	6792	Prices fixed in detail at exactly MEP	59.75	59.75	NIL  88.908 131/ 537.991 9.23%	21/ 88.908 131/ 537.991 9.23%	67/ 257.898 106/ 424.75 10.05%	512/ 1650.103 678/ 2250.143 57.42%	391/ 413.075 637/ 1050.979 21.55%	NIL
15	GREAT MOUNT (DEC)	6988	Prices fixed in detail at exactly MEP	60.48	60.48	NIL  623.793 8.92%	144/ 623.793 8.92%	336/ 1336.59 19.12%	1261/ 3745.92 53.60%	835/ 1281.29 18.33%	NIL

SCHEDULE 8

OPEN BAY TIMBER PTY LTD

1985 SHIPMENTS (Following Returns to Forests)

NO	VESSEL	VOL.	FOB AU	MEP AU	SSP	SP1	SP2	SS1	SS2	SS3
	ACACIA (MAR)	6491	54.87	54.87	NIL	43/ 172.594 2.66%	70/ 281.084 4.33%	898/ 2914.417 44.90%	1184/ 2409.243 37.12%	499/ 713.17 10.99%
2	ACACIA (APR)	6500	52.88	52.88	NIL	73/ 382.518 5.88%	68/ 267.405 4.11%	661/ 3962.274 60.96%	675/ 1435.116 22.08%	289/ 452.599 6.96%
3	GREAT MOUNT (MAY)	1854	58.10	58.10	NIL	11/ 78.000 4.20%	28/ 135.218 7.29%	427/ 1318.025 71.07%	152/ 257.848 13.90%	42/ 65.301 3.52%
4	KYOWA OCEAN (MAY)	5571	47.86	47.86	NIL	21/ 141.464 2.54%	38/ 188.687 3.38%	496/ 2003.853 35.96%	658 1736.65 31.17%	657/ 1500.78 26.93%
5	SUN PETREL (JUNE)	5624	45.67	45.67	NIL	14/ 53.909 0.96%	54/ 261.46 4.65%	347/ 1565.515 27.83%	609/ 1694.665 30.13%	849/ 2048.526 36.42%
6	JINDALLE (AUG)	2644	41.31	41.31	NIL	37/ 171.124 6.47%	35/ 145.608 5.50%	219/ 1176.249 44.49%	349/ 952.758 36.04%	57/ 197.848 7.48%
7	SHINY RIVER (AUG)	6238	41.40	41.40	NIL	NIL	32/ 207.873 3.33%	326/ 1681.261 26.95%	439/ 1447.614 23.20%	1316/ 2901.482 46.51%
8	KOREAN EMERALD (AUG)	5702	POWELL HBR 39.49 REID BAY 41.15	39.49 41.15	NIL NIL	NIL NIL	NIL 20/ 108.179 1.65%	13/ 104.912 296/ 1542.363 25.18%	40/ 177.975 433/ 1556.304 26.51%	208/ 556.136 671/ 2494.899 46.64%
9	SMILAX (SEP)	5952	40.08	38.96	NIL	6/ 34.020 0.57%	7/ 26.396 0.44%	250/ 1159.683 19.48%	285/ 913.566 15.35%	2032/ 3818.24 64.15%
10	SMILAX (NOV)	6009	41.75	41.75	NIL	33/ 217.392 3.61%	52/ 250.055 4.16%	283/ 1174.037 19.53%	510/ 1377.526 22.92%	1401/ 2990.027 49.75%
11	SHINY RIVER (DEC)	5804	41.01	41.01	NIL	13/ 128.641 2.21%	46/ 243.683 4.20%	376/ 1692.511 29.16%	289/ 886.645 15.27%	1289/ 2852.643 49.14%



SCHEDULE 9

OPEN BAY TIMBER PTY LTD

1985 SHIPMENTS (Format following OBT questionnaire and marketing table)

	VESSEL	FOB AU	MEP AU	SSP	SP1	SP2	SS1	SS2	SS3
1	NIPPO MARU	44.94	44.94	NIL	1/ 5.256 0.08%	136/ 725.374 11.99%	743/ 2799.167 46.29%	580/ 1893.576 31.31%	263/ 622.793 10.30%
2	KYOWA OCEAN	46.40	46.40	NIL	137/ 590.528 10.58%	147/ 606.951 10.87%	739/ 2469.091 44.23%	443/ 1052.355 18.85%	494/ 863.04 15.46%
3	NIPPO MARU	50.87	50.87	NIL	468/ 1987.31 33.78%	285/ 876.54 14.75%	977/ 2293.048 38.98%	455/ 733.688 12.47%	NIL
4	TROPICAL RAINBOW	52.00	50.13	NIL	7/ 32.133 3.07%	15/ 74.756 7.15%	59/ 247.405 23.66%	103/ 349.112 33.39%	116/ 341.862 32.70%
5	NIPPO MARU	52.03	49.03	NIL	313/ 1846.158 30.24%	208/ 749.851 12.28%	545/ 1599.417 26.20%	506/ 1229.166 20.13%	376/ 679.618 11.13%
6	MERCHANT	54.01	50.61	NIL	283/ 1329.985 20.69%	156/ 528.714 8.22%	491/ 1780.591 27.70%	426/ 1651.888 25.70%	512/ 1135.311 17.66%
7	ASIAN ARGOSY	54.57	54.57	NIL	111/ 503.887 15.74%	50/ 149.102 4.65%	350/ 1650.521 51.56%	152/ 493.526 15.41%	176/ 403.847 12.61%
8	MERCHANT	55.34	55.34	NIL	356/ 1730.021 28.34%	164/ 532.249 8.72%	534/ 2200.558 36.05%	271/ 848.296 13.89%	374/ 792.32 12.98%
9	KYOWA OCEAN	51.01	49.21	NIL	58/ 374.522 13.78%	39/ 156.631 5.76%	135/ 533.537 19.64%	212/ 845.607 31.13%	277/ 805.628 29.66%
10	SARUNTA II	54.96	51.26	NIL	59/ 460.675 8.11%	84/ 354.634 6.24%	435/ 1959.011 34.50%	471/ 1397.287 24.60%	696/ 1506.342 26.53%
	SANKO MARU	POWELL HBR 54.97	48.97	NIL	7/ 51.437	28/ 115.222	176/ 809.644	268/ 742.869	625/ 1279.614
		REID BAY 54.97	53.97	NIL	8/ 60.064 2.50%	16/ 109.188 5.04%	94/ 516.485 29.80%	90/ 323.299 23.95%	201/ 442.091 38.69%

NO	VESSEL	FOB AU	MEP AU	SSP	SP1	SP2	SS1	SS2	SS3
12	KYOWA OCEAN	53.02	49.52	NIL	16/ 120.595 2.225%	25/ 155.950 2.87%	329/ 1691.107 31.20%	372/ 1211.202 22.35%	1088/ 2240.561 41.34%
13	MERCHANT	51.99	46.84	NIL	16/ 118.150 1.83%	18/ 111.939 1.73%	212/ 1041.761 16.14%	405/ 1326.453 20.55%	1978/ 3845.037 59.58%
14	SANKO MARU	50.99	47.49	NIL	NIL	NIL	77/ 396.622 16.53%	124/ 400.592 16.69%	823/ 1602.133 66.77%
15	MERCHANT	53.00	47.29	NIL	31/ 207.596 3.40%	36/ 196.038 3.21%	401/ 1737.798 28.48%	398/ 1094.231 17.93%	1455/ 2866.344 46.97%
16	OCEANIA STAR	55.50	50.68	NIL	33/ 178.513 5.41%	52/ 399.909 12.12%	183/ 690.689 20.93%	260/ 832.718 25.24%	506/ 1180.036 35.76%
17	MERCHANT	64.00	54.67	8/ 41.469 0.65%	85/ 438.503 6.92%	172/ 708.105 11.17%	288/ 1450.986 22.90%	463/ 1443.922 22.79%	958/ 2252.305 35.55%
18	SANKO MARU	70.00	57.00	3/ 23.289 0.97%	28/ 153.801 6.44%	51/ 315.187 13.20%	154/ 749.002 31.38%	134/ 499.083 20.90%	243/ 646.612 27.89%
19	JUPITER ISLAND	65.00	53.20	1/ 3.244 0.06%	56/ 320.892 5.74%	79/ 382.399 6.85%	421/ 1784.922 31.97%	365/ 1329.972 23.82%	710/ 1760.98 31.54%

B  
(1) ~ (2)  
(1)

SCHEDULE 10

REPORT ON BACKGROUND OF SALES TO FIC

1. On 14th November 1986 OBT submitted, in accordance with the Project Agreement, to FIC the proposal for the State Purchase Option under the following conditions:
  - (1) Volume: 6,000 M3  $\pm$  10%
  - (2) FOB Price: US\$58-00/M3
  - (3) Date of Shipment: On or about 12/12/86OBT applied on 17th November for amendment of FOB price to US\$62-00/M3 due to the rise in the Japanese log market.
2. In regard to the above, FIC notified us on 21st November 1986 of its exercise of the Option under the following conditions:
  - (1) Volume: 6,000 M3  $\pm$  10%
  - (2) FOB Price: US\$65-00/M3 (including 3% FIC Commission, NET US\$63-05/M3)
  - (3) Date of Shipment: 12-15/12/86
  - (4) Name of Ship: Maria Pillar
3. Although FOB US\$58-00 proposed by OBT on 14th November may be misunderstood to be a very low price, the log market had started advancing from the middle of October and had continuously been on the rise on 14th and 17th November. As can be seen from the attached Log Export Results, the market was also advancing on 21st November on which FIC gave us a notice of its exercise of the Option.

At this point of time, the longer a decision making was delayed, the higher the market went up. That simply meant the market was moving in favour of FIC. Also, it can be said that the price applied by OBT was reflecting the then market.
4. The problem was that despite FIC's notice of ETA 23/12/86 after changing the ship from Maria Pillar to Jupiter Island, the actual date of arrival was 27th December, 15 days behind schedule and further that despite the sales proceeds being received through L/C usually on the very day of completion of shipment or within two days at the latest after the completion, the receipt of the proceeds was delayed for 10 days. Accordingly, the total number of days for which OBT's receipt was delayed reached 25.

This late arrival of ship has caused deterioration of logs, resulting in a large quantity of logs being rejected.

5. Of 6,533 M3 of logs prepared by OBT, only 5,583 M3 were exported. Korean buyer's inspection was so severe that 259 pieces or 950 M3 were rejected. OBT's logs have never been rejected by Japanese buyers in such a great volume and it was the first experience to OBT.

If sold to a Japanese buyer...  $6,533 \text{ M3} \times \text{US\$62.00} = \text{US\$405,046.00}$

Result of sales to FIC.....  $5,583 \text{ M3} \times \text{US\$63.05} = \text{US\$352,008.15}$

Resultant Loss =  $\text{US\$53,037.85} \dots (1)$

By late arrival of ship and delay in receipt of proceeds,

$\text{US\$405,046} \times 0.095\% \times 75/365 \text{ days} = \text{US\$2,635.57} \dots (2)$

Namely, OBT suffered losses of  $(1) + (2) = \text{US\$55,673.42}$

In addition, 23 days' delay in receipt of proceeds has made OBT's cash flow very tight.

6. Because of the price difference of US\$1.05, OBT has finally suffered a great loss. If the difference is only US\$1.00 to 2.00, it is advisable to sell the logs to such safe, reliable buyers as proved by years of transaction. Since a spot buyer who buys on a one-ship-only basis tries to earn as much profit as possible through the one shipload transactions he will be obliged to make a severe inspection and accept good logs only, thereby causing a lot of reject. And for shippers it is very difficult to sell those reject to buyers.
7. OBT was luckily able to sell most of those reject to Japanese buyers through its own sales promotion<sup>effort</sup> and with help of sudden upturn of the log market. This was impossible under the normal market. Also, that OBT was able to sell the reject to Japanese buyers is a proof of how severe the Korean buyer's inspection was.
8. What we want FIC and the Department of Forests to consider is the careful exercise of the State Purchase Option in the future. It should be carried out taking into account not only the price difference but also the reliability of buyers. Also, it is desirable that they will not only introduce the buyers to us but assume responsibility for a result of transaction.

LOG EXPORT RESULTS

DATE	VESSEL NAME	EXPORT VOLUME (M <sup>3</sup> )	FOB (K)	AVE.FOB(K)	AVE.FOB (US\$)	DESTINATION	CONTRACT DATE
30/10/86	MERCHANT V-14	6,102.007 M <sup>3</sup>	K 316,651.58	K 51.89	\$ 53.00	JAPAN	EARLY OCT
23/11/86	OCEANIA STAR	3,299.150 M <sup>3</sup>	177,787.00	53.89	55.50	JAPAN	EARLY NOV
30/11/86	MERCHANT V-15	6,335.290 M <sup>3</sup>	393,725.54	62.15	64.00	JAPAN	MIDDLE NOV
23/12/86	SANKO MARU V-26	2,386.974 M <sup>3</sup>	160,348.12	67.18	70.00	JAPAN	LATER NOV
27/12/86	JUPITER ISLAND	5,582.684 M <sup>3</sup>	334,557.77	59.93	63.05	KOREA (FIC)	21/11/87
25/1/87	SANKO MARU V-27	6,356.944 M <sup>3</sup>	418,455.00	65.83	70.00	JAPAN	EARLY JAN
28/2/87	SANYO MARU V-15	6,504.606 M <sup>3</sup>	413,183.40	63.52	68.00	JAPAN	LATER JAN
21/3/87	BOW'S BROTHER V-124	6,499.211 M <sup>3</sup>	396,549.45	61.02	66.00	JAPAN	LATER FEB
22/4/87	NIPPO MARU V-73	6,026.522 M <sup>3</sup>	348,574.25	57.84	64.00	JAPAN	LATER MAR

2	SANYO MARU (FEB)	68.00	57.67	15/ 116.991 1.79%	152/ 757.554 11.64%	170/ 858.787 13.15%	384/ 1894.219 29.12%	341/ 1177.464 18.10%	558/ 1702.591 26.17%
3	BOWS BROTHER (MAR)	66.00	56.40	6/ 32.531 0.5%	124/ 624.213 9.60%	160/ 722.624 11.11%	377/ 1654.06 25.45%	385/ 1476.526 21.09%	612/ 1987.342 30.57%
4	NIPPO MARU (APR)	64.00	57.00	1/ 6.955 0.11%	53/ 260.083 4.31%	83/ 443.806 7.36%	359/ 1680.536 27.88%	399/ 1476.805 24.50%	714/ 2158.337 35.81%
5	MERCHANT (MAY)	64.00	41.70	3/ 17.698 0.58%	30/ 149.553 4.92%	51/ 276.093 9.10%	160/ 752.395 24.80%	201/ 679.707 22.40%	387/ 1158.193 38.17%
6	SANKO MARU (MAY)	62.00	55.62	1/ 5.334 0.08%	63/ 292.419 4.61%	99/ 451.454 7.12%	360/ 1498.327 23.66%	437/ 1568.525 24.76%	818/ 2525.431 39.88%
7	SANKO MARU (JUNE)	68.00	58.42	NIL	29/ 120.548 4.10%	42/ 182.574 6.21%	227/ 907.744 30.91%	266/ 877.622 29.88%	333/ 847.810 28.87%
8	MERCHANT (JUNE)	66.00	56.32	5/ 21.486 0.35%	84/ 360.013 6.00%	88/ 465.518 7.76%	469/ 1876.723 31.28%	527/ 1828.956 30.48%	496/ 1446.749 24.11%
9	SARUNTA II (JULY)	68.00	57.04	2/ 6.541 0.17%	52/ 240.351 6.31%	94/ 412.418 10.83%	274/ 1134.403 29.78%	301/ 1081.993 28.40%	351/ 932.797 24.49%
10	SANYO MARU (JULY)	78.00	57.99	11/ 76.70 1.36%	205/ 941.54 16.69%	241/ 1263.063 22.40%	438/ 1689.095 29.95%	305/ 969.745 17.19%	272/ 698.728 12.39%
1	BOWS BROTHER (AUG)	84.00	83.52	NIL	63/ 265.293 4.01%	51/ 255.797 3.87%	443/ 1764.798 26.70%	449/ 1541.186 23.31%	675/ 2781.783 42.09%
2	SANKO MARU (SEPT)	87.00	84.80	2/ 11.410 0.18%	56/ 297.673 4.70%	164/ 878.789 13.88%	552/ 2530.029 39.96%	556/ 2082.226 32.89%	185/ 530.517 8.37%
3	BONA STAR (SEPT)	90.00	84.80	6/ 42.05 0.71%	84/ 395.383 6.75%	177/ 835.752 14.27%	614/ 2549.87 43.56%	514/ 1673.6 28.59%	129/ 366.458 6.09%
14	SANYO MARU (OCT)	92.00	87.31	2/ 7.486 0.11%	106/ 479.109 7.33%	179/ 1014.582 15.52%	670/ 2721.425 41.64%	521/ 1831.641 28.02%	157/ 480.713 7.35%
15	MERCHANT (NOV)	92.00	89.46	3/ 13.163 0.20%	84/ 370.865 5.79%	136/ 645.331 10.08%	691/ 3012.61 47.06%	605/ 2084.834 32.57%	90/ 274.335 4.28%
5	CAMPA- NILLA (NOV)	95.00	88.70	1/ 8.322 0.25%	29/ 151.671 4.58%	95/ 466.914 14.11%	366/ 1510.227 45.64%	285/ 1002.585 30.30%	59/ 168.931 5.10%
7	NAUTILUS PRIMO (DEC)	97.00	84.08	4/ 25.362 0.45%	70/ 375.338 6.79%	124/ 671.076 12.15%	556/ 2543.662 46.05%	452/ 1586.036 28.71%	104/ 321.884 5.82%

Ex " 4 A

# OPEN BAY TIMBER PTY. LTD.

SCHEDULE 12

P.O. Box 1020, Rabaul  
Papua New Guinea

Rabaul Phone: 92-2233  
Telex: NIP2809  
Facsimile 92-2275  
Open Bay Phone: 92-1622  
Telex: NIP2908

20th August, 1987.

Mr. Andrew Tagamasau,  
A/Secretary for Forests,  
P.O. Box 5055,  
BOROKO. N.C.D.

Dear Sir,

We deeply regret that the shipment effected last June by the exercise of the state purchase option (for Korea per M.V. "MERCHANT") has brought about a great loss to our company. We report on the background and result of the shipment as follows:

1. On 1/5/87 with regard to the state purchase option we submitted to you our offer (See Annex 1) on the following conditions:
  - (1) Volume: About 6,000 m<sup>3</sup>
  - (2) FOB Price: US\$64/m<sup>3</sup>
  - (3) Date of Shipment: On or around 20/5/87
2. On 13/5/87 we received your advice (See Annex 2) of exercising the option on the following conditions:
  - (1) FOB Price: US\$67/m<sup>3</sup> (including a commission of US\$1 to a Korean sales agent), accordingly OBT's net FOB price is US\$66/m<sup>3</sup>.
  - (2) Buyer: Sam San Timber, Inchon, Korea.
  - (3) Sales Agent: Mr. Park, Seoul, Korea.
3. At this stage, we explained to you the bitter experience we had when we exported the logs to Korea last year through the state purchase option (deterioration of logs due to long delay in log ship's arrival and severe inspection by the buyer's inspector) and expressed our grave concern over the shipment to Korea, stating that it would be safer to sell logs to our regular buyers in Japan if the difference of FOB price is only US\$2.00/m<sup>3</sup>.
4. Nevertheless, you turned down our advice and instructed us to make a sale to Korean buyer as planned.
5. Although we decided to make a sale to the Korean buyer according to your instructions, we asked you to negotiate by all means with Korean buyer for (1) causing no delay in ship's arrangement and (2) making no too severe inspection, for the purposes of preventing recurrence of the last year's failure.
6. As a result of the negotiations for the above 2 points, you informed us that you had confirmed that (1) there would not be long delay in ship's arrival and (2) the buyer's inspector would make reasonable inspection.

7. However, the result was, as we worried, that the Korean's buyer's arranged ship arrived at Wide Bay on 16/6/87, 26 long days behind our original offer (20/5/87).
8. On the other hand, we built up 6,280 m<sup>3</sup> of log stock at the Wide Bay's log pond prior to the ETA (20/5/87) of the originally promised log ship. The buyer's inspector arrived at Wide Bay on 10/6/87 to start inspection and he carried out an unusually severe inspection insisting the logs were not fresh and finally rejected 986 m<sup>3</sup> (See Annex 3) of long (the reject rate of 15.7%). It was for the first time since the commencement of our operations that logs were rejected in such a great volume.
9. The main cause of the above reject was that because of about one month delay in arrangement of the buyer's ship some logs (mainly "White" species) had deteriorated while the Korean inspector set up a very high inspection criterion, accepting only such logs as were satisfactory to himself. We were not at all responsible for the deterioration of logs caused by the delay in ship's arrival. Since the buyer had to be responsible for it, we requested you to persuade him into lessening the reject. Unfortunately, you accepted the buyer's argument, which resulted in a loss to OBT alone.
10. We finally managed to sell to a Japanese buyer 564 m<sup>3</sup> of 986 m<sup>3</sup> of the above reject at FOB US\$45, but ended up in failing to market the remaining 422 m<sup>3</sup> due to their advanced deterioration. With regard to our produced logs, our Japanese regular buyers have been accepting delivery of the total volume at each shipment without requiring rejection. If we had sold the logs to a Japanese buyer last time as we advised, we would not have lost 986 m<sup>3</sup>. The details of the losses we suffered through the recent shipment to Korea are as follows:

(Total Income from Recent Sales to Korea)

5,269 m <sup>3</sup> x US\$66 = US\$347,754	
564 m <sup>3</sup> x US\$45 = US\$ 25,380	
422 m <sup>3</sup> x US\$0 = US\$ 0	
<hr/>	
Total 6,255 m <sup>3</sup>	US\$373,134 (@US\$59-65/m <sup>3</sup> ) .....(1)

(In Case of Total Volume Sold to Japan)

$$6,255 \text{ m}^3 \times \text{US\$64} = \text{US\$400,320} (@\text{US\$64-00/m}^3) \dots\dots\dots(2)$$

(Loss of One Month Interest by Delay in Shipment)

$$\text{US\$400,320} \times 9.50\% \text{ p.a.} \div 12 \text{ months} = \text{US\$3,169} (@\text{US\$0-51/m}^3) \dots\dots(3)$$

$$\text{Total Amount of Loss ( (2) + (3) - (1) )} = \text{US\$30,355} (-\text{US\$4-85/m}^3)$$

11. In addition to the loss shown by the above figures, our company suffered the following losses:

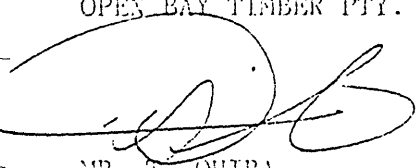
- (1) The delay in receipt of sales proceeds caused by the delayed shipment also aggravated the company's cash-flow.
- (2) Assortment of 986 m<sup>3</sup> rejected logs and further assortment for exporting of 564 m<sup>3</sup> and burning of 422 m<sup>3</sup> pushed up the operating hours of log loaders and the working hours of employee at the log pond and thereby substantially increased the log pond operation cost.



12. As mentioned above, the recent sales to Korea resulted in the recurrence of the last year's failure and the loss exceeding that of last year. We cannot refrain from regretting the recent shipment as we had expressed in advance our great concern over it.
13. As can be seen from the above experience, as far as the log sale is concerned a judgement on whether it is profitable should not be formed from the viewpoint of superficial FOB prices alone. The buyers most valuable to the shippers are:
- (1) those who never fail to arrange for a ship as agreed upon and to open L/C without delay, and
  - (2) who take delivery of the total volume of produced logs including those of poor quality to a small extent, and
  - (3) who purchase on a stable basis, not only when market is good but also when market is depressed.
14. Therefore, what we would like to ask you to do is to carefully consider the abovementioned factors in the event of your exercising the state purchase option and not to form your judgement from superficial FOB prices only. In our opinion, it would be more safer and profitable to make a sale to long-term stable buyers if the difference of FOB prices is US\$1 to 2.

Your kind understanding of the abovementioned will be highly appreciated.

Yours faithfully,  
OPEN BAY TIMBER PTY. LTD.



MR. T. OHIRA,  
Managing Director.

## SCHEDULE 13

STETTIN BAY LUMBER CO

## GRADING PATTERNS

NG TRADER - March, 1986

	SSP	SP1	SP2	SS1	SS2	SS3
1	-	6/17.949	54/200.882	288/811.75	172/288.868	10/11.272
2	-	4/16.495	17/67.539	96/315.852	26/53.698	-
3	-	-	3/12.693	13/36.949	13/19.524	-
4	2/12.075	11/44.240	39/142.322	160/529.714	4/8.530	-
5	-	4/14.778	31/123.348	143/495.013	51/97.471	1/1.422
1	-	-	45/294.22	82/275.787	47/90.979	4/4.647
2	-	1/2.997	54/247.947	133/430.302	91/178.565	7/11.716
3	-	-	30/121.625	61/222.634	14/28.031	3/13.223
1	-	5/22.902	23/109.474	61/231.361	4/9.200	-
2	-	1/3.527	1/3.469	8/25.710	-	-
RY	2/12.075 0.21%	32/122.888 2.17%	297/1323.519 23.42%	1045/3375.072 59.73%	422/774.866 13.71%	25/42.28 0.74%

ACIFIC NYOTAH - July, 1986

1	-	1/3.772	22/109.172	89/328.548	41/107.949	4/8.272
1	2/7.388	58/238.844	180/715.526	852/3139.144	133/302.164	4/15.294
RY	2/7.388 0.15%	59/242.616 4.87%	202/824.698 16.57%	941/3467.692 69.68%	174/410.113 8.24%	8/23.566 0.47%

## ALIX - August, 1986

	SSP	SP1	SP2	SS1	SS2	SS3
1	-	3/8.728	30/75.285	384/1057.489	482/888.969	33/52.110
2	-	-	8/27.926	145/458.152	97/188.629	6/8.662
4	-	15/92.008	72/279.766	259/1120.061	17/46.486	1/1.914
5	-	1/2.269	30/122.399	134/464.692	53/104.348	-
1	-	-	1/3.595	45/99.239	151/254.534	58/76.594
2	-	2/6.558	259/1252.852	735/2594.45	265/647.479	30/59.669
RY	NIL	21/ 109.563 1.09%	350/ 1761.823 17.62%	1702/ 5794.083 57.94%	1065/ 2130.463 21.30%	128/ 198.949 1.99%

## ENWA MARU - January, 1987

1	-	1/3.571	17/65.684	132/466.034	111/203.203	16/18.823
2/3	-	40/169.255	100/421.313	439/1670.127	62/139.248	-
1	-	3/12.194	156/636.036	271/754.556	476/837.274	23/26.331
1	-	12/62.284	22/98.764	92/396.131	6/17.417	-
RY	NIL	56/ 247.304 4.12%	295/ 1221.797 20.37%	934/ 3286.848 54.79%	657/ 1197.142 19.95%	39/ 45.154 0.75%

SUMMARY

	SSP	SP1	SP2	SS1	SS2	SS3
	0.21%	2.17%	23.42%	59.73%	13.71%	0.74%
	0.15%	4.87%	16.57%	69.68%	8.24%	0.47%
	NIL	1.09%	17.62%	57.94%	21.30%	1.99%
	NIL	4.12%	20.37%	54.79%	19.95%	0.75%
	0.1%	2-4%	17-20%	57-60%	13-19%	0.75%

**APPENDIX 7**

**BISMARCK INDUSTRIES PTY LTD**

## APPENDIX 7

### BISMARK INDUSTRIES PTY LIMITED

#### INTRODUCTION

Bismark Industries conducts its log export operations in the Senbam TRP area in East New Britain Province and on adjacent freehold lands owned by the Roman Catholic Archdiocese of Rabaul.

The operation was structured on the basis of log exports in exchange for roading obligations, forest plantation establishment and follow up agricultural land use. At the time of the Commission's hearings in June 1988 the resource in both the Senbam TRP area and the freehold lands was almost exhausted and there was a disgraceful record of failure to comply with infrastructural obligations.

#### CORPORATE BACKGROUND

There are a series of companies involved in the activities of Bismark Industries and the interrelation is important, particularly in the marketing area.

#### Bismark Industries

This company was originally incorporated in 1970 and changed its name in 1980 when its timber involvement began. At this time James Toshima Shindo (a naturalised citizen) was the owner of this company with his foreman Anthony Tokinga as his fellow director and

shareholder. In October 1980 Hiew Teck Seng became a director. According to Company Office returns the shareholding changed between 1981 and 1982 and the disclosed shareholders were :-

James Toshima Shindo	75,000 shares
Hiew Teck Seng (of Malaysia)	15,000 shares
Tokugawa (S'pore) Pte Ptd	<u>10,000</u> shares
	100,000 shares

Bismark Industries was thus 25% foreign owned and is the operating logging company and "markets" its own logs.

#### PutPut Logging

This company was incorporated in January 1984. Its directors and shareholders are :-

James Toshima Shindo	75,000 shares
Yii Tiing Hii	<u>25,000</u> shares
	100,000

This company is in fact subcontracted to carry out roading and logging for Bismark Industries.

#### Nippi Overseas Development

This company (Nippi Kaigai Kaihatsu) is a Japanese log trading company established by Mr. Hiew Teck Seng and former employees of an another (unrelated) company Nippi Boeki. This company is the trading buyer (and reseller) of export logs produced by Bismark Industries.

<sup>k</sup>  
Tokugawa (S'pore) Pte Ltd - Singapore  
Eternal Limited - Hong Kong  
Universe Limited - Hong Kong

These companies are buying "agents" for Bismark Industries logs. Tokugawa has not been involved in recent years. It seems quite clear Universe Limited (and its alternative Eternal Limited) are related to Bismark Industries because royalty tax imposed under Section 47(1)(f) of the Income Tax Act is deducted on "commission" payments made to Universe Limited at rates applicable to related companies.

#### Interrelations

Bismark Industries is the operating company but in fact Putput Logging carries out the logging and roading works as a contractor. Bismark Industries sells its logs to or through (Tokugawa previously and) Eternal and Universe to Nippi Overseas Development which then arranges resale to the "true" buyers.

#### MARKET POSITION OF NIPPI OVERSEAS DEVELOPMENT

In his (1983) report Ashenden describes Nippi Kaigai Kaihatsu (Nippi Overseas Development Co) as follows :-

- "(i) Small trading company established by Mr Hiew Teck Seng (owner of Samling Timber in Mire, Sarawak) along with former employees of Nippi Boeki. There is no connection between Nippi Boeki and Nippi Kaigai Kaihatsu.

- (ii) Imports Sarawak logs (27,000m3 in 1982) from Samling and PNG logs from Bismark, with which Mr Seng is involved.

(Seng lent money to Mr Jimmy Shindo and now effectively is a sleeping partner in Bismark. Nippi Kaigai Kaihatsu has become the purchasing channel for all Bismark exports for north eastern Asia, although Bismark could sell to other parties after prior clearance with Nippi).

- (iii) Nippi sell Bismark logs mainly to wholesalers in part-ship lots or sometimes full-ship lots.

(Ashenden Report Vol 2 Pages 92-93)

In 1982 Nippi Overseas Development imported logs only from the South Seas log market with total imports 57,302m3 of which 30,539 came from Bismark Industries. It ranked 78 in total log imports to Japan and 52 in South Sea Log imports to Japan in 1982 and was thus a very small scale trader. Bismark Industries sales to it represented 5.3% of PNG's total log exports in 1982.

(Ashenden Report Vol 2 p.87).

#### BASIS OF OPERATIONS

Application for grant of a Timber Permit over the Senbam TRP area of 6030 hectares was made by the Roman Catholic Archdiocese of Rabaul in September 1980.



The Minister for Forests, Joseph Aoae, issued a letter of intent dated 5 November 1980 which was accepted by the Archdiocese in December 1980 (Schedule 1). This letter authorised commencement of operations. It was not until 9 July 1982 that the Timber Permit was finalised and submitted for the signature of the Minister for Forests (Schedule 2) and it was not until 30 July 1982 that the Permit (for a period of 10 years from 1 January 1981) was in fact issued to the Archdiocese.

This is yet another example of an operation commenced without any proper legal basis but in reliance on a Ministerial letter of intent.

In October 1980, before the letter of intent was even issued the Archdiocese entered into a series of contracts with Bismark Industries as follows :

#### Contract Agreement - Senbam TRP

The Archdiocese appointed Bismark Industries its exclusive logging and marketing contractor over Senbam TRP area. The Archdiocese was to receive 1% of the sale price of logs and sawn timber and Bismark Industries 99% of such price. Bismark Industries undertook all obligations under the Permit, indemnified the Archdiocese against claims and posted a security bond of K50,000.

#### The Freehold Agreement

The Archdiocese had been carrying on logging, copra and cocoa plantation and sawmilling activities on this land (which had an area 16,890 hectares). The area was leased to Bismark Industries for 50 years at a rent equal to :-

- (a) K6,000 per month; plus
- (b) 25% of gross sale proceeds of copra and cocoa from existing plantations; plus
- (c) 5% of gross sale proceeds of sales of logs and sawn timber; plus
- (d) 1% of the gross sale proceeds of sales of agricultural and forest produce from new agricultural or forest plantations within the freehold area.

Bismark Industries was given a free hand to harvest timber and develop plantations within the freehold area with prescribed minimum production levels for cocoa and copra. An option for a lease for a further period of 20 years was also granted.

#### Plant and Equipment Agreement.

The other two agreements were conditional upon this agreement. Under it Bismark purchased all the existing logging, roadmaking, sawmilling, water and workshop equipment and agricultural equipment of the Archdiocese together with bulk fuel tanks and a VHF radio/telephone unit for a price of K600,000.

Simply put Bismark Industries bought the right to log the Senbam TRP, the right to log and plant the freehold land and the existing equipment of the Archdiocese for a sum of K600,000 plus the aggregate rental (including profit shares) on the freehold and 1% of log sales proceeds from the TRP area.

#### Subcontract Arrangements

When Putput Logging was incorporated in 1984 it entered arrangements with Bismark Industries. All Bismark Industries logging equipment (and spare parts) was sold to Putput Logging for K900,000-00 and Putput Logging contracted to carry out all logging operations to the point of placing export logs alongside the log ship. The contract rate payable by Bismark Industries to Putput Logging was originally K25.45 per m3

A supplementary agreement was entered at the same time for the hire by Putput Logging of other equipment from Bismark Industries at a rate of K25,000 per month.

In June 1986 the contract rate was increased to USD30.00 per m3; then to USD34.00 per m3 in March 1987 and finally to K34.00 per m3 in July 1987.

#### OPERATING OBLIGATIONS

In the Timber Permit for Senbam TRP the conditions laid down in the letter of intent (Schedule 1) were generally followed and envisaged :-

- (a) Maximum log harvest of 40,000m3 per year all of which was authorised for log export.

- (b) The total 18km of road was not, as the letter of intent stated, to be of logging road standard but designed for heavy traffic at 40km design speed with 8.5m formation width, gravel pavement and permanent culverts. The schedule by which the road was programmed to be built was as in the letter.
- (c) The plantation establishment obligation was essentially as specified in the letter of intent with the "first" year specified as 1981 and with "all efforts will be made ..." amended to read". The Permit holder shall use it s best effort ...".

#### OPERATING PERFORMANCE

This company was forwarded the Commission's questionnaire. Its reply on operating conditions, attachment to that reply and covering letter are Schedule 3. About the time this questionnaire was sent the Provincial Forest Officer wrote to Bismark Industries noting "your project has not been subject to regular inspections by Forestry Officials" and seeking advice on performance. It will be noted that at the time (February 1988) - over seven years after the project began the PFO said "from now on I shall monitor the performance of the project" as to infrastructural requirements. (Schedule 4).

It was established in evidence before the Commission in June 1988 that there was only about 10,000 m3 of logs remaining to be harvested from the Senbam TRP area and that the resource on the freehold land had virtually cut out.

Thus shortly after the time that the PFO wrote his letter, which had not been replied to at the time of the Commissions hearings, the resource would have cut out and log sale proceeds would not be available to "finance" any incomplete infrastructural obligations.

The whole operation would have commenced, operated and virtually cut out without any "regular inspections". This situation is an absolute disgrace and what has occurred in the result illustrates the consequences. The Commission sought to have Mr. Shindo appear but was advised that he was in Japan on his usual annual extended leave. In his absence the Logging Supervisor of Bismark Industries Mr. Kazuyoshi Nishiwaki appeared before the Commission to give evidence. Mr Shindo has never made any attempt to appear before the Commission despite the serious nature of the position as disclosed by Mr. Nishiwaki's evidence and other evidence presented in public hearing to the Commission.

#### Roading Obligations

- (i) The road from Putput Boundary to Senbam Village (8km) was to be completed by 30 June, 1981.

It is said by Bismark Industries to be completed and completed to the required standard.

- (ii) The road from Senbam Village to Marambu River (5km) was to be completed by 31 December 1981.

At the time of the Commission's hearings this road was still not completed to the prescribed standard (over 61\2 years behind schedule). Work was said

to be continuing and Mr. Nishiwaki explained the difficulties being encountered in road construction on the steep slopes the vicinity of the river.

- (iii) The road from Marambu River to Marambu Village (5km) was to be completed by 30 June 1982.

Construction of this road had only recently commenced at the time of the Commission's hearing using one tractor.

Contrary to the questionnaire answer the road had not been "surveyed". There was no road plan and no planned and surveyed road alignment. Mr. Nishiwaki said the route of the road was worked out by the machine operator as he went along. Construction of the road is over 6 years behind schedule.

The standard of road required is not high and is really not such better than the standard required for a more permanent type of regularly used logging road. In the performance of its roading obligations and in the absence of supervision it seems quite clear Bismark Industries has constructed the required roads if, as and when it has needed them for the purpose of extracting logs.

#### Agricultural and Reafforestation Obligations

The plan, with bi annual reports of progress, required adherence to a schedule of events as follows :-

- (i) identifying not less than 2,000 m3 of potential agriculture land and requesting DPI to undertake a soil survey by 31/12/81.
- (ii) submitting survey and subdivision plans for approval by 31/12/82.
- (iii) completing ground survey of block subdivisions and construction of access and internal roads by 31/12/83.
- (iv) completing allocation of all smallholder blocks by 30/6/84.
- (v) assisting blockholders to establish not less than 300 hectares of cash crop by establishing plant nurseries and distributing seedlings.
- (vi) establishing 1,000 ha of forest plantations at the rate of 200 ha. per year from 1/1/86.

These obligations were not regarded seriously by Bismark Industries.

Nothing was done at all about the smallholder blocks and plantation establishment obligation until February 1988 after, and as a result of, the Assistant Secretary's letter (Schedule 4). Bismark Industries had however managed to establish about 800 ha. of plantation and plant some 40,000 seedlings on its own cocoa plantations on the freehold land leased from the Archdiocese.

In February 1988 Bismark Industries commissioned Island Plantations Management Service Pty Ltd., to carry out a survey of land and soil types in Senbam TRP area. Four eight kilometre cross traverses of soil test auger surveying was carried out. A 300 hectare cocoa nucleus estate was proposed by IPMS which estimated such estate would have a value of over K1 million at full production. The reafforestation estate obligation was dismissed implicitly on the basis "much of the soil is too thin to support a ... reafforestation project".

The only written report obtained was less than one page in length. Based on this "scientific evidence" Bismark Industries, with the Archdiocese, sought to be relieved from reforestation obligations by letter to the Secretary of Forests dated 29 April 1988 - some two years after reforestation planting was to commence.

The proposed agricultural areas were "identified" some six and a half years behind schedule.

Copies of the letter and report form part of Schedule 3.

The further evidence was that some 30 blocks aggregating 300 ha. had been cement pegged; that soil test results as to suitability for cocoa were awaited from New Zealand and that nothing firm would be undertaken without consultation with Mr. Shindo.



Mr. Coady, Counsel for Bismark Industries, argued to the Commission that a reafforestation obligation of 1000 ha. would cost around K3.5 million and that the Senbam TRP resource could not justify such a commitment. According to DOF estimates the cost would be in the order of K2.2 million.

Mr. Nishiwaki said in evidence, to support this argument, that the total return from the project was about K6 million with operating cost of about K5 million and that a reafforestation project costing K3.5 million was just not economically feasible.

Mr. Coady also argued and Mr Nishiwaki said in evidence, that the letter of intent and Timber Permit, properly interpreted, did not impose a duty to carry out these obligations but only to make "all efforts" and "to use ... best endeavours" - as Mr Nishiwaki put it "it was not a compulsory condition".

It is quite clear to me, reading the letter of intent and the Timber permit as a whole, that what was expected of the Archdiocese and by the Archdiocese from Bismark Industries in exchange for log exports was roads, 300 hectares of established cash crop blocks (with 1700 ha of land identified as potential agriculture land to provide for growth and expansion) and 1000 hectares of forest plantation.

What has occurred in fact is that almost all the logs have been exported, some roads have been constructed to the extent required to extract those logs for export and none of the other obligations have been taken seriously. But for this Commission's attention and the

PFO's letter in February 1988 the resource would have been cut out with no attention given to any obligations not required as part of the log export operation.

Generally the situation is an absolute disgrace. It is a classic illustration of promises being made to procure a resource and the resource then being cut out with the promises unfulfilled. One reason this has been permitted to occur is an almost complete lack of checking and monitoring by National and Provincial forestry staff.

The bush operations of Bismark Industries were not inspected and nothing on DOF files suggested they had ever been inspected except for a report on grading abuses (Schedule 5).

## MARKETING

### AMBIT OF ENQUIRY

The starting point for this Company was again the Commission's marketing questionnaire. Bismark Industries answered that questionnaire (Schedule 6) and supplied marketing tables for 1986 and 1987. I considered further investigation was required and directed that marketing tables for 1984 and 1985 be prepared by Commission staff together with tables of grading patterns for the years 1984 to 1987.

The public hearing was then convened and Bismark Industries was advised of the areas to be examined (Schedule 7). After the hearing further marketing and grading tables were prepared for the years 1982 and 1983 from DOF Records.

All those tables are Scheduled as follows :-

- |            |  |                 |
|------------|--|-----------------|
| ( 1 ) 1982 | Marketing Comparision<br>with MEP prices.            | - Schedule 8A   |
| (2) 1982   | Unit prices and gradings                             | - Schedule 8B   |
| (3) 1983   | Marketing Comparision<br>with MEP prices.            | - Schedule 9A   |
| (4) 1983   | Unit prices and gradings                             | - Schedule 9B   |
| (5) 1984   | Marketing Comparision<br>with MEP prices             | - Schedule 10A  |
| (6) 1984   | Unit prices and gradings                             | - Schedule 10B  |
| (7) 1985   | Marketing Comparision<br>with MEP prices             | - Schedule 11A  |
| (8) 1985   | Unit prices and gradings                             | - Schedule 11B  |
| (9) 1986   | Marketing Comparison<br>with MEP prices              | - Schedule 12A  |
| (10) 1986  | Unit prices and gradings                             | - Schedule 12B  |
| (11) 1986  | Marketing Table<br>supplied by Bismark<br>Industries | - Schedule 12C  |
| (12) 1987  | Marketing Comparison<br>with MEP prices              | - Schedule 13A  |
| (13) 1987  | Unit prices and gradings                             | - Schedule 13B. |

(14) 1987                      Marketing Table                      - Schedule 13C  
                                 supplied by Bismark  
                                 Industries

Samples of applications for export licences from May 1984 to October 1986 were extracted from DOF files (Schedule 14).

As I considered that matters disclosed in public hearings should be advised to the Archdiocese of Rabaul I also directed Counsel Assisting to write to the Archdiocese and ask it to make any response it wished (Schedule) 15). No response has been received.

Marketing Practice.

Mr. Nishiwaki, who was the only witness called, only began working with Bismark Industries in August 1986 after previously having worked with (the unrelated) Nippi Boeki from 1965 to 1986. He came here essentially to work on improving the quality and presentation of logs produced by Bismark Industries. Mr. Nishiwaki said Mr. Shindo usually attended to marketing but that he had become involved during 1987 and was in charge while Mr. Shindo was on leave. He knew of the existence of Universe Limited and knew it was paid 5% commission from which 30% was deducted and sent to the Taxation Office. He said he had learned this from Mr. Shindo and from files in the office. He said Universe supplied marketing information in exchange for this commission. Mr. Nishiwaki conceded in cross-examination that he had not seen market

information from Universe Limited and that payments to it ceased in December 1987 because Bismark Industries had cashflow and liquidity problems. No complaint was received about non payment.

When he had been involved in log sales while Mr Shindo was absent Mr. Nishiwaki said he only conversed with Nippi Overseas Development and had never spoken to anyone in Universe Limited. He knew nothing of that company.

Mr. Nishiwaki explained the system of marketing as follows :

- (a) Bismark Industries checks its log stocks and bush stocks to know when it will have a shipment available.
- (b) A telex is then sent to Nippi Overseas Development detailing volume, species mix and indicator price and the proposed shipment date.
- (c) Nippi Overseas Development responds by telex or telephone describing the log market and counter offers a price.
- (d) When price is negotiated it is confirmed by telex and then Nippi Overseas Development sends a contract.
- (e) The letter of credit is established and ship arranged by Nippi Overseas Development.

Shipments are only offered to Nippi Overseas Development because as a small producer Bismark Industries cannot withstand shipment delays. Nippi Overseas Development buys all logs without rejects and sends a ship in all market conditions.

It was quite clear that the way Bismark Industries got price information - even in 1987 was to consult the Japan Lumber Journal and to ask Open Bay Timbers about prices. The information was thus minimal. It was also clear that the price to be paid was dictated by Nippi Overseas Development and that Bismark Industries was in reality obliged to accept the highest price which it would offer. Mr. Nishiwaki frankly conceded he was only aware of what had occurred over grading logs and marketing since August, 1986. He had not spoken to anybody about what had occurred before that time and he had difficulty contacting Mr. Shindo. Mr. Nishiwaki is not a qualified grader but knew about log presentation and quality.

Overall there was really very little that Mr. Nishiwaki could explain despite his honest and best efforts to do so. The man who could do the explaining, Mr. Shindo, has not attempted to do so.

I am therefore left with the compelling evidence of the marketing figures produced to the Commission without any adequate explanations of that clear evidence. I deal with this year by year by reference to prices, invoices and grading.

1982 (Schedules 8A and 8B)

Bismark Industries made seven shipments of an aggregate 32,716 m3.

### Prices

The first four shipments were at exact MEP prices. The other three were at prices calculated by reference to MEP prices as follows :-

(a) Kayo Maru

Taun log prices were 2% above MEP, Terminalia 2% above MEP and Erima and Amberoi were 5% above MEP.

(b) Bona Star

(c) Sun Bird

Group 1, Group 2 and Terminalia log prices were 2% above MEP and Erima and Amberoi were 5% above MEP.

Prices were thus clearly fixed at or by reference to MEP prices and over the whole year were on an average 1.125% above MEP prices.

### Invoices

All shipments were to Japan and all invoices were to Nippi Overseas Development

### Grading

Grading, under the previous system, formed a very regular pattern across all shipments and on average over the year 73.8% of logs were Regular, 22.1% were Small and 4% were Supersmall.

1983 (Schedules 9A and 9B).

Bismark Industries made seven shipments of an aggregate 31,966 m3.

### Prices

Two shipments were at exact MEP prices and one was exactly 3% above MEP prices. The other four were at below MEP prices but calculated by reference to MEP prices as follows :-

(a) Catherine Maru

Pencil Cedar, Group 3 and Group 4 logs were at exact MEP prices. Walnut logs were at MEP prices less K15 per m3 for Regular, less K5 per m3 for Small and less K10 per m3 for Supersmall. Group 1 logs other than Walnut and Pencil Cedar were at MEP prices less K7 per m3 for Regular, less K5 per m3 for Small and less K10 per m3 for Supersmall.

(b) Naomi

Pencil Cedar logs were 5% below MEP prices, Walnut 15% below MEP, Group 2, 3 and 4 Regular and Small logs 10% below MEP and Supersmall logs in the same Group 12% below MEP prices.

(c) Wah Sang

(d) Kaisei Maru

Group 1 and Group 2 log prices were at exact MEP prices and Group 3 at 7% below MEP prices.



Prices were thus clearly fixed at or by reference to MEP prices and over the whole year were on average 2.04% below MEP prices.

### Invoices

All shipments were to Japan and all invoices were to Nippi Overseas Development.

### Grading

Grading, under the previous system, formed a very regular pattern across all shipments and on average over the year 74.5% of logs were Regular, 20.9% were Small and 4.6% were Supersmall.

1984 (Schedules 10A and 10B).

Bismark Industries made eleven shipments of an aggregate 54,143m3

### Prices

The first, third and last shipments were at exact MEP prices. The second shipment was at exact MEP prices save for Pencil Cedar logs which were at 10% above MEP prices and Group 2 and Terminalia logs which were 5% above MEP prices. Six shipments were at prices above MEP after the MEP system changed from kina to US dollars.

Prices were fixed at or by reference to MEP prices until the MEP system changed when they become

disassociated from MEP prices. On the last two shipments the previous pattern of prices at or calculated by reference to MEP prices resumed. Over the whole year prices were on average 7.87% above MEP prices.

### Invoices

All shipments were to Japan and all invoices were to Nippi Overseas Development save the second last shipment where the invoice was to Eternal Limited.

### Grading

When the MEP system changed the grading system changed and there was a dramatic increase in Bismark Industries prices but with reasonably consistent grading patterns. On the last two shipments, which marked the return to the old pattern of prices fixed by reference to MEP the unit price dropped and the grading pattern altered markedly with much lower percentages of peeler class logs (particularly high peeler grades) and much higher percentages of saw class logs (with marked increases lower grades).

Over the year 29.22% of logs were peeler grades and 70.78% were sawlog grades with only 9.18% graded SS2 or lower.

1985 (Schedules 11A and 11B).

In this poor market year Bismark Industries made eleven shipments of an aggregate 54,303m3

### Prices

Five shipments were at exact MEP prices. On a further three shipments the prices were at exact MEP rounded to the nearest ten cents per m3. Two shipments in August and September were at unit prices of USD45.00 per m3 which were slightly above MEP levels. All prices were thus clearly fixed at or by reference to MEP prices to this stage. The last shipment was at prices exactly 11% above MEP levels and the reason for this is clear from Schedule 5. The shipment was meant to be at exact MEP prices but DOF inspected the shipment and found gross misgrading. Rather than unloading the ship and regrading Bismark Industries agreed to raise the price by 11% which was found to be the level of down grading.

Over the whole year prices were on average 0.95% above MEP and this figure was largely as a result of the last shipment.

### Invoices

All shipments were to Japan and all invoices were to Nippi Overseas Development.

### Grading

The pattern of undergrading is clear this year and shows why DOF made its inspection to check undergrading in November. It reached gross proportions in July and August when on two shipments only 3% of logs were graded peeler class, 7.5% as SS1, 43% as SS2 and 45% in the lowest sawlog grade SS3. The Schedule 11B speaks for itself.

Over the whole year only 10.6% of logs were graded in peeler classes and almost 22% into the low sawlog grades.

1986 (Schedules 12A, 12B and 12C).

In 1986 Bismark Industries made twelve shipments of an aggregate 57,319m3.

### Prices

The first eight shipments were markedly different from previous years with prices at even dollar figures, from USD50 to USD53 per m3 on the first five shipments and at exactly USD55.00 per m3 on the next three shipments. The last four shipments were at exact MEP prices. The inspection by DOF had an impact on prices but prices were still quite closely related to MEP price levels. Over the year prices were on average only 4% above MEP levels.

### Invoices

All shipments were to Japan and all invoices were to Nippi Overseas Development.

### Grading

The pattern of grading after the DOF inspection shows loading into the SSI grade out of the lower sawlog grades on the first three shipments where there was cutting in Semban TRP. Cutting then shifted entirely to the freehold land and again the grading spread moved more markedly out of the peeler grades into the sawlog and particularly lower sawlog grades.

The shift of operations was said to have caused this change but I doubt whether this fully explains the change. The significant grading change did not occur after the change of operating area but after the change in MEP prices in April 1986 (noted in Schedule 12B). It will be seen that after this change and up to shipment 9 the percentage of SS1 logs decreases markedly and the percentage of SS2 and SS3 logs increases dramatically to produce declining MEP prices which fell from USD52.81 to USD52.36 to USD51.49 (up to USD51.68) to USD50.88. This keeps the MEP price levels below the FOB price pattern which was at USD53.00 before the MEP change then rose to USD55.00 and was then brought back in line with MEP on shipment 9. When the prices were tied back to MEP on and from shipment 9 - in what was said to be a strong and rising market - the percentage of peeler grade logs and SS1 grade logs rises consistently on each shipment and the percentage of low grade sawlogs falls accordingly. These patterns indicate grading manipulations were continuing. The past history shows abuses and Mr. Nishiwaki says he was sent here in August 1986 to improve log quality. Whilst I have no doubt Mr. Nishiwaki helped present logs better nothing he could do would alter the inherent quality of a log which is the main criteria of the Sealpa Rules. Over the whole year again only 9.14% of logs were graded peeler class but only 27.23% was graded as SS2 and only 16.92% as SS3.

1987 (Schedules 13A, 13B and 13C).

In 1987 Bismark Industries made eleven shipments of 47,348m3.

### Prices

The first shipment in 1987 was sold by FIC at a vastly higher price than previous prices. The previous price pattern changed quite markedly increasing significantly throughout the year and with much greater and more variant prices through the year.

### Invoices

One sale was made through FIC and one (which broke the USD90.00 per m3 barrier) to Nippi Boeki. All other sales were made to Nippi Overseas Development. After the FIC sale the nature of Bismark Industries invoices changed to "across the board" invoices. The invoices had previously been species (or Group) by species (or Group) and grade by grade according to MEP.

### Grading

The FIC shipment was inspected and check graded. Though cutting had shifted to Marambu on Timber Authorities and to Semban TRP the grading during the year shows a marked change. There were still low levels of peeler class logs but the percentage of SS3 logs was less than 1%. The main gradings fell into the SS1 (47.8%) and SS2 (44%) classes. Mr. Nishiwaki attributed changed grading patterns to the shift in operating area and his efforts to improve log quality.

### Summary

It is quite clear that until FIC's dealing with it Bismark Industries sold on a non competitive exclusive basis to the related company Nippi Overseas Development at prices equal or fixed by reference to MEP prices.

It sold at the price this exclusive buyer offered. Sales were shown in export licences to be effected through the related companies Tokugawa in Singapore and Universe/Eternal in Hong Kong.

These companies quite clearly had nothing to do with the sales and were simply conveniently located vehicle companies used to transfer price 5% of the sale price paid to Bismark Industries as a "commission" which was unearned. This unearned "commission" amounted to USD151,000 in 1986 and USD181,000 in 1987.

Mr. Nishiwaki sought to convince the Commission prices obtained were in line with Japanese market prices. All this showed was a trend - the same sort of trend as is seen in the prices of other transfer pricers. The PNG prices do relate to Japanese prices but there is a margin between them which is transfer priced. I am satisfied by looking at the marketing of other companies and by knowing Nippi Overseas Development was in the business of reselling these logs that in addition to the 5% reposed in Hong Kong there was large scale systematic transfer pricing in Japan up until at least 1986 for the benefit of the financier Nippi Overseas Development. Even during 1987 I believe there was still a (reduced) transfer priced margin but Bismark Industries previous practices were severely shaken and altered by FIC intervention.

This company was also clearly manipulating grading and was caught undergrading by DOF in 1985. The level of this abuse may have abated later but I am satisfied on the evidence that this has been a long term systematic practice of Bismark Industries.

### FIC SHIPMENT

Obviously Bismark Industries resented FIC's interference with its previous practices.

The shipment by FIC was characterised by Cowan reporting rumours that "rubbish logs" would be loaded and Bismark Industries reacting to that allegation. Inspection showed some logs were old and some badly deteriorated. The buyers inspector wished to reject these logs but Bismark Industries insisted they must be loaded. Bismark Industries was clearly very unco-operative. The buyer won out. Mr. Nishiwaki contended before me that the reason the logs deteriorated was that FIC was late in sending the vessel. I was satisfied this complaint was not justified - the vessel arrived at the time it was always scheduled to arrive.

There was a minor dispute over bank charges where Bismark Industries had grounds to complain and forced FIC to refund some moneys.

### CONCLUDING COMMENTS

The operation of Bismark Industries is one of the most exploitative log export operations investigated by the Commission.

Log exports were granted in exchange for roading, agricultural development for landowners and forest plantations. The resource was virtually cut out. The roads needed for logging were built to the low standard required for the logging operation. There has been no serious attempt made to satisfy the other conditions and efforts



were being made to avoid the other obligations. It is to be hoped that DOF will act to force the Archdiocese to observe its Permit conditions thus requiring it to force Bismark Industries to perform these conditions.

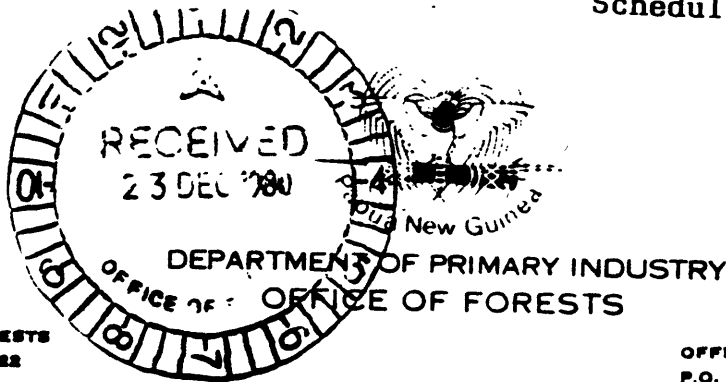
Bismark Industries is reported to be in a poor financial situation. If it is unable to perform then the obligation remains with the Archdiocese which, as Permit holder, undertook those conditions in exchange for the right to harvest the Senbam TRP.

Bismark Industries has been party to systematic undergrading on a large scale to falsely lower the MEP prices applicable to its log exports. It has sold at those falsely low MEP prices. This involved systematically transfer pricing to related Hong Kong companies a part of its low price (as unearned commissions) and transfer pricing to Nippi Overseas Development the difference between true market prices which it obtained from its buyers and these falsely low MEP prices which were paid to Bismark Industries in PNG.

As a result Bismark Industries has suffered financial problems with cashflow and liquidity. By mid 1988 it had been bled so dry that it was not able to pay the transfer priced "commissions" to its Hong Kong related company. With this situation occurring Mr. Shindo was in Japan on his usual annual three months long leave.

I recommend referral of this company and those associated with it to the Chief Collector of Taxes for thorough investigation of their affairs with a view to establishing whether tax reassessments should be made.

151.15-18



TELEGRAMS: FORESTS  
TELEPHONE: 254022

OFFICE OF FORESTS,  
P.O. BOX 5055,  
BOROKO,  
PAPUA NEW GUINEA.

The Manager  
Roman Catholic Archdiocese of Rabaul  
P O Box 1237  
RABOUL.

Date: 5/11/80  
Our Reference: 6-6-18  
Action Officer: N BRIGHTWELL/al  
Designation: FAD Operations

Attention: Fr. T. O'Neill

Your Reference:  
Date

RE: YOUR APPLICATION FOR TIMBER PERMIT SENBAM TIMBER RIGHTS  
PURCHASE AREA - TP 15-18.

I am pleased to inform you that the Office of Forests has agreed to grant to your Company a Timber Permit over the whole of the above area. However, as the compilation and issue of the formal Permit document may take many months. I am prepared to allow operations to commence on the basis of this Letter of Intent, which will set out the principal conditions of the Permit. These are as follows:-

1. Permit Number: 15-18
2. Area: Senbam Timber Rights Purchase of approximately 6020 hectares.
3. Duration: 10 Years commencing on 1st January 1981.
4. Royalty: *K\$ 13.16 per cubic metre (plus species premiums) for 50 cm + D.U.B.*  
*K\$ 11.58 per cubic metre (plus species premiums) for 49 cm - D.U.B.*  
K\$ 16 per cubic metre (plus species premiums) for 50 cm + D.U.B.  
K\$ 11.58 per cubic metre (plus species premiums) for 49 cm - D.U.B.
5. Guarantee: K20,000 to be lodged by commencement date.
6. Maximum Cut: 40,000 m3 per annum
7. Minimum Cut: 10,000 m3 per annum
8. Log Export Limitation: All logs may be exported subject to satisfactory completion of road construction and follow up land use requirements.
9. Log Export Tax Rebate: May be claimed should PNG processing exceed 50% of total annual harvest.

10. MEASUREMENT RECORDING: All logs harvested will be measured (by Brereton scaling) and recorded on FD66 Log Classification and Measurement Return forms and submitted monthly to the Provincial Forest Officer for assessment of royalty.
11. EXPORT PROHIBITION: No logs will be permitted to be exported:
- (a) if any measurement return has not been submitted;
  - (b) unless all royalties have been paid to the Provincial Forest Officer.
12. WORKING PLAN: An annual working plan will be submitted for approval to the Director of Forests by 31st January of each year of the Permit.
13. CONTROL OF LOGGING: Operations may be confined to such sections of the Permit area as the Director of Forests may direct.
14. MARKETING: The company shall offer to the State or its nominee, an option to purchase 25% of its annual log export quota on a first refusal basis.
15. PLANTATION ESTABLISHMENT: All efforts will be made to establish an agricultural and/or reforestation project acceptable to the landowners and biannual reports of progress will be submitted to the Director of Forests.
- The following schedule of events in the establishment of the proposed plantation project is to be adhered to:
- (a) identify not less than 2,000 hectares of potential agriculture land and request Department of Primary Industry to undertake a soil survey in the areas by end first year. The areas are to be shown on appropriate large scale maps and submitted to the Director of Forests.
  - (b) survey and sub division plan are to be submitted to Director of Forests for Department of Lands and Department of Primary Industry approval by end second year.
  - (c) ground survey of block sub-divisions and construction of all access and internal roads is to be completed by end third year.
  - (d) allocation of all smallholder blocks is to be completed by mid year four.
  - (e) the Company will assist blockholders to establish not less than 300 hectares of an acceptable agricultural cash crop by the establishment of plant nurseries and distributing seedlings.

- (f) forest plantations are to be 1,000 hectares at a rate of 200 hectares per year from start year five.
- (g) failure by the Company from causes within its own control, to adhere to the above schedule, may lead to suspension of log export activity.

#### 16. ENVIRONMENT PROTECTION:

- Roading or snagging along creek beds is prohibited.
- No timber felling or snagging is permitted within 50 metres of any stream except as is approved by the Provincial Forest Officer for purpose of access.
- Fuel/oil contaminants are not to be stored within 50 metres of any stream.
- Streams are not to be polluted by forest produce, debris, refuse or waste from logging operations.

#### 17. ROAD CONSTRUCTION:

Roads of a standard sufficient to support normally laden log trucks in all weather, with permanent culverts and bridges will be constructed by the permittee. Road construction will be programmed by semester from commencement date as follows.

<u>Semester</u>		<u>Estimated Road Distance</u>	<u>Road Description</u>
<u>No.</u>	<u>To</u>		
1	30/6/81	8 kms	Putput Boundary - Senbam Village
2	31/12/81	5 kms	Senbam Village - Marambu River
3	30/6/82	5 kms	Marambu River - Marambu Village

#### 18. ARBITRATION:

Any dispute between the State and the Company arising out of this Agreement, the Timber Rights Purchase Agreement or the Timber Permit may be referred by either party to arbitration and will be settled by arbitration under the provisions of the Arbitration Act 1951.

#### 19. FORM OF PERMIT:

The Timber Permit, documentation for which will commence on completion of the Timber Rights Purchase will include all the abovementioned items and will be in the general form of the attached draft Pro-

五

Original - Director of Forests  
Copy - PFO, Rabaul  
Copy - Retain by Company

I trust these arrangements will be satisfactory to yourselves and to the Government and the Department of the East New Britain Province.

Yours faithfully,

J. ARAE, M.P.  
Minister for Forests

c.c. Premier, East New Britain Province

c.c. Administrative Secretary, East New Britain Province

c.c. Provincial Forest Officer, East New Britain Province

I, Fr. T. O'NEILL, on behalf of Roman Catholic Archdiocese of Rabaul have read and understand the above terms and accept them as the principal operating terms and conditions of timber Permit No. 15-18.

I also understand that non-adherence to these conditions may result in the withdrawal of the Letter of Intent, and termination of the formal Timber Permit processing.

Jim McNeill

Dated: 17.12.80

*[Faint handwritten notes, possibly "R 15" and "K 15"]*

## MINISTER

9th July, 1982

151-15-8

## REQUEST FOR SIGNATURE TO TIMBER PERMIT 15-18

The purpose of this minute is to request you to execute Timber Permit 15-18 by signing and inserting the date where indicated on page 22 of the attached Permit document.

The Permit has been initialed on each page by the State Solicitors Office as being in acceptable form.

File 151-15-18 is also attached for your information.

Details are as follows:

Application Date: 2/10/80 (folio 1 of file 151-15-18).

Area: SENBEN Timber Rights Purchase Area.  
Approximately 6030 hectares behind PUTPUT freehold land north of Warangoi River in the East New Britain Province. (See map at folio 38 of file 151-15-18).

Permit holder: Roman Catholic Archdiocese of Rabaul.

Duration of Permit: 10 years from 1/1/81.

Road Requirements: Approximately 18 kilometres of road is required to be constructed to give access to SENBAM and MARAMBU villages. (See page 12 of the Permit 15-18).

Minimum Cut: 10,000 cubic metres per year.

Maximum Cut: 40,000 cubic metres per year.

Log Export: 40,000 cubic metres per year may be exported subject to acceptable progress on roading and land use projects.

Royalty: K3.86 per cubic metre etc.  
(See page 25 of Permit 15-18).

Guarantee: K26,400

Plantation: In conjunction with the landowners the Permit holder is to establish 300 hectares of an acceptable agriculture crop and 1000 hectares of forest plantation.

Marketing: 25% of the annual log export allowance is to be made available to the State Marketing Corporation (when established).

Water Resources: Clearance has been obtained from Bureau of Water Resources (see folio 73 of file 151-15-18).

Lands: Dept. of Lands have been notified (see folio 78).

The Timber Permit 15-18 attached is recommended for your execution on behalf of the State at page 22 of the document.

A M D YAUIEB  
Director

# BISMARK INDUSTRIES PTY. LTD.

P. O. BOX 430 RABAU, PAPUA NEW GUINEA

PHONE:92-2366 92-2372 TELEX:NE92977 BISMARK FAX:921141

3rd May, 1988

Mr. John Reeve  
Counsel Assisting the Commission of Inquiry  
Into Forest  
Parliament Haus  
WAIGANI

Dear Sir,

RE: QUESTIONNAIRE - BISMARK INDUSTRIES PTY LTD.

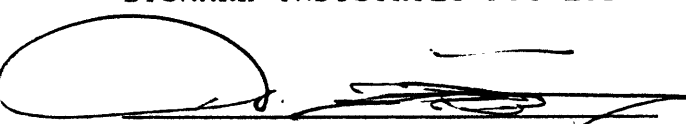
Enclosed please find our completed Questionnaire and Statutory Declaration completed by Mr. K. Nishiwaki. The Statutory Declaration should have been completed by Mr. Shindo who is the Managing Director of the Company but due to his continuing absence overseas and the urgency in submitting the documents, the Company Secretary, Mr. Nishiwaki, after taking legal advice, has completed the documents from Company records and it is true to the best of his knowledge and belief.

We are not presently aware as to when Mr. Shindo is returning to Papua New Guinea as he is on an extended holiday.

If we can be of further assistance please do not hesitate to contact the writer.

Yours faithfully,

BISMARK INDUSTRIES PTY LTD.



K. Nishiwaki

Encl: Questionnaire-Bismark Industries Pty Ltd.



## COMMISSION OF INQUIRY INTO FORESTRY

### QUESTIONNAIRE

Name of Timber Area: (1) Putput Freehold  
(2) Senbam TP 15-18

Name of Permit Holder: The Roman Catholic Archdiocese of Rabaul.

Name of Contractor (if any): Bismark Industries Pty Ltd.

A. Compliance with Conditions of Timber and/or Project Agreement or Letter of Intent or other authorisation

Please briefly summarise each condition or obligation in Column 1 and briefly indicate whether the Company has complied with the condition in Column 2. (Attach additional sheets of paper if necessary).

(1) Condition	(2) Degree of Compliance
<u>Road Construction</u>  Conditions (design, standard, gravelling, culverts, bridges etc.)	
1) 8km from Putput boundary to Senbam village.	1) completed
2) 5km from Senbam village to Marambu river	2) reached to Marambu river and we are now facing very hard area because of landscape going down and up, very steep and rocky along Marambu river.
3) 5km from Marambu river to Marambu village.	3) We are surveying the area to find the best possible route and will construct a road across Marambu river and to Marambu village as soon as the weather would permit.
for heavy traffic at 40km/hour design speed, 8.5 meter formation width, gravel pavement and culverts.	

(1) Condition	(2) Degree of Compliance
<u>Road maintenance</u> Obligations imposed, etc.	
NIL	
<u>Special Bridge Construction requirement</u>	
NIL	
<u>Local processing condition</u> (Construction of sawmill, etc.)	
NIL	Operating portable sawmill.

(1) Condition	(2) Degree of Compliance
<b><u>Reafforestation/Regeneration requirement</u></b>	
Forest plantation are to be 1,000 H. at a rate of 200 H. per year from 1st Jan. 1986	Refer to attached sheet
<b><u>Follow up Land Use requirements</u></b>	
(eg: agriculture project)	
The permit holder will assist blockholder to establish not less than 300 H. of an acceptable agricultural cash crop or the establishment of plant nurseries and distributing seedlings.	People of Semban village formed a company under the title of "Semban Estate Pty Ltd" for the purpose of developing Cocoa plantation in Semban on March, 1988.
	To assist this company, we requested Island Plantation Management Services Pty Ltd, Rabaul to survey 2,000 H. potential agriculture land to undertake a soil survey in the area and choose the best 300 H. area for cocoa plantation.
<b><u>Other conditions imposed for public benefit</u></b>	
NIL	
	We have built a house for Police Station in July '87 on Putput Freehold area and two police officers
	are staying and policing Putput area and its neighbours for security.

# BISMARK INDUSTRIES PTY. LTD.

P. O. BOX 430 RABAU, PAPUA NEW GUINEA

PHONE:92-2366 92-2372 TELEX:NE92977 BISMARK FAX:921141

Rabaul, 29th April, 1988

The Secretary,  
Department of Forests  
P.O. Box 5055,  
Boroko, N.C.D.

Dear Sir,

RE : AMENDMENT TO TIMBER PERMIT 15-18  
SENHAM TIMBER RIGHTS PURCHASE AREA

---

The above Permit was issued on 21/10/1982 to the Roman Catholic Archdiocese of Rabaul and covered an area of some 6,020 Hc between the SIGUTE and MARAMBU Rivers. This followed from the original Letter of Intent dated 5/11/1980, which set out the principal terms and conditions.

The area shared a common boundary with the Mission's Freehold Property, Por.435 PUTPUT, in which logging operations were already progressing under a contract agreement with Bismark Industries Pty Ltd. Senham TP 15-18 was to be the future resource area once the Freehold logging was completed.

In relation to terms and conditions of the project, clause 29(I)(f) which states -

"Forest Plantations are to be established on an additional 1,000 hectares at a rate of 200 hectares per year from 1st January 1986".

Whilst the agricultural requirements of Clause 29 appeared quite realistic, the Company was concerned that reforestation was not the optimum land use in this area, due to shallow soil conditions and low economic returns to landowners.

To support these concerns with some scientific evidence, Bismark recently engaged Islands Plantations Management Services of Rabaul (I.P.M.S.) to carry out a land utilization study within the Senham TRP. The findings of the study were :-

- (I) There are numerous limestone outcrops where slopes are in excess of 40°.
- (II) Free soil depths in these areas are very shallow and are insufficient to allow establishment of a reforestation project.
- (III) In between the limestone there are only small areas of 80 - 120 Hc where soil depth is reasonable. Therefore, it is impossible to locate contiguous areas for a 1,000 hectares reforestation block.

- (IV) The fertile areas would be much more suitable for cocoa planting, as numerous 30 Hc blocks could be established for smallholders with no disadvantage to the economics of the scheme. On the other hand, scattered blocks of Kamarere would mean expensive harvesting in later years.
- (V) Overall, I.P.M.S. recommended that no reforestation programme be commenced but were quite enthusiastic to establish 300 Hc of cocoa in a number of discrete blocks.

A photocopy of the Land Utilization Study summary is attached herewith.

In view of the above, both the Permit Holder (Roman Catholic Archdiocese) and the contractor (Bismark Industries) hereby request that Clause 29(I)(f) be deleted from Timber Permit 15-18 and that the State agrees not to impose any further obligations for reforestation within Senbam T.R.P.

We look forward to your positive reply in due course.



K. Nishiwaki

BISMARK INDUSTRIES PTY LTD



Father Tim O'niel

ROMAN CATHOLIC ARCHDIOCESE  
OF RABAUL

c.c. The Provincial Forest Officer, P.O. Box 406, Rabaul

# Islands Plantations Management Services Pty. Ltd.

Telephone: 92-1620, 92-1644

P.O. Box 1677 Rabaul, Papua New Guinea.

Fax: 92-1674

29th April, 1988

The Manager  
Bismarck Industries  
P O Box 430  
RABAU  
East New Britain Province

## LAND UTILIZATION STUDY - SENBAM T.R.P. AREA

The matter of redevelopment of the Senbam forested area has been raised by the Manager of Bismarck Industries Pty Ltd, Rabaul. A survey of land and soil types was carried out in the area in February, 1988. This study revealed a broad range of soil depths over a similarly dissected area. There are some diverse areas suitable for intensive agricultural development but also much of the soil is too thin to support a major development or reafforestation project.

Thirty-two kilometres of soil test auger surveying was carried out, comprising four eight-kilometre cross traverses. Small portions of quality clay soil of reasonable depth were found being areas of 80-120ha in size. These areas are between major limestone outcrops and steep inclines in excess of 40° degrees.

We would recommend as the most sensible approach, the development of a cocoa project on the most acceptable areas, initially aiming for a total planting of 300 hectares. This will generate an income for the landholders within three years and then consistently thereafter for fifteen to twenty years. In actual commercial value the cocoa estate would be valued in excess of 1 million kina at full production.

Additionally, the estate would employ after four years some 40% of the available local labour (Bainings people) and in time would provide funds for the development of medical and communication services to the area. Another important aspect of the development of a large central project is the assistance that can then be rendered at village level by the resident manager. This project will be surrounded by the small blocks of many shareholders and can be the source of advice, planting supplies and processing facilities.

Economic Development in the area is non-existent and Rural Services are very minimal. Now that the Logging Company has established a excellent net-work of all weather roads the establishment of agricultural development to give good returns to the people would be the most appropriate action,

*David C. McGlinn*

D. McGLINN  
General Manager

DMC:em



151-15-18

# DEPARTMENT OF EAST NEW BRITAIN

## DIVISION OF FORESTS

PROVINCIAL FOREST OFFICE  
P.O. Box 406  
Rabaul

Telex: NE 92933  
Telephone: 92 1842  
92 2188

The Business Manager  
Roman Archdiocese of Rabaul  
P O Box 1237  
RABAUŁ ENBP

RECEIVED  
22 FEB 1988  
*Forest*

Date: 12 February 1988

Our Reference: 151-15-18

Action Officer:

Designation:

Your Reference:

Date:

Action Officer:

Dear Sir

**SUBJECT: REVIEW OF OBLIGATORY REQUIREMENTS UNDER TIMBER PERMIT 15-18 -  
SENBAM TRP**

Timber Permit 15-18 was issued to your organisation for ten (10) years from 1st January 1981 over the **SENBAM TRP** therefore the expiry date of this permit and or project shall be 31st December 1990.

Since the issue of the timber permit in 1981, it is my belief that your project has not been subjected to regular inspections by Forestry Officials in the province and therefore certain infrastructural conditions quoted on the permit may have been omitted from accomplishment on your part.

However, the permit granted to you is the legal arrangement that allows your firm to enter the timber area and to perform logging activities including the accomplishment of those terms and conditions stipulated in the permit.

Some of the major conditions are the followings which I am officially requesting feedback on from the permittee:-

- 1 Clause 16 Road construction schedule
  - (a) 8 Km Putput boundary to Senbam Village by 30/6/81
  - (b) 5 Km Senbam Village to Marambu River by 31/12/81
  - (c) 5 Km Marambu River to Marambu village by 30/6/82
- 2 Clause 17 (2) Log Export allowance per year was to be 40,000 m<sup>3</sup> to tie in with roading requirements.  
No logs were to be exported if roading was not performed.



3 Clause 29 (1) Plantation Establishment

(a) 2,000 Ha. of agricultural land for development by 31/12/81

(f) Forest plantations to be established on 1,000 Ha. at the rate of 200 Ha. per year from 1/1/86.


Those are only a few of the conditions extracted from your timber permit, however I expect that you review the whole document which I am sure you have a copy of and ensure the conditions stipulated are adhered to.

I request feedback to the three (3) clauses highlighted so far in the meantime but an overall review of your project is expected to be discussed with you very shortly.

Note that from now on I shall monitor the performance of the project with respect to the accomplishment of these infrastructural requirements and the issue of export permits will be screened thoroughly so that it is not given where non performance of infrastructure exists.

Your early attention and response please.

Yours faithfully

  
DEBON K. LOGO  
Assistant Secretary (Forests)

*RDT*  
*Follow up with*  
*MS Forests ENB*  
*Shanku*  
*RDT*  
*7/3/88*

cc: . Secretary, Dept of Forests Boroko  
cc: SPO, Forests, Rabaul  
cc: Secretary, Dept of ENB  
cc: Manager, Bismark Industries, Rabaul

FILE NOTE

151-15-9

LOG GRADING - BISMARCK INDUSTRIES - PTY LTD

Mr Waisime rang from Rabaul on Thursday 21/11/85 and advised of the following:

As we suspected Bismark Industries is misgrading logs.

It was found that out of 18% sample done, the Company was misgrading by about 70%, out of this figure approximately 30% was upgraded and 41% down graded.

The Company was advised to cease all loading. Regrade logs i.e. unload logs already loaded and regraded. A second alternative was to raise the level price of each group by 11%.

Later advice by Mr Waisime indicated that the Company opted for the second option.

*J MANTU*  
J MANTU  
01

28 November 1985

**B. Marketing Table**

Please prepare and attach a Marketing Table covering all your log shipments in 1986 and 1987 in accordance with the attached instructions.

A specimen Marketing Table is supplied for producers.

A handwritten table is acceptable if typing would lead to delays. You will be expected to be able to produce documents substantiating the content of this table if summonsed by the Commission to do so.

**C. Log Sales Procedures**

Explain in short simple terms the procedure by which you negotiate sales of your logs.

- 
- 1) To obtain correct prevailing price and market ten'ence through our Agent in Hongkong.
  - 2) To estimate shipping time considering log stock at beach and bush.
  - 3) To offer and negotiate with buyer.
  - 4) To fix price finally after we receive the recommendation from Forest Department for issuing Export Licence.
- 
- 
- 
- 
- 
- 
- 
-

**C. Fair Market Price**

By what means or method do you decide whether the price obtained is a fair market price for a shipment or part shipment?

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Through Agent.

---

Comparison to previous price.

---

Exchange information with Abdul los buyers

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**D. Sale to End Users**

Do you sell direct to end users or consumers? ~~Yes~~/No.\*  
If not why?

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We are selling our logs to constant buyer who buys logs continuously and in the condition of "run of bush" (without inspection) even though the market is poor.

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**E. Relationship with Purchasers**

Do you have a relationship with any person or company which was a purchaser of logs from you in 1986 or 1987? ~~Yes~~/ No.  
If yes, supply full details of such relationship; eg:

- . Member of the same company group;
  - . Purchaser or his company group supplies financial assistance (giving details)
  - . Long term sales and purchase agreement.
- 
- 
- 
- 

\* When answering Yes/No questions in this Questionnaire cross out whichever word is inapplicable.

**F. Agents**

(a) Do you sell through agents? Yes/~~No~~ If yes, why?

To maximize log price.

(b) Supply the names and country of all agents used in 1986 or 1987?

Universe Limited., Hongkong.

(c) Are any of your agents based in preferred tax areas (eg: Singapore, Hong Kong)? Yes/~~No~~. If yes, give details.

Hongkong.

(d) What rate of commission is each of your agents paid and who pays such commission?

We paid 5% of FOB value at each shipment.

Agency Agreement was made on 28th Dec., 1984 and The Bank of Papua New Guinea has approved payment of Agent Commission for log shipments - EXCHANGE CONTROL.

- (e) Do you or any person or company with which you have a relationship have any arrangement in the nature of commission sharing with any such agent? ~~Yes~~/No.  
If 'Yes' give full details.
- 
- 
- 
- 
- 

**g. Sale to middle man**

- (a) Do you sell to any person or company which resells logs supplied by you? ~~Yes~~/No.

- (b) If yes, why do you sell to such person or company?

~~We are selling our logs to constant buyer who buys logs continuously and in the condition of "full of bush" (without inspection) even though the market is poor.~~

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- (c) Does such person or company resell at a higher price than you obtain? Yes/No.      We do not know.

- (d) What is the range of additional or higher prices obtained in 1986 and 1987?

not known.

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- (e) Do you or any person or company with which you have a relationship have any arrangement whereby the higher price obtained is shared or participated in whether in whole or part. ~~Yes~~/No. If yes, supply full details.

H. Shipping

- (a) Who arranges shipping (ie: becomes party to a Charter Party or Fixture Note) for logs sold by you?

Buyer.

- (b) Do you independently ascertain the freight rates available for each shipment? Yes/No. If yes by what means do you do so?

Not applicable.

- (c) What is the range or freight rates paid for shipments by you;

- (i) To Japan in 1986 NIL
- (ii) To Japan in 1987 NIL
- (iii) To South Korea in 1986 NIL

(iv) To South Korea in 1987 NIL.

(v) To Taiwan in 1986 NIL

(vi) To Taiwan in 1987 NIL

(vii) To India in 1986 NIL

(viii) To India in 1987 NIL

(d) Do you or does any person or company with which you have a relationship:

- (i) own or operate any vessel used by you to ship logs? ~~Yes~~/No.
- (ii) share or participate in freight paid for shipment of logs by you? ~~Yes~~/No.
- (iii) charter any vessel used by you to ship logs? ~~Yes~~/No.
- (vi) share or participate in charterers fees paid for shipment of logs by you? ~~Yes~~/No.
- (v) act as broker for any vessel used by you to ship logs? ~~Yes~~/No.
- (vi) share or participate in brokerage paid for shipment of logs by you? ~~Yes~~/No.

If "Yes" to any of the above supply full details on a separate sheet.

1. M.E.P.

- (a) Explain in short simple terms the relevance to you of MEP in relation to your log sales.

MEP should be our lowest target of our log sales.



(b) Did you, in 1986 or 1987 sell logs below the prevailing MEP? ~~Yes~~/No.

If yes:

(i) did you obtain dispensation. Yes/No.

(ii) what were the reasons for not obtaining MEP price?

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#### J. Letters of Credit

Are letters of credit for your sale of logs to overseas buyers routinely established in the name of, and with the bankers of, the PNG producer company? ~~Yes~~/No.  
If not, then why?

Letter of Credit were opened to Bismark Industries Pty Ltd.

Permit holder has no involvement for logging.

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#### K. Offshore Payments

(a) Is any part of the FOB sale proceeds for sales of your logs not remitted to Papua New Guinea? ~~Yes~~/No.

(b) If so, specify:

(i) The part payment left offshore and the manner in which it is calculated.

(ii) The country in which the part payment is left.

(iii) The person or company to which the offshore payment is made.

(iv) The purpose of leaving the payment offshore.

- (c) Is any person or company to which any such moneys are paid outside Papua New Guinea a person or company with which you have a corporate or similar relationship?

~~Yes/No.~~

If Yes, explain the relationship.

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- (d) Has the approval of the Bank of Papua New Guinea been obtained in respect of such non remittances? Yes/No.

Not applicable.



## COMMISSION OF INQUIRY INTO ASPECTS OF THE FOREST INDUSTRY

TELEX NE: 23290

P.O. BOX 2554  
BOROKO.

FACSIMILE

PAPUA NEW GUINEA

DATE: 17 May, 1988.

The Secretary  
Bismark Industries Pty Ltd  
PO Box 430  
RABAUL ENB

OUR REF:

YOUR REF:

TELEPHONE: 277703

Dear Sir,

I refer to your letter of 3 May 1988 answering the Commissions' Questionnaire and supplying marketing tables for 1986 and 1987.

I have also checked marketing materials supplied to the Secretary, Department of Forests for 1984 and 1985.

There is a constant pattern of sales to one buyer in Japan through the medium of ETERNAL LIMITED or UNIVERSE LIMITED of Hong Kong at prices clearly related to MEP.

There are also significant movements in your grading patterns which require explanation and which appear related to price movements.

Forestry files disclose a lack of adherence to Permit condition timetables and your sales figures disclose a split of the order of 95% to Contractor and 5% to the Church.

Again explanation appears necessary.

I will be seeking to have Mr Shindo (or in his absence Mr Nishiwaki) appear as a witness before the Commission in Port Moresby on Wednesday 25 May, 1988. Please advise promptly that such date is convenient; who will appear and whether such person requires to be Summoned to appear.

FACSIMILE

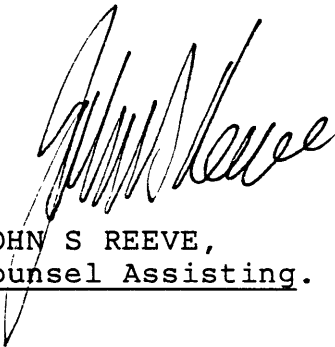
Page 2.  
Secretary, Bismark Industries Pty Ltd.  
17 May, 1988.

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Would you please have available to produce at the hearing:-

- (a) A copy of any Logging and Marketing Agreement between Bismark Industries and the Church.
- (b) A copy of all Agency agreements between Bismark Industries and Universe Limited or Eternal Limited.
- (c) Any documents relating to infrastructure obligations including all full reports on the reforestation project and the agricultural project.

Yours faithfully,



JOHN S REEVE,  
Counsel Assisting.

SCHEDULE 8A

BISMARCK INDUSTRIES PTY LIMITED

1982

COMPARISON WITH MEP PRICES

MONTH	VESSEL	VOLUME	FOB (K)	MEP (K)	+ MEP -
FEB	CYNTHIA	3411.184	165471.16	165471.16	-
APR	BALIWAG DOS	4732.269	239229.63	239229.63	-
JUN	KYOWA ACE	5115.908	278812.99	267812.99	-
SEPT	KYOWA ACE	5474.801	265141.43	265141.43	-
NOV	KAYO MARU	4475.780	216450.72	209880.16	6570.56 (3.13%)
	BONA STAR	5365.036	271187.56	264718.39	6469.17 (2.44%)
DEC	SUN BIRD	4141.438	205361.70	200244.80	5116.90 (2.55%)
		32716.416	1630655.19 (K49.84m3)	1612498.56	18156.63 (1.125%)

SCHEDULE 8B  
BISMARCK INDUSTRIES PTY LTD

1982

UNIT PRICES AND GRADINGS

MONTH	VESSEL	VOLUME	AVERAGE FOB (KINA)	AVERAGE MEP (KINA)	R	S	SS
FEB	CYNTHIA	3411.184	48.51	48.51	706/ 2542.732 74.54%	336/ 730.271 21.41%	93/ 138.181 4.05%
APR	BALIWAG DOS	4732.269	50.55	50.55	1024/ 3782.296 79.92%	376/ 822.283 17.38%	77/ 127.690 2.70%
JUN	KYOWA ACE	5115.908	52.35	52.35	1060/ 3780.002 73.89%	506/ 1119.089 21.87%	133/ 216.817 4.24%
SEP	KYOWA ACE	5474.801	48.43	48.43	1111/ 3849.674 70.32%	603/ 1365.073 24.93%	154/ 260.054 4.75%
NOV	KAYO MARU	4475.780	48.36	46.89	891/ 3250.588 72.63%	460/ 1041.942 23.28%	113/ 183.250 4.09%
	BONA STAR	5365.036	50.55	49.34	1091/ 3910.684 72.89%	531/ 1215.758 22.66%	141/ 238.594 4.45%
DEC	SUN BIRD	4141.438	49.59	48.35	836/ 3040.084 73.41%	401 934.310 22.56%	97/ 167.044 4.03%
<hr/>							
TOTAL		32716.416	49.84	49.29	6719/ 24156.060 73.83%	3213/ 7228.726 22.10%	808/ 1331.630 4.07%

SCHEDULE 9A

BISMARCK INDUSTRIES PTY LTD

1983

COMPARISON WITH MEP PRICES

ONTH	VESSEL	VOLUME	FOB (K)	MEP (K)	+ MEP -
EB	CATHERINE MARU	3801.144	176809.59	186318.43	- 9508.84
PR	MAXIM	4227.110	165220.61	160410.42	+ 4810.19
MAY	PRINCESS MARY	4412.623	200255.17	200255.17	-
JULY	NAOMI	4499.320	192643.02	214556.26	-21913.24
CT	WAH SANG	5009.320	243765.20	246235.60	- 2470.40
	KAISEI MARU	4866.534	242117.69	243692.40	- 1574.71
EC	KYOWA OCEAN	5150.344	252278.53	252278.53	-
		31966.395	1473089.81 (K46.08m3)	1503746.81	30657.00 (- 2.04%)

SCHEDULE 9B  
BISMARK INDUSTRIES PTY LTD

1983

UNIT PRICES AND GRADINGS

ONTH	VESSEL	VOLUME	AVERAGE FOB (KINA)	AVERAGE MEP (KINA)	R	S	SS
FEB	CATHERINE MARU	3801.144	46.51	49.02	762/ 2890.645 76.05%	318/ 765.879 20.15%	83/ 144.620 3.80%
APR	MAXIM	4227.110	39.09	37.95	872/ 3075.752 72.76%	416/ 953.106 22.55%	113/ 198.252 4.69%
MAY	PRINCESS MARY	4412.623	45.38	45.38	820/ 3075.797 69.70%	462/ 1046.495 23.72%	172/ 290.331 6.58%
JUL	NAOMI	4499.320	42.83	47.69	814/ 3135.081 69.68%	450/ 1040.111 23.12%	180/ 324.128 7.20%
OCT	WAH SANG	5009.320	48.66	49.16	1002/ 3749.448 74.85%	456/ 1013.607 20.23%	153/ 246.265 4.92%
	Kaisei MARU	4866.534	49.75	50.08	998/ 3808.295 78.25%	418/ 910.012 18.70%	90/ 148.227 3.05%
DEC	KYOWA OCEAN	5150.344	49.98	48.98	1003/ 4097.120 79.55%	398/ 942.951 18.31%	65/ 110.273 2.14%
TOTAL		31966.395	46.08	47.04	6226/ 23832.138 74.55%	2918/ 6672.161 20.87%	856/ 1462.096 4.58%



SCHEDULE 10A

BISMARCK INDUSTRIES PTY LTD

1984

COMPARISON WITH MEP PRICES

MONTH	VESSEL	VOLUME	FOB \$US	MEP \$US	+ MEP
FEB	KAISEI MARU	5122.566	213447.42	213447.42	-
MAR	KAISEI MARU	5122.457	225158.42	214399.68	10758.74
	KENG MIN	4714.920	305128.27	305128.27	-
APR	VARDE	5125.313	364182.01	310892.38	53289.63
MAY	KENG MIN	4710.178	338776.86	285194.32	53582.54
JUL	VARDE	5197.137	389509.47	344619.17	44890.30
	KENG MIN	4718.733	377482.20	311488.85	65993.35
AUG	KYOWA OCEAN	5498.658	373902.52	360155.40	13747.12
SEP	KENG MIN	4700.131	319612.99	308647.42	10965.57
OCT	CRONY 1	4700.045	293282.27	293021.37	260.90
NOV	CRONY 1	4532.483	275164.80	275164.80	-
TOTAL		54142.621	3475647.23 (\$64.19m3)	3222159.08	253488.15 (7.87%)

SCHEDULE 10B  
BISMARCK INDUSTRIES PTY LIMITED  
1984  
UNIT PRICES AND GRADINGS

NO	VESSEL	FOB	AV	MEP	AV	SSP	SP1	SP2	SS1	SS2	SS3
1	KAISEI MARU V17 FEB	34.86	34.86					O L D			
2	KAISEI MARU V18 MAR	43.95	41.85					S Y S T E M S			
3	KENG MIN V41 MAR	USD 64.71	64.71					O F			
4	VARDE V18 APR	71.06	60.66	NIL		129/ 602.537 11.75%	218/ 931.363 18.17%	874/ 3252.434 63.46%	176/ 337.414 6.58%	1/ 1.565 0.03%	
5	KENG MIN V43 MAY	71.92	60.54	NIL		109/ 501.603 10.65%	209/ 822.507 17.46%	848/ 2998.512 66.63%	203/ 387.556 8.23%	NIL	
6	VARDE V20 JULY	74.95	66.31	NIL		127/ 581.345 11.18%	284/ 1165.814 22.43%	930/ 2902.232 55.84%	299/ 547.746 10.54%	NIL	
7	KENG MIN V45 JULY	80.00	66.01	NIL		125/ 503.688 10.67%	232/ 989.835 20.98%	846/ 2700.829 57.23%	289/ 524.381 11.11%	NIL	
8	KYOWA OCEAN V 4 AUG	68.00	65.50	NIL		134/ 653.896 11.89%	270/ 1183.924 21.53%	881/ 3238.116 58.89%	224/ 422.722 7.68%	NIL	
9	KENG MIN SEP	68.00	65.67	NIL		115/ 561.869 11.95%	327/ 1082.441 23.03%	711/ 2723.061 57.94%	178/ 332.760 7.08%	NIL	
10	CRONY 1 V22 OCT	62.40	62.40	NIL		60/ 317.107 6.75%	149/ 688.922 14.66%	712/ 3148.781 66.99%	255/ 545.235 11.60%	NIL	
1	CRONY 1 V23 NOV	60.71	60.71	NIL		70/ 308.018 6.8%	131/ 551.309 12.16%	715/ 3173.787 70.02%	220/ 499.369 11.02%	NIL	
				NIL		869/ 4030.063 10.29%	1820/ 7416.115 18.93%	6517/ 24137.752 61.60%	1844/ 3597.183 9.18%	1/ 1.565 -	

SCHEDULE 11A  
BISMARK INDUSTRIES PTY LTD  
1985  
COMPARISON WITH MEP PRICES

MONTH	VESSEL	VOLUME	FOB \$US	MEP \$US	+ MEP
JAN	MOCK KUN	5765.101	346577.16	346577.16	-
	CRONY 1	4705.435	292516.95	292516.95	-
MAR	CRONY 1	4416.005	249945.88	249906.28	39.60
APR	PIPPIN 1	4406.608	226058.99	225723.36	335.63
MAY	PIPPIN 1	4632.563	213097.90	212696.00	401.90
JUL	SARUNTA	5405.298	241803.46	241803.46	-
AUG	VARDE	5201.474	234061.24	232600.15	1461.09
SEP	VARDE (V37)	5305.634	238744.60	239029.29	715.31
	VARDE (V38)	5168.578	218274.83	218274.83	-
OCT	PIPPIN 1	4686.926	201362.99	201362.99	-
NOV	INNA	4609.371	224820.09	202540.81	22279.28
TOTAL		54302.993	2687264.09	2662031.28	25232.81 (0.95%)

SCHEDULE 11B  
BISMARCK INDUSTRIES PTY LIMITED  
1985  
UNIT PRICES AND GRADINGS

O	VESSEL	FOB	AV	MEP	AV	SSP	SP1	SP2	SS1	SS2	SS3
1	MOCK KUN V104 JAN	60.11	60.11			NIL	57/ 269.996 4.68%	106/ 511.624 8.87%	768/ 3058.884 53.06%	548/ 1924.597 33.38%	NIL
2	CRONY 1 V26 JAN	62.16	62.16			NIL	57/ 235.242 4.99%	163/ 645.387 13.71%	604/ 2351.024 49.96%	400/ 1473.782 31.32%	NIL
3	CRONY 1 V28 MAR	56.60	56.59			NIL	28/ 118.385 2.68%	65/ 299.331 6.78%	457/ 2211.245 50.07%	486/ 1526.192 34.56%	126/ 260.852 5.90%
4	PIPPIN 1 V28 APR	51.30	51.22			NIL	18/ 79.255 1.80%	28/ 125.670 2.85%	285/ 1432.326 33.64%	529/ 2295.128 49.54%	312/ 732.466 16.62%
5	PIPPIN 1 V29 MAY	46.00	45.91			NIL	19/ 80.032 1.72%	40/ 171.617 3.70%	121/ 499.823 10.79%	494/ 2295.128 49.54%	593/ 1585.963 34.23%
6	SARUNTA2 V80 JUL	44.73	44.73			NIL	13/ 53.049 0.98%	29/ 115.821 2.16%	95/ 426.686 7.89%	490/ 2383.248 44.09%	858/ 2425.494 44.87%
7	VARDE V36 AUG	45.00	44.72			NIL	10/ 48.115 0.92%	16/ 113.483 2.18%	80/ 394.549 7.58%	419/ 2217.631 42.63%	813/ 2427.696 46.67%
8	VARDE V37 SEP	45.00	44.86			NIL	65/ 328.488 6.19%	131/ 613.204 11.55%	309/ 1459.174 27.50%	574/ 1963.872 37.01%	400/ 977.281 18.42%
9	VARDE V38 SEP	42.23	43.23			NIL	35/ 160.775 3.11%	71/ 344.798 6.67%	247/ 967.062 18.71%	627/ 2157.704 41.74%	588/ 1538.231 29.76%
10	PIPPIN 1 V35 OCT	42.96	42.96			NIL	57/ 216.856 4.62%	112/ 472.544 10.08%	270/ 1127.858 24.06%	543/ 1834.4 39.14%	514/ 1035.261 22.09%
11	INNA	48.77	43.94			NIL	55/ 248.15 5.38%	115/ 529.283 11.48%	283/ 1267.251 27.49%	472/ 1661.984 36.05%	391/ 902.703 19.58%
TOTALS		49.486	49.022			NIL	414/ 1801.956 3.32%	887/ 3943.762 7.26%	3514/ 15245.882 28.08%	5582/ 21425.429 39.45%	4595/ 11885.96 21.89%

SCHEDULE 12A

BISMARCK INDUSTRIES PTY LTD

1986

COMPARISON WITH MEP PRICES

MONTH	VESSEL	VOLUME	FOB \$US	MEP \$US	+ MEP
JAN	PIPPIN 1	4699.623	239684.62	225296.51	14388.11
FEB	PIPPIN 1	4691.770	243970.30	215852.86	28117.44
MAR	PIPPIN 1	4597.088	229865.47	217240.90	12624.57
APR	INNA	4632.558	245530.52	232599.14	12931.38
JUN	PIPPIN 1	4632.866	245541.02	244605.04	935.98
JUL	INNA	4564.162	251033.84	238962.79	12071.05
	MERCHANT	5930.541	326176.98	305380.45	20796.53
AUG	PIPPIN 1	4614.135	253769.49	238486.16	15283.33
SEP	INNA	4497.925	228798.69	228798.69	-
OCT	PIPPIN 1	4269.756	225990.94	225990.94	-
NOV	SOYOUNG	5426.591	289399.16	289399.16	-
	PIPPIN 1	4762.464	257172.42	257172.42	-
TOTAL		57319.479	3036933.45	2919785.06	117148.39 (4.01%)

SCHEDULE 12B

BISMARCK INDUSTRIES PTY LIMITED

1986

UNIT PRICES AND GRADINGS

NO	RESULT	FOB AV	MEP AV	SSP	SP1	SP2	SS1	SS2	SS3
1	Fixed in detail of MEP items fluctuating at diff levels over MEP JAN Invoice to Nippi O/S	51.00	47.935 NIL		32/ 145.463 3.09%	59/ 258.673 5.50%	812/ 3309.084 70.41%	312/ 754.698 16.06%	138/ 231.705 4.93%
2	Fixed in detail of MEP items fluctuating at diff levels over MEP FEB Invoice to Nippi O/S	52.00	46.014 NIL		20/ 128.493 2.73%	86/ 450.738 9.60%	704/ 2780.408 59.26%	394/ 1087.048 23.17%	130/ 245.083 5.22%
3	Fixed in detail of MEP items fluctuating at diff levels over MEP MAR Invoice to Nippi O/S	50.00	47.257 NIL		29/ 146.899 3.19%	66/ 333.128 7.24%	613/ 2486.132 54.08%	430/ 1169.710 25.44%	244/ 461.219 10.03%
4	Fixed in detail of MEP items fluctuating at diff levels over MEP APR Invoice to Nippi O/S	53.00	50.215 NIL		42/ 218.792 4.72%	91/ 467.984 10.10%	746/ 3011.432 65.00%	307/ 709.984 15.32%	150/ 224.366 4.84%

MEP CHANGES

5	Fixed in detail of MEP items all less than USD1.00>MEP related to MEP JUN Invoice to Nippi O/S	53.00	52.81 NIL		15/ 76.033 1.64%	34/ 169.416 3.65%	435/ 1836.944 39.65%	425/ 1407.274 30.37%	366/ 1143.199 24.67%
6	Fixed in detail of MEP items all plus USD2-5>MEP related to MEP JUL Invoice to Nippi O/S	55.00	52.358 NIL		15/ 75/949 1.66%	48/ 215.548 4.72%	411/ 1764.877 38.66%	437/ 1415.535 31.02%	372/ 1092.253 23.93%

NO	RESULT	FOB AV	MEP AV	SSP	SP1	SP2	SS1	SS2	SS3
7	Fixed in detail of MEP items all plus USD2-6> MEP	55.00	51.497	NIL	16/ 70.290 1.18%	47/ 199.534 3.36%	561/ 2390.054 40.30%	577/ 1794.11 30.25%	568/ 1476.552 24.89%
	JUL Invoice to Nippi O/S								
8	Fixed in detail of MEP items all plus USD2-6> MEP	55.00	51.687	NIL	12/ 57.075 1.23%	80/ 383.035 8.30%	367/ 1387.787 30.07%	509/ 1658.143 35.93%	367/ 1128.095 24.44%
	AUG Invoice to Nippi O/S								
9	Fixed in detail item by item at exact MEP	50.88	50.88	NIL	7/ 32.196 0.71%	39/ 175.916 3.91%	447/ 1670.577 37.14%	441/ 1393.304 30.97%	386/ 1225.932 27.25%
	SEP Invoice to Nippi O/S								
10	Fixed in detail item by item at exact MEP	52.93	52.93	NIL	2/ 11.527 0.26%	32/ 170.688 3.99%	359/ 1574.910 36.88%	547/ 1749.892 40.98%	311/ 762.739 17.86%
	OCT Invoice to Nippi O/S								
11	Fixed in detail item by item at exact MEP	53.33	53.33	NIL	19/ 116.269 2.14%	73/ 379.593 6.99%	559/ 2373.965 43.74%	432/ 1349.099 24.86%	403/ 1207.665 22.25%
	NOV Invoice to Nippi O/S								
12	Fixed in detail item by item at exact MEP	54.00	54.00	NIL	72/ 386.814 8.12%	131/ 566.344 11.89%	669/ 2190.569 45.99%	443/ 1118.934 23.49%	188/ 499.803 10.49%
TOTALS		52.983	50.939	NIL	281/ 1465.800 2.56%	786/ 3770.597 6.58%	6683/ 26776.739 46.71%	5254/ 15607.732 27.23%	3623/ 9698.611 16.92%

Schedule 12c  
SPECIFICATION OF MARKETING TABLE

Schedule 12c

No. \_\_\_\_\_

SHIPMENT	MONTH OF	VOLUME	FOB PRICE TO	NAME &	N.E.P.	DETAILS OF PROCEEDS							
NO.	VESSEL	SHIPMENT	NO. OF LOGS OF LOGS	PRODUCERS	FREIGHT	COUNTRY OF	NOTIFY	PRICE	AMOUNT	ROYALTIES	PRODUCER	CONTRACTOR	OPERATED AREA
				(USD)	RATES(S)	PURCHASER	PARTY	(USD)	ABOVE/BELLOW %		(PERMIT HOLDER)		
1986	1986												
1	PIPPIN	JANUARY	1,353	4,700	239,684	UNKNOWN	NIPPI OVERSEAS	227,296	47.935	42.30612			FREE HOLD SEMBAN
	Voy. (38)				52.00		(JAPAN)	46.014	6.00				
2	PIPPIN	FEBRUARY	1,334	4,691	243,970	"	NIPPI OVERSEAS	217,852	28,118	13.02	K10,154	K 6,547	FREE HOLD SEMBAN
	Voy. (39)				51.00		(JAPAN)	47.137	2.746				
3	PIPPIN	MARCH	1,382	4,597	229,865	"	NIPPI OVERSEAS	217,240	12,625	5.81	K 8,821	K 6,633	FREE HOLD SEMBAN
	Voy. (40)				53.00		(JAPAN)	50.215	2.791				
4	INNA	APRIL	1,336	4,632	245,530	"	NIPPI OVERSEAS	232,599	12,931	5.54	K 11,253	K 213,825	FREE HOLD
	Voy. 82				53.00		(JAPAN)	52.81	0.202				
5	PIPPIN	JUNE	1,275	4,632	245,541	"	NIPPI OVERSEAS	244,605	936	0.38	K 11,694	K 222,184	FREE HOLD
	Voy. (44)				55.00		(JAPAN)	52.368	2.645				
6	INNA	JULY	1,283	4,564	241,033	"	NIPPI OVERSEAS	238,962	12,071	5.05	K 12,053	K 229,074	FREE HOLD
	Voy. 86				55.07		(JAPAN)	51.497	3.507				
7	MERCHANT	JULY	1,769	4,930	326,176	"	NIPPI OVERSEAS	317,380	20,796	6.80	K 15,447	K 293,506	FREE HOLD
	Voy. 11				55.00		(JAPAN)	51.687	3.312				
8	PIPPIN	AUGUST	1,335	4,614	253,769	"	NIPPI OVERSEAS	238,484	15,283	6.44	K 12,203	K 231,862	FREE HOLD
	Voy. (46)				50.88		(JAPAN)	50.88					
9	INNA	SEPTEMBER	1,320	4,497	228,798	"	NIPPI OVERSEAS	228,798	0	0	K 10,949	K 208,039	FREE HOLD
	Voy. 91				52.93		(JAPAN)	52.93					
10	PIPPIN	OCTOBER	1,251	4,269	225,990	"	NIPPI OVERSEAS	225,990	0	0	K 10,745	K 204,163	FREE HOLD
	Voy. (49)				53.33		(JAPAN)	53.33					
11	SOYOUNG	NOVEMBER	1,486	4,426	229,399	"	NIPPI OVERSEAS	229,399	0	0	K 13,914	K 264,381	FREE HOLD
	Voy. 1				54.00		(JAPAN)	54.00					
12	PIPPIN	NOVEMBER	1,503	4,762	257,172	"	NIPPI OVERSEAS	257,172	0	0	K 2,183	K 11,161	FREE HOLD MARAMBUL LTA
	Voy. (50)						(JAPAN)						
				57,314	303,693			291,979	117,148	4,022			
PIPPIN	(7)												
INNA	(3)												
MERCHANT													
SO YOUNG													



SCHEDULE 13A  
BISMARK INDUSTRIES PTY LTD  
1987  
COMPARISON WITH MEP PRICES

MONTH	VESSEL	VOLUME	FOB \$US	MEP \$US	+ MEP
JAN	ORIENTAL BEAR	1500.223	90763.49	88472.77	2290.72
FEB	No 4 BINEKA	2120.711	146329.06	128830.13	17498.93
APR	PIPPIN 1	4601.916	294522.62	272316.00	22206.62
MAY	PIPPIN 1	4611.626	276697.56	254229.42	22468.14
JUN	GROW	5586.246	346347.24	324028.92	22318.33
JUL	LILIANA	4632.229	324256.03	263129.69	61126.34
AUG	URANIA	4527.200	398393.60	256967.62	141425.98
SEP	EVER BRIGHT	4820.905	433881.45	426915.70	6965.75
OCT	SPECO BARON	5560.313	500428.17	483490.96	16937.21
NOV	PIPPIN 1	4692.359	459851.18	432416.86	27434.32
DEC	PIPPIN 1	4694.544	450676.22	413077.92	37598.30
TOTAL		47348.272	3722146.63	3343875.99	378270.64 (11.31%)

SCHEDULE 13B  
BISMARCK INDUSTRIES PTY LIMITED  
1987  
UNIT PRICES AND GRADINGS

NO	RESULT	FOB AV	MEP AV	SSP	SP1	SP2	SS1	SS2	SS3
13	Invoice to FIC	60.50	58.973	NIL	13/ 75.139 5.08%	18/ 92.620 6.17%	201/ 825.279 55.01%	190/ 505.415 33.69%	1/ 1.770 0.12%
14	Fixed in detail of MEP items fluctuating at diff levels over MEP though invoice across the board Invoice to Nippi O/S	69.00	60.769	NIL	8/ 57.677 2.72%	21/ 107.720 5.08%	308/ 1194.399 56.32%	285/ 757.419 35.71%	2/ 3.496 0.16%
15	"	64.00	59.186	NIL	19/ 104.902 2.28%	81/ 455.401 9.9%	768/ 3091.188 67.17%	335/ 943.598 20.50%	3/ 6.829 0.15%
16	"	60.00	55.135	1/ 1.886 0.04%	29/ 169.877 3.68%	71/ 376.123 8.15%	730/ 2897.313 62.82%	395/ 1152.399 24.99%	7/ 14.028 0.30%
17	"	62.00	58.007	1/ 1.008 0.01%	9/ 72.273 1.29%	29/ 187.035 3.34%	642/ 2734.399 48.95%	792/ 2586.124 46.29%	2/ 5.407 0.09%
18	"	70.00	56.806	NIL	NIL	10/ 70.214 1.51%	406/ 1741.627 37.6%	837/ 2820.388 60.88%	NIL
19	"	88.00	56.763	NIL	NIL	4/ 34.795 0.76%	381/ 1755.236 38.77%	731/ 2730.523 60.31%	3/ 6.646 0.14%
20	" Invoice to Nippi Boeki KK	90.00	88.572	NIL	6/ 60.745 1.26%	7/ 55.021 1.14%	387/ 1936.716 40.17%	800/ 2766.233 57.38%	1/ 2.190 0.04%
21	" Invoice to Nippi O/S	90.00	86.958	NIL	18/ 120.460 2.16%	62/ 302.378 5.43%	455/ 1937.804 34.85%	843/ 3020.713 54.32%	52/ 178.958 3.21%
22	" Invoice to Nippo O/S	98.00	92.160	NIL	10/ 55.909 1.19%	60/ 364.162 7.76%	548/ 2189.585 46.66%	575/ 1953.523 41.63%	37/ 129.180 2.75%
23	" Invoice to Nippi O/S	96.00	87.991	NIL	30/ 186.760 3.98%	106/ 552.560 11.77%	592/ 2328.838 49.61%	466/ 1587.491 33.81%	16/ 38.895 0.83%
TOTALS		78.612	70.623	2/ 2.894 0.006%	142/ 903.742 1.91%	469/ 2598.029 5.49%	5418/ 22632.384 47.80%	6249/ 20823.826 43.98%	124/ 387.397 0.82%

## Schedule 13c

No. \_\_\_\_\_

## SECTION OF HANDING TABLE

SHIPMENT NO.	VESSEL	MONTH OF SHIPMENT	NO. OF LOGS	VOLUME OF LOGS	FOB PRICE TO PRODUCERS (USD)	PRICER RATES(S)	COUNTRY OF PURCHASER	NOTIFY PARTY	PRICE (USD)	M.A.P. AMOUNT ABOVE/BELON %	M.A.P. COMPARISON	REMARKS OF PROCEEDS (MTH/USD)	ROYALTIES PRODUCER CONTRACTOR	OPERATED AREA
1987		1987												
13	P. BEAR	JANUARY	423	1,500	60.50	90,763	UNKNOWN	F. I. C.	DON/BAH ENV.	58.981	1.527			
	Voy. F.444				69.00		(PN4)	(KOREA)	60.769	8.254				MARUBI LPA
14	NO. 4 BINEKA	FEBRUARY	624	2,120	146,329	"	NIPPI OVERSEAS	NIPPI OVERSEAS	128,830	17,499 + 13.98 +	K 4,335	K 1,500	K 79,637	SEMEAN MARAMBU
	Voy. 6Z				64.00		(JAPAN)		59.186	4.926				
15	PIPPIN I	APRIL	1,206	4,601	294,522	"	NIPPI OVERSEAS	NIPPI OVERSEAS	272,316	22,206 + 8.14 +	K 18,223	K 2,624	K 24,150	SEMEAN
	Voy. (F4)				60.00		(JAPAN)		55.135	4.816				
16	PIPPIN I	MAY	1,233	4,611	276,697	"	NIPPI OVERSEAS	NIPPI OVERSEAS	254,229	22,468 + 8.13 +	K 18,262	K 2,446	K 223,983	SEMEAN
	Voy. (F6)				62.00		(JAPAN)		58,807	4.00				
17	GROW	JUNE	1,475	5,586	346,347	"	NIPPI OVERSEAS	NIPPI OVERSEAS	324,028	22,319 + 6.88 +	K 22,121	K 3,059	K 280,780	SEMEAN
	Voy. 8				70.00		(JAPAN)		56,806	13.196				
18	LILIANA	JULY	1,253	4,632	324,256	"	NIPPI OVERSEAS	NIPPI OVERSEAS	263,129	61,127 + 23.23 +	K 18,343	K 2,899	K 268,712	SEMEAN
	Voy. 58				88.00		(JAPAN)		56,763	31.240				
19	URANIA	AUGUST	1,119	4,527	378,393	"	NIPPI OVERSEAS	NIPPI OVERSEAS	356,967	141,426 + 15.03 +	K 17,927	K 3,597	K 338,231	SEMEAN
	Voy. 14				90.00		(JAPAN)		88,571	1.445				
20	EVER BRIGHT	SEPTEMBER	1,201	4,820	432,881	"	NIPPI BDEKI	NIPPI BDEKI K.K.	426,915	6,966 + 1.63 +	K 19,090	K 3,786	K 355,729	SEMEAN
	Voy. 11				90.00		(JAPAN)		86,958	3.046				
21	SPELO BARON	OCTOBER	1,430	5,560	500,428	"	NIPPI OVERSEAS	NIPPI OVERSEAS	483,490	16,938 + 3.50 +	K 22,018	K 4,387	K 412,297	SEMEAN
	Voy. 13				98.00		(JAPAN)		92,160	5.847				
22	PIPPIN I	NOVEMBER	1,230	4,692	459,251	"	NIPPI OVERSEAS	NIPPI OVERSEAS	432,416	27,435 + 6.34 +	K 18,581	K 4,125	K 389,27	SEMEAN
	Voy. (13)				96.00		(JAPAN)		88.00	8.010				
23	PIPPIN I	DECEMBER	1,210	4,694	450,676	"	NIPPI OVERSEAS	NIPPI OVERSEAS	413,077	37,599 + 9.10 +	K 17,798	K 3,916	K 369,965	SEMEAN
	Voy. (14)						(JAPAN)							
PIPPIN I - (4)				47,343	3,722,143	✓			3,343,869	378,274	11.51%			
					44% 90,763									
					2,631,388									
					181,506.15									
					186,707.15									

Schedule 14  
BISMARK INDUSTRIES PTY. LTD.

PHONE: 92-2366 92-2372

TELEGRAM: "BISMARIND RABAU"

TELEX NE92977 BISMARK

P.O. BOX 430, RABAU,

PAPUA NEW GUINEA

Rabaul, 14th May, 1984.

The Director,  
Office of Forest  
Department of Primary Industries  
P.O. BOX 5055, Boroko.

Dear sir,

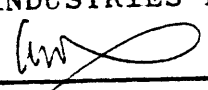
APPLICATION FOR EXPORT AUTHORITY

We hereby apply for your Export Authority for the following log shipments:

- |                      |   |
|----------------------|---|
| (1) Exporter         | : Bismark Industries Pty Ltd  |
| (2) Producer         | : Bismark Industries Pty Ltd  |
| (3) Area Produced    | : Putput Freehold No. FOR435 - Approx 10,000M <sup>3</sup><br>Senbam TP No. 15-18 - " 20,000M <sup>3</sup>  |
| (4) Volume           | : 30,000 Cubic Metres in Round logs Form.   |
| (5) Species          | : Mixed   |
| (6) Port of Loading  | : Putput, East New Britain  |
| (7) Time of Shipment | : 1st June 1984 - 30th November, 1984   |
| (8) Buyers           | : Nippi Overseas Development Co. Ltd.<br>11-4-1100, Umeda 1-Chome, Kita-ku,<br>Osaka, Japan.<br><br>Tokugawa (S'pore) Pte Ltd.<br>Room 1506, Robina House, Shenton Way,<br>Singapore. |
| (9) Destination      | : Japan and Korea   |
| (10) Payment         | : By Irrevocable Letter of Credit   |
| (11) Price           | : As per current Minimum Export Price<br>or above   |

It will be appreciated very much if you would advise the Export Licensing Officer on your granting Authority.

Yours faithfully,  
BISMARK INDUSTRIES PTY LTD

  
\_\_\_\_\_  
Manager,

NB  
Received copy of application for  
Export Authority.  
AB  
1984-11-11

*F1/F2 Please consider  
Prepare necessary  
recommendation*

**BISMARK INDUSTRIES PTY. LTD. to F&T.**

P. O. BOX 430, RABAU, PAPUA NEW GUINEA

PHONE: 92-2366 92-2372 TELEX NE92977 BISMARK

*Yuan  
2/01.  
2/11.*

Rabaul, 5th November, 1984.

The Director,  
Office of Forest  
Department of Primary Industry  
P.O.Box 5055, Boroko.

Dear Sir,

APPLICATION FOR EXPORT AUTHORITY

We hereby apply for your Export Authority for the following log shipments:

- |                      |   |
|----------------------|---|
| (1) Exporter         | : Bismark Industries Pty Ltd.   |
| (2) Producer         | : Bismark Industries Pty Ltd.   |
| (3) Area Produced    | : Putput Freehold No.FOR435-Approx 15,000M3<br>Senbam TP No.15-18 - " 15,000M3  |
| (4) Volume           | : 30,000 Cubic Metres in Round Logs Form.   |
| (5) Species          | : Mixed   |
| (6) Port of Loading  | : Putput, East New Britain  |
| (7) Time of Shipment | : 1st December 1984 - 31st May 1985.  |
| (8) Buyers           | : Nippi Overseas Development Co. Ltd.<br>11-4-1100, Umeda 1-Chome, Kita-ku,<br>Osaka, Japan.<br>Tokugawa (S'pore) Pte Ltd.<br>Room 1506, Robina House, Shenton Way,<br>Singapore.<br>Eternal Limited.<br>4/F Wings Building 110-116 Queens Road,<br>Central Hongkong. |
| (9) Destination      | : Japan and Korea.  |
| (10) Payment         | : By Irrevocable Letter of Credit.  |
| (11) Price           | : As per current Minimum Export Price<br>or above   |

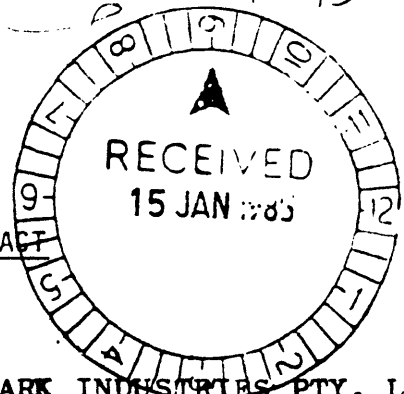
It will be appreciated very much if you would advise the Export Licensing Officer on your granting Authority.

Yours faithfully,

BISMARK INDUSTRIES PTY LTD

*W*

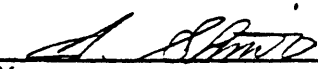
\_\_\_\_\_  
Manager,  
T. Fujino



INFORMATION ON PRE-SHIPMENT EXPORT CONTRACT

1. Exporter (Name/address) **BISMARK INDUSTRIES PTY. LTD.**  
P.O. BOX 430 RABAUL.
2. Producer (Name/address) **Same as above**
3. Date of Export contract: .....
4. Importer (name (s)/address (s) .....
5. Contracted price: ..... per m3
6. Contracted/volume: ..... m3
7. Date/period of shipment: .....
8. Port of destination: .....
9. Port of shipment/Loading **PUTPUT/RABAUL, EAST NEW BRITAIN**

Signature of the Manager  
(Exporting Company)

  
Manager

Date: 8th January, 1985.

\* Note: Information may be treated in tentative only

We do not have any fixed contract, however, we have an agent in Hong Kong (Kong Ming Agency, 4F Wings Building 110-116 Queens Road, Central, Hong Kong) for log sales in overseas.

We are anticipating to export monthly 5,000 Cubic Meters logs to the best possible buyers at prevailing prices at time of each shipment. Every shipment is fixed by exchanging Telex with the Agent.

154-15-9 13

# BISMARK INDUSTRIES PTY. LTD.

P. O. BOX 430, RABAU, PAPUA NEW GUINEA

PHONE: 92-2366 92-2372 TELEX NE92977 BISMARK

Rabaul, 25th April, 1985

The Director,  
Office of Forest,  
Department of Primary Industries.  
P.O. Box 5055, Boroko.

Dear Sir,

APPLICATION FOR EXPORT AUTHORITY

We wish to apply for your Export Authority for the following log shipments;

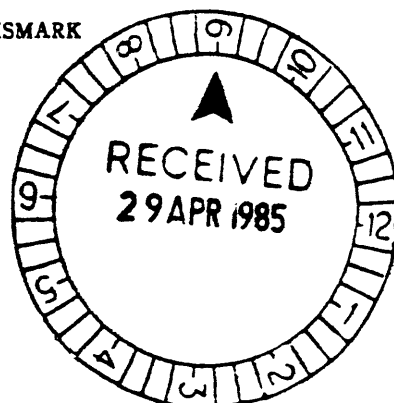
- 5.84045  
30,000  
22.11.84 - 21.5.85
- |                      |  |
|----------------------|--|
| (1) Exporter         | : Bismark Industries Pty. Ltd.   |
| (2) Producer         | : Bismark Industries Pty. Ltd.   |
| (3) Area Produced    | : Putput Freehold No. POR435 - Approx 20,000 M3<br>Senbam TP No. 15-18 - Approx 20,000 M3  |
| (4) Volume           | : 40,000 Cubic Meter in Round Logs Form.   |
| (5) Species          | : Mixed (Non conifer)  |
| (6) Port of Loading  | : Putput, E.N.B.P.   |
| (7) Time of Shipment | : 22nd May, 1985 - 21st November, 1985   |
| (8) Buyers           | : Nippi Overseas Development Co., Ltd.<br>11-4-1100, Umeda 1-Chome, Kita-Ku,<br>Osaka, Japan.<br><br>Universe Limited.<br>4F, Wings Building, 110-116 Queen's Road,<br>Central, Hong Kong. |
| (9) Destination      | : Japan and Korea  |
| (10) Payment         | : By Irrevocable Letter of Credit.   |
| (11) Price           | : As per current Minimum Export Price or above.  |

We appreciate it very much if you would advise the Export Licensing Officer on your granting Authority as soon as possible.

Yours faithfully,

BISMARK INDUSTRIES PTY. LTD.

Manager, J. IWASA



DIRECTOR'S OFFICE	
Date Received	29.4.85
Refer to and / or file no.	F2
Signed	

*F3! - Pls recommend to  
FA+T. License to be  
effective from 23/11/85 for  
period of 6 months*

**BISMARK INDUSTRIES PTY. LTD.**

P. O. BOX 430, RABAU, PAPUA NEW GUINEA

PHONE: 92-2366 92-2372 TELEX: NE92977 BISMARK

Rabaul, 21st October, 1985

The Director,  
Office of Forest,  
Department of Primary Industries,  
P.O. Box 5055, Boroko.

Dear Sir,

APPLICATION FOR EXPORT AUTHORITY


We wish to apply for your Export Authority for the following log shipments;

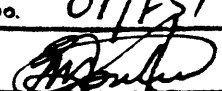
- |                      |   |
|----------------------|---|
| (1) Exporter         | : Bismark Industries Pty. Ltd.  |
| (2) Producer         | : Bismark Industries Pty. Ltd.  |
| (3) Area Produced    | : Putput Freehold No. POR435 - Approx. 10,000 M3<br>Senbam TP No. 15-18 - Approx. 20,000 M3   |
| (4) Volume           | : 30,000 Cubic Meter in Round Logs Form.  |
| (5) Species          | : Mixed (Non conifer)   |
| (6) Port of Loading  | : Putput, E.N.B.P.  |
| (7) Time of Shipment | : 23rd November, 1985 - 22nd May, 1986  |
| (8) Buyers           | : Nippi Overseas Development co., Ltd.<br>11-4-1100, Umeda 1-Chome, Kita-Ku,<br>Osaka, Japan. |
|                      | Universe Limited.<br>4F, Wings Building, 110-116 Queen's Road,<br>Central, Hong Kong.         |
| (9) Destination      | : Japan and Korea   |
| (10) Payment         | : By Irrevocable Letter of Credit.  |
| (11) Price           | : As per current Minimum Export Price or<br>above.  |

We appreciate it very much if you would advise the Export Licesing Officer on your granting Authority as soon as possible.

Yours faithfully,

BISMARK INDUSTRIES PTY. LTD.

  
Manager, J. Shindo

SECRETARY'S OFFICE	
Date Received	18/10/85
Refer to and/or file no.	01/FSI
Signed	

*Reply AN 22062  
sent on 6/11/85 amount  
11288988*



172

# BISMARK INDUSTRIES PTY. LTD.


P. O. BOX 430, RABAU, PAPUA NEW GUINEA

PHONE: 92-2366 92-2372 TELEX NE92977 BISMARK

Rabaul, 15th April, 1986

The Director,  
Office of Forest,  
Department of Primary Industries  
P.O. Box 5055, Boroko

Dear Sir,

SECRETARY'S OFFICE	
Date Received	15-4-86
Refer to and/or file no.	FSP/154-15-9
Signed	

## APPLICATION FOR EXPORT AUTHORITY

We wish to apply for your Export Authority for the following log shipments.

- |                      |  |                             |
|----------------------|--|-----------------------------|
| (1) Exporter         | : Bismark Industries Pty. Ltd.   |                             |
| (2) Producer         | : Bismark Industries Pty. Ltd.   |                             |
| (3) Area Produced    | : Putput Freehold No. POR435 - Approx 15,000 M3<br>Senbam TP No. 15-18 - Approx 15,000 M3              |                             |
| (4) Volume           | : 30,000 Cubic Meters in Round Logs Form.  |                             |
| (5) Species          | : Mixed (Non conifer)  |                             |
| (6) Port of Loading  | : Putput, E.N.B.P.   |                             |
| (7) Time of Shipment | : 23rd May, 1986 - 22nd November, 1986   | 40,000-3/4<br>11/1/86 (10y) |
| (8) Buyers           | : Nippi Overseas development co., Ltd.<br>11-4-1100, Umeda 1-Chome, Kita-ku,<br>Osaka, Japan.          |                             |
|                      | Universe Limited./Eternal Limited.<br>4F, Wings Building, 110-116 Queen's Road,<br>Central, Hong Kong. |                             |
| (9) Destination      | : Japan and Korea.   |                             |
| (10) Payment         | : By Irrevocable Letter of Credit.   |                             |
| (11) Price           | : As per current Minimum Export Price or<br>above.   |                             |

We appreciate it very much if you would advise the Export Licensing Officer on your granting Authority as soon as possible.

Yours faithfully,

BISMARK INDUSTRIES PTY. LTD.

  
Manager, K. Matunaga

C.C. The Export Licensing Officer, Dept of Trade and Industry.  
Mr. Joseph M Badi, Special Projects Officer, Office of  
Forests, Rabaul.

154.5-9  
(191)

# BISMARK INDUSTRIES PTY. LTD.

P. O. BOX 430, RABAU, PAPUA NEW GUINEA

PHONE: 92-2366 92-2372 TELEX: NE92977 BISMARK

Rabaul, 15th September, 1986

The Director,  
Office of Forest,  
Department of Primary Industries  
P.O. Box 5055, Boroko

Dear Sir,

APPLICATION FOR EXPORT AUTHORITY

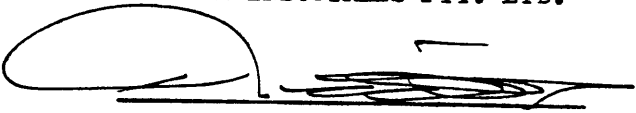
We wish to apply for your Export Authority for the following log shipments.

- |                      |  |
|----------------------|--|
| (1) Exporter         | : Bismark Industries Pty. Ltd.   |
| (2) Producer         | : Bismark Industries Pty. Ltd.   |
| (3) Area Produced    | : Putput Freehold No. POR435 - Approx 10,000 M3<br>Senban TP No. 15-18 - Approx 10,000 M3<br>Marambu MTA - Approx 10,000 M3  |
| (4) Volume           | : 30,000 M3 in Round Logs Form.  |
| (5) Species          | : Mixed (Non conifer)  |
| (6) Port of Loading  | : Putput, E.N.B.P.   |
| (7) Time of shipment | : 1st November, 1986 - 30th April, 1987.   |
| (8) Buyers           | : Nippi Overseas Development Co., Ltd.<br>11-4-1100, Umeda 1-chome, Kita-ku, Osaka, Japan.<br><br>Universe Limited. / Eternal Limited.<br>4F, Wings Building, 110 - 116 Queen's Road,<br>Central, Hong Kong. |
| (9) Destination      | : Japan and Korea.   |
| (10) Payment         | : By Irrevocable Letter of Credit.   |
| (11) Price           | : As per Current Minimum Export Price or above.  |

We appreciate it very much if you would advise the Export Licensing Officer on your granting Authority as soon as possible.

Yours faithfully,

BISMARK INDUSTRIES PTY. LTD.

  
Manager, K. Nishiwaki

C.C. The Export Licensing Officer, Dept of Trade and Industry.

Mr. Joseph M Badi, Special Projects Officer, Office of Forest, Rabaul.

NB  
Received above named  
Export Authority form.

Ag  
K1  
2/10/86

104-10-7  
Actioned

# BISMARK INDUSTRIES PTY. LTD.

P. O. BOX 430, RABAU, PAPUA NEW GUINEA

PHONE: 92-2366 92-2372 TELEX: NE92977 BISMARK

Rabaul, 7th October, 1986

The Director,  
Office of Forest,  
Department of Primary Industries  
P.O. Box 5055, Boroko

Dear Sir,

APPLICATION FOR EXPORT AUTHORITY

We wish to apply for your Export Authority for the following log shipment.

- |      |                  |  |
|------|------------------|--|
| (1)  | Exporter         | : Bismark Industries Pty. Ltd.   |
| (2)  | Producer         | : Bismark Industries Pty. Ltd.   |
| (3)  | Area Produced    | : Putput Freehold No. POR 435.   |
| (4)  | Volume           | : 6,000 M3 in Round Logs Form.   |
| (5)  | Species          | : Mixed (Non conifer)  |
| (6)  | Port of Loading  | : Putput, E.N.B.P.   |
| (7)  | Time of shipment | : 20th October, 1986 - Early November, 1986.<br>Name of vessel will be nominated soon.   |
| (8)  | Buyer            | : Nippi overseas Development Co., Ltd.<br>11-4-1100, Umeda 1-chome, Kita-ku, Osaka, Japan.<br>or<br>Universe Limited/Eternal Limited.<br>4F, Wings Building, 110-116 Queen's Road,<br>Central, Hongkong. |
| (9)  | Destination      | : Japan or Korea.  |
| (10) | Payment          | : By Irrevocable Letter of Credit.   |
| (11) | Price            | : As per Current Minimum Export Price or above.  |

We appreciate it very much if you would advise the Export Licensing Officer on your granting Authority as soon as possible.

Yours faithfully,

BISMARK INDUSTRIES PTY. LTD.



Manager, K. Nishiwaki

C.C. The Export Licensing Officer, Dept of Trade and Industry.

Mr. Joseph M Badi, Special Project Officer, Office of Forest, Rabaul.

2554  
BOROKO

7 June, 1988

The Business Manager  
Roman Catholic Archdiocese  
of Rabaul  
PO Box 414  
RABAUl ENB

277703

Dear Sir,

**TIMBER PERMIT NO. 15 - 18**  
**SENBAM TIMBER RIGHTS PURCHASE AREA**

---

The above-described Timber Permit was granted to the Archdiocese on 30 July 1982 by the then Minister for Forests Hon. Joseph Aoae. Commencement of operation had been earlier authorised by letter dated 5 November 1980 the terms of which appear to have been accepted by Fr. Tim O'Neill on 17 December, 1980.

It appears that on 18 October a series of Deeds of Agreement were entered into between the Archdiocese of the one part and Bismark Industries Pty Limited of the other part relating to both the Senbam Timber Rights Purchase Area and an adjacent area of approximately 16,800 ha. of land freehold title to which is vested in the Archdiocese.

It further appears that under the terms of one of that series of Deeds the Archdiocese in effect:-

- (a) assigned to Bismark Industries (as the exclusive agent of the Archdiocese) the right to obtain/remove export and sell forest produce from the Senbam TRP area.

- (b) obliged Bismark Industries to comply with the terms and conditions to which the Timber Permit for the Senbam TRP area is subject.
- (c) took an indemnity from Bismark Industries in respect of the obligations specified in (b) and provided that such indemnity be supported by a K50,000.00 Bank Guarantee in favour of the Archdiocese.

In public hearings on 1 & 2 June 1988 the Commission examined the activities of Bismark Industries including compliance with the terms and conditions of the Timber Permit for the Senbam TRP area.

The Commissioner (Mr Justice Barnett) was concerned at a number of aspects of the evidence which has emerged. I have therefore been directed by the Commission to outline to you the areas of concern which may affect the Archdiocese and to invite you to make such response, if any, as you consider appropriate to the Commission at the earliest opportunity.

#### 1. PRESENT RESOURCE

The evidence is that the commercially accessible resource remaining in the Senbam TRP Area is in the order of 10,000 m3 (between 1 and 2 log shipments) and that the Area will "cut out" within a few months. The resource has in effect been virtually exhausted. The evidence further is that the timber resource on the freehold land is effectively exhausted.

#### 2. BISMARK INDUSTRIES POSITION

The evidence is that the liquidity position of Bismark Industries is "tight". Historically the Company has paid a "commission" at the rate of 5% of the FOB price for export logs to a Hong Kong based company; Universe Limited. That "commission" has not been paid in respect of the two or three shipments made to date during 1988; is payable in respect of such shipments and remains unpaid due to financial problems where Bismark Industries could not afford to pay.

#### 3. TIMBER PERMIT CONDITIONS

In broad terms the Permit envisages the export of total production (to a cut and export limit of 40,000 m3 per year) provided, inter alia, roading requirements and follow up landuse projects are kept to schedule. In exchange obligations were imposed regarding road construction and establishment (in co-operation with traditional landowners) or forest and agricultural plantations.

These aspects were detailed in the 1980 Letter of Intent and in the Permit for the Senbam TRP.

The Roothing obligations (Item 17 of the Letter and Clause 16 of the Permit) require roads of specified standard to be constructed as follows:-

- (a) PUPPUT Boundary to SENBAM Village (8 km) by 30/6/81
- (b) SENBAM Village to MARAMBU River (5 km) by 31/12/81
- (c) MARAMBU River to MARAMBU Village (5 km) by 30/6/82

The Plantation Establishment obligations (Item 15 of the Letter and Clause 29 of the Permit) require biannual reports of progress and adherence to a schedule of events consisting:-

- (i) identifying not less than 2,000 m3 of potential agriculture land and requesting DPI to undertake a soil survey by 31/12/81.
- (ii) submitting survey and subdivision plans for approval by 31/12/82.
- (iii) completing ground survey of block subdivisions and construction of access and internal roads by 31/12/83.
- (iv) completing allocation of all smallholder blocks by 30/6/84.
- (v) assisting blockholders to establish not less than 300 hectares of cash crop by establishing plant nurseries and distributing seedlings.
- (vi) establishing 1,000 ha of forest plantations at the rate of 200 ha. per year from 1/1/86.

The evidence is that the benefit of extracting logs for export has been fully availed of to the extent the resource is virtually exhausted - without regard to roading and follow up landuse projects being kept to schedule. The further evidence is that the obligations imposed have been virtually ignored and were virtually ignored until February 1988 when the East New Britain Assistant Secretary (Forests) wrote to the Archdiocese.

At present the compliance with roading conditions is as follows:-

- (a) The Put Put Boundary to Senbam Village road has been completed - it is said to the prescribed standard.
- (b) The Senbam Village to Marambu River road has not been completed to the prescribed standard but work is continuing and expected to complete within a few months - almost 6½ years after scheduled completion.

- (c) The Marambu River to Marambu Village road has recently commenced - using one tractor. There is no road plan and no surveyed route but completion is scheduled (very optimistically it seems) within a few months - over 6 years behind scheduled completion.

Nothing, it seems, was done at all about the Plantation Establishment obligation until February 1988 after the Assistant Secretary's letter and as a result of that letter - though Bismark Industries has in the meantime established about 800 ha. planting about 40,000 seedlings in its own cocoa plantations on the freehold land leased from the Archdiocese.

In February 1988 Bismark Industries commissioned Island Plantations Management Services Pty Ltd., to carry out a survey of land and soil types in Senbam TRP area. Four eight kilometre cross traverses of soil test auger surveying was carried out. A 300 hectare cocoa nucleus estate is proposed by IPMS which estimates such estate would have a value of over K1 million at full production. The reafforestation estate obligation is dismissed implicitly on the basis "much of the soil is too thin to support a ... reafforestation project".

The only written report obtained is less than one page in length. Based on this "scientific evidence" Bismark Industries with the Archdiocese sought to be relieved from reforestation obligations by letter to the Secretary of Forests dated 29 April 1988 - some two years after reforestation planting was to commence.

The proposed agricultural areas were "identified" some 6½ years behind schedule.

The further evidence is that some 30 blocks aggregating 300 ha. have been cement pegged; that soil test results as to suitability for cocoa are awaited from New Zealand and that nothing firm will be undertaken without consultation to Mr. Shindo.

It has been foreshadowed it will be argued to the Commission that a reafforestation obligation of 1000 ha. would cost around K3.5 million and that the Senbam TRP resource could not justify such a commitment. According to Dept. of Forests estimates the cost would be in the order of K2.2 million. An obvious question is why this argument is raised now when the resource is all but exhausted rather than in 1980 when the Letter of Intent was accepted; in 1980 when the Archdiocese contracted with Bismark Industries or in 1982 when the Timber Permit was negotiated and granted. It seems that at a time when the full benefit has been taken the hitherto unquestioned obligations are now being sought to be evaded.

#### 4. MARKETING, ETC. ARRANGEMENTS

Though there are no specific obligations imposed - on the Archdiocese in the Letter of Intent or Timber Permit or by the Archdiocese on Bismark Industries in the various Deeds - to obtain "best prices" for the freehold or Sanbam TRP area log exports marketing and related activities have been considered by the Commission.

Essentially the whole log export production of Bismark Industries has been disposed of to one buyer - NIPPI OVERSEAS DEVELOPMENT CO. (NIPPI KAIGAI KAIHATSU). It seems NIPPI OVERSEAS was established by Mr Hiew Teck Seng (who also owned Sampling Timber in Mire Sarowak) to handle Japanese imports from Sampling Timber and Bismark Industries - by resale in part ship lots or full ship lots into the Japanese wholesaler market structure. Mr Seng is a shareholder in Bismark Industries and it is said he financed Mr Shindo in establishing Bismark Industries. Log sales were previously said to be effected through Tokugawa (Singapore) Pte Ltd which was a shareholder in Bismark Industries and is believed to have been owned or controlled by Mr Seng. It is believed (by virtue of the rate of "Royalty Tax" paid pursuant to Section 47(1)(f) of the Income Tax Act as fixed by Section 6A of the Income Tax (Rates) Act (Consolidated)) that Universe Limited is related to Bismark Industries. Universe Limited was paid a sum equal to 5% FOB sales price during 1985, 1986 and 1987 and such percentage is payable but unpaid for 1988. In addition the logging subcontractor to Bismark Industries - PutPut Logging Pty Limited is shown by Companies Office records to be 75% owned by Mr Shindo.

The facts that virtually all Bismark Industries Logging work and obligations are subcontracted to PutPut Logging; that Bismark sells only to a company NIPPI OVERSEAS DEVELOPMENT established by its shareholder and financier Mr Seng and that NIPPI OVERSEAS DEVELOPMENT operates only as a reseller of PNG logs in Japan coupled with the facts that Bismark Industries pays commission to corporations in favoured tax areas which are related to it and which it seems do little if anything to earn that Commission suggest that a structure has been created whereby:-

- (a) Bismark Industries need not obtain full value for its log exports from Sanbam TRP area and the freehold lands.
- (b) Nippi Overseas Development can "mark up" its resale price on PNG logs to Japanese wholesalers by higher than usual Japanese importer margins - thus transferring part of the "true" value to NIPPI OVERSEAS DEVELOPMENT.
- (c) Part of the Bismark Industries "price" can be diverted in the form of "unearned" commission to related companies in favourable tax areas.



When one adds to this potential the facts that:-

- (i) The FOB prices obtained by Bismark Industries until 1987 appear closely related to and fixed in relation to minimum export prices.
- (ii) The wide fluctuations in the grading of low grade logs by Bismark Industries which are generally much higher than the National averages and the absence of high grade peeler class logs (two SSP grade logs only in four years of export operation),

the Commission has been asked to find that Bismark Industries has been engaged in the practice of transfer pricing.

As indicated earlier there are no express obligations regarding "best price" but I draw these matters to your attention as under the Deeds Bismark Industries sells produce from Senbam TRP area as the agent of the Archdiocese.

The foregoing shortly outlines what has emerged before the Commission.

The Timber Permit imposes obligations on the Archdiocese which has liability thereunder notwithstanding its contractual arrangements with Bismark Industries.

You are therefore invited to put any relevant material you wish before the Commission in relation to othe foregoing. I request you would please make such response as you wish within fourteen (14) days.

Yours faithfully,

JOHN S REEVE,  
Counsel Assisting the Commission.

**APPENDIX 8**

**LUSCO ENTERPRISES PTY LTD**

APPENDIX 8LUSCO ENTERPRISES PTY LIMITEDINTRODUCTION

Lusco Enterprises Pty Limited (Lusco) is not operationally involved but involved only in marketing. It acts either as a sales agent for or as a trader (buying and reselling) in logs for a number of smaller producers,

The manner in which the affairs of this company were investigated by and dealt with before the Commission (as detailed below) is of significance. Its principal Rex Grattidge has, in my view conducted himself disgracefully in avoiding appearing before the Commission, in seeking to "hide behind" statutory declarations which were made after the event and were not tested and in creating an impression that he had travelled to Hong Kong to obtain information requested by the Commission when in fact all he was doing was seeking to put revelatory and critical documents beyond his control so that he would be unable to produce them to the Commission.

CORPORATE BACKGROUND

The activities of Lusco involve not only that company itself but the Hong Kong Company Holdcrown Limited and another Hong Kong entity May Shan Trading Inc.

### Lusco Enterprises Pty Limited

The documents for Lusco's incorporation were lodged for registration in July, 1980. The directors and subscribers - each for one share were Rex Grattidge and Robin Kumaina. The company was incorporated on 13 March 1981. In July, 1983 Mr Kumaina resigned as a director and Mathiva Garamit Grattidge joined Mr Grattidge as a director. The shareholding of the company appears to be:-

Rex William Grattidge	24 shares
Mathiva Garamit Grattidge - own right	26 shares
- for children	<u>50 shares</u>
	<u>100 shares</u>

### Holdcrown Limited

According to Mr Grattidge Holdcrown Limited (Holdcrown) was incorporated in Hong Kong on 19 July, 1985. Holdcrown was originally owned 40% by Rex Grattidge, 40% by Mathiva Grattidge and 20% by the Hong Kong based Eddie Chow.

On 20 April 1987 the shareholding was changed with Mr and Mrs Grattidge holding 33% each and Mr Chow 34%. On 31 March 1988 Mr Grattidge says he and his wife resigned as directors and sold their shares to Mr Chow. (This date does not appear correct and I deal with this aspect below).

May Shan Trading Inc

The legal nature of this entity is not known. It is clearly associated with at least Eddie Chow and was the Hong Kong vehicle for Lusco's sales between August and October 1987. It had the same address as Holdcrown in November 1987.

CORPORATE INTERRELATIONS

Lusco deals direct with its PNG producers and makes arrangements at the PNG end. For this Lusco receives either a fixed rate commission or a commission which is a percentage of the price paid to the producer.

According to Mr Grattidge Lusco was originally established to assist Lu Brothers of Taiwan and was 100% Taiwanese owned. If this is true the Taiwanese shareholding was not disclosed in companies office records and Mr Grattidge and Mr Kumaina were, according to those records, "fronts" for the Taiwanese owners. I have not checked whether Lusco was NIDA registered during this time but if it was not then, on Mr Grattidge's statutory declaration evidence, there was a continuing breach of the NIDA Act.

When Lu Brothers lost interest Mr Grattidge says he and his wife took over the company. From Mr Grattidge's version of events this must have happened before 1981 but the change he describes is only shown, according to companies office records, as occurring in July 1983. He says that in 1981 contact was made and business commenced with Weyerhaeuser (Far East) who then acted as selling agent on a non exclusive basis for Lusco. Mr Grattidge says that in mid 1985 Weyerhaeuser decided to curtail its Pacific Basin activities and then a decision was made to

disclosed that one of the Hong Kong companies through which he sold was Holdcrown. Tsang gave evidence (See IR No 4 App.7 pages 86-90) of covert profit sharing arrangements made with Holdcrown. He said that he would underprice shipments by USD1-50 to USD2.00 per m3 and that this underpricing margin would be obtained by Holdcrown from the Buyer and held for him in Hong Kong. When Tsang or his wife were in Hong Kong they would collect this USD4,000 to USD5,000 per shipment from Holdcrown. I have estimated that Tsang's sales to Sanyo Kokusaku Pulp (and May Shan Trading) in 1986 and 1987 involved about USD54,000 being transfer priced for Tsang's benefit and accounted for to Tsang by Holdcrown (and May Shan Trading Inc) in Hong Kong.

#### Commission's Questionnaire

Lusco was sent the Commission's questionnaire on marketing and supplied answers to that questionnaire (Schedule 1) and the requested Marketing Tables for 1986 (Schedule 2) and 1987 (Schedule 3). The material supplied was analysed by Commission staff (the writing on Schedules 2 and 3 is that of my staff).

#### Further Information Sought

There were a number of matters arising out of this analysis. I directed that these matters be drawn to the attention of Lusco, that Marketing Tables for 1984 and 1985 be requested and that Mr Grattidge be called before the Commission to give evidence.

Counsel Assisting wrote to Lusco in accordance with my direction on 17 May, 1988 requesting Mr Grattidge to appear on 30 May, 1988 (Schedule 4).

I then directed that details of Lusco's marketing from 1981 to 1983 also be studied by Commission staff. Mr Grattidge engaged Mr Coady as Counsel to represent him before the Commission and at MR Coady's request (made on Mr Grattidges instructions) I agreed to defer the public hearing into Lusco until 14 June, 1988.

Shortly before that date Mr Coady contacted the Commission and advised that he was seeking a further deferment because of a professional commitment on his part and because Lusco was still seeking more material from Hong Kong.

Mr Coady confirmed his request in a letter dated 14 June 1988 and sent with that letter Mr Grattidge's statutory declaration of 10 June 1988 attaching revised marketing tables for 1986 and 1987 and marketing tables for 1984 and 1985. (The letter, declaration and tables are Schedule 5).

This letter was received after 15 June 1988 and after the public hearing. The letter as I have said states "Lusco Enterprises do not not have all the material available to meet your request and that must be obtained from Hong Kong". Such a statement clearly indicated and was intended to indicate that the requested sales invoices from Hong Kong and agreements between Lusco, Holdcrown and May Shan Trading (see Schedule 4 items (c) and (e)) were being obtained.

Additionally I do not accept Mr Grattidge's explanation as to incorrect interpretation of the Commission's questionnaire (Statutory Declaration para 1 - part of Schedule 5).

I accept that incorrect commission figures may have been given. I do not accept the explanation as to omitting to show in the marketing tables that Holdcrown or May Shan was the buyer from Lusco and reseller to the notify party. Mr Grattidge must have known what occurred. I find that Mr Grattidge sought quite deliberately to conceal this fact and that the Statutory Declaration constitutes a facile and dishonest attempt to explain the attempted concealing after he was caught out.

#### Opening in Public Hearing

As the Commission was working to a tight time schedule I directed Counsel Assisting to make a detailed opening address in public session concerning Lusco on 15 June, 1987. This was done and the opening address and evidence to support it was adduced leaving it to Mr Grattidge ( who was said to be in Hong Kong obtaining additional information) to appear and offer such explanations as he wished. A copy of this opening was provided to Mr Coady.

#### Failure to Appear or Adequately Reply

Mr Grattidge did not seek to appear before the Commission but through his Counsel, Mr Coady, submitted a Statutory Declaration dated 20 August 1988 (Schedule 6).

Mr Grattidge has been told, through Mr Coady, that the Commission did not consider this document addressed the clear documentary evidence before the Commission. What the document does is seek give a history of Mr Grattidge Lusco, and Holdcrown; to laud Lusco's efforts and protest its innocence despite clear, unanswered documentary evidence inconsistent with those protests; to



laud Mr Chow and to suggest Lusco and Mr Grattidge have somehow been unfairly treated. What Mr Grattidge offers in response to clear documented evidence is:-

- (a) that his "examination of accounts" shows Holdcrown made 3% commission on average on its log sales (Para 9 and 10);
- (b) that it is unfortunate remarks were made in opening without being aware of the complete picture - it does not deny those remarks (Para 8);
- (c) Holdcrown pays tax on the moneys it earns in Hong Kong and has substantial expenses (Para 9)
- (d) because of "the unpleasantness surrounding the publications in the press since the commencement of the Forest Inquiry" Mr Grattidge had resolved to dispose of his interest in Holdcrown (Para 12)
- (e) Mr Grattidge does not have access to the copies of sale invoices of Holdcrown or May Shan Trading (Para 13)
- (f) Mr Grattidge has no knowledge of individual trades or expenses incurred (Para 11)

Mr Grattidge could not answer the clear evidence adduced and the allegations made. He sought initially to conceal the true role of Holdcrown and May Shan Trading, was caught out and then sought to make a transparently untrue explanation.

He avoided a public hearing initially on the pretext he was obtaining requested documents from Hong Kong. What he was in reality doing was disposing of his interests in Holdcrown so that he could claim those documents were not obtainable. These are the very documents that would have disclosed the truth of the role and profits of Holdcrown and that is why the Commission sought their production. Those documents (which he and

Mrs Grattidge as 66% shareholders and two of the three directors of Holdcrown could have arranged to have produced) were kept safely out of the Commissions reach in Hong Kong as a result of the sale as were Holdcorwn's financial documents. Mr Grattidge then felt he was free to claim he had been unjustly treated and to give a vague account of what he had observed from Holdcrowns records and of Holdcrown's financial position.

This latterday effort is as transparent as the earlier failed attempt to conceal the roles of Holdcrown and May Shan Trading. As I have said the Commissions view that the "answer" given is utterly inadequate has been conveyed to Mr Coady, and Mr Grattidge was invited, through Mr Coady, to appear in public hearing and give any further answer he wished and to face cross examination on any answer so given. Mr Grattidge's has opted not to accept this offer. I have earlier described Mr Grattidge's conduct as disgraceful and I consider that an appropriate description.

It leaves me with the strong unanswered documentary evidence which I now report upon.

#### MARKETING

Lusco's marketing from 1981 to 1987 was studied though the Commissions attention focussed in the main on the period between late 1985 and 1987.

The time pressures to complete this report are such that I am not able to report in this Appendix as fully as I would otherwise have wished.

I will thus report briefly on the period from 1981 to 1985; attach as Schedules the detailed opening in respect of late 1985, 1986 and 1987 and describe the main thrust of that opening and the full documentary evidence produced to support it and then draw conclusions.

### 1981

In 1981 Lusco exported 38,134 m3 of logs between April and December. There were seven part shipments and three full shipments (two of which comprised part shipments from two different producers) on ten different vessels.

Shipments were made from seven different producers as follows:-

- i) Buka Mobile Mills - one full and four part shipments
- ii) Kaut Timber Co - one part shipment
- iii) Gazelle Timber Co - one part shipment
- iv) Gaulim Logging - one part shipment
- v) Lalobau Is. Dev. Co. - three part shipments
- vi) New Ireland Enterprises - one part shipment
- vii) Austin and McCarthy - one part shipment

These shipments were sold to five buyers as follows:-

- (a) Cora Domenica E. Figla of Italy - one part shipment which was invoiced direct.
- (b) Hyundai Corporation of Korea - one full shipment which was invoiced direct.
- (c) Kokusaku Mokuzai of Japan - three part shipments two of which were invoiced direct and one of which was invoiced through Sunlord Co. of Hong Kong.

- (d) Shin Asahigawa of Japan - two part shipments which were invoiced direct.
- (e) Shin Hung Lumber of Korea - two full shipments and one part shipment of which one full shipment was invoiced direct and the other through Weyerhaeuser (Far East).

The unit prices on the Italian shipment were high and on the Hyundai shipment were high. On the other shipments they ranged from K24.70 (one part) to K24.54 (two parts) to K21.70 (2 parts and one whole) and were static at K24.70 on the last five part shipments.

These prices were well below national average prices to Japan, Korea and Taiwan during 1981.

The possibility of third country invoicing really only exists on the one part shipment through Sun Lord and perhaps on the shipments through Weyerhaeuser in Hong Kong.

#### 1982

In 1982 Lusco exported 55,680 m3 of logs between January and May and then between August and December. There were six part shipments and six full shipments (four of which involved part shipments from two or three different producers) on twelve different vessels.

Shipments were made from six different producers as follows:-

- i) Buka Mobile Mills - four part shipments up to May
- ii) Peninsula Logging - one part shipment
- iii) Lolobau Is. Dev.Co - four part and one full shipment

- iv) Ramazon Timbers - three part shipments after May
- v) Woodlark Is. Dev. Corp-two part and two full shipments after March;
- vi) New Ireland Enterprises - one part shipment

The shipments (save one part shipment) were all sold through Weyerhuaser (Far East) to seven different buyers as follows:-

- (a) Shin Hung of Korea - two part and three full shipments
- (b) Ta Feng Plywood of Korea - one large part shipment
- (c) Nissho Iwai of Japan - one large part shipment
- (d) Chungkoo Lumber of Korea - one large part shipment
- (e) Iwakuda Sumi Lumber of Japan - one full shipment
- (f) KK Ono Sigeji Shoten of Japan - one full shipment
- (g) Van Lee Timbers of Hong Kong for Japan- two full shipments

One part shipment to an unidentified buyer was invoiced to Sunlord Co of Hong Kong.

The unit prices according to shipments on each of the twelve vessels were:-

1. K 24.70
2. K 24.70
3. USD82.00
4. USD74 - USD76
5. K54.24
6. K54.24
7. USD73.74
8. USD72.40
9. USD73.34
10. USD71.41
11. USD71.50
12. USD60.00

The National average prices to Korea and Japan in 1982 were K47 per m3 and K48 per m3 respectively. The prices on the first two shipments were low but thereafter are well above the National average.

There is a possibility of transfer pricing on the shipment invoiced to Sunlord and there could be an arrangement with Weyerhaeuser.

### 1983

In 1983 Lusco exported 45,034 m3 of logs in February and between June and December.

There were seven part shipments and four full shipments (of which three consisted of part shipments from two or three different producers) on eleven different vessels.

Shipments were made from only four different producers as follows:-

- i) Lolobau Is. Dev. Co - one full and six part shipments
- ii) Buka Mobile Mills - two part shipments
- iii) Menvuvu - four part shipments
- iv) Ulamona Mission - two part shipments

There were up to seven different purchasers (and a fuller description is necessary) as follows:-

- (a) Borneo Mercantile of Korea - one part shipment invoiced direct
- (b) Ataka Lumber of Japan - one part shipment invoiced through Yuwana International of Hong Kong
- (c) Ok San Ind. of Korea - one full shipment invoiced through Yuwana International of Hong Kong.
- (e) an unidentified Korean buyer - three part shipments invoiced through Yuwana International of Hong Kong.
- (f) Chungkoo Lumber of Korea - one full and one part shipment invoiced through Weyerhaeuser (Far East).
- (g) Shinhung Lumber of Korea - two full shipments invoiced through Weyerhaeuser (Far East).

The feature is the number of sales invoiced to Korean buyers through Hong Kong intermediaries.

Yuwana International is the transfer pricing vehicle used by Nam Yang Timbers (see 1R6 App 3). One full and four part shipments were invoiced through this company

and the two letters of credit obtained were clearly back to back with provisions prohibiting the Hong Kong letter of credit number appearing on the Bill of Lading, log list or tally sheet.

These are the classical signs of transfer pricing through Hong Kong.

Three full and one part shipment were invoiced through Weyerhaeuser (Far East). In three instances there were back to back arrangements and in one a direct letter of credit providing for deduction and payment of a commission of USD1.75 per m3 to Weyerhaeuser. Again in the first three instances the classical transfer pricing signs are apparent.

In the absence of any explanation (and none has been given) transfer pricing appears to be involved and there is every reason to expect Lusco would have gained some benefit from it. The unit prices obtained by Lusco, by shipment on the eleven vessels, were:

1. USD54.00
2. USD49.50
3. USD53.00
4. USD53.50
5. USD45.24, USD49.20, USD52.62
6. USD34.00, USD52.00
7. USD57.00
8. USD60.00
9. USD50.00, USD60.00
10. USD56.35
11. USD55.00

The National average prices to Korea and Japan in 1983 were K43 per m3 and K44 per m3. The prices obtained were generally well above National averages.



1984

In 1984 Lusco exported 67,392 m3 of logs. There were regular shipments with some twenty shipments from January to July followed by two in September and two in December.

The suppliers were:

- (a) MENVUVU PTY LIMITED
- (b) ULAMONA CATHOLIC MISSION
- (c) LEYTRAC PTY LIMITED
- (d) WOODLARK IS. DEVELOPMENT CORPORATION -  
one shipment only

The bulk of sales (14) were through Weyerhaeuser (Far East) Limited. The purchasers through Weyerhaeuser were:

- (a) OK SAN INDUSTRIAL COMPANY (KOREA)
- (b) SAM HAE COMPANY LTD (KOREA)
- (c) SONG JING WOOD COMPANY LTD (TAIWAN)
- (d) MEIWA TRADING CO LTD (JAPAN)
- (e) SANNO LUMBER CO LTD (JAPAN)
- (f) SAMSUNG COMPANY LTD (JAPAN)
- (g) ORIENTAL CHEMICAL INDUSTRY CO LTD (KOREA)
- (h) SHIN HUNG LUMBER COMPANY LTD (KOREA)
- (i) KAI SENG TIMBERS DEV. CO LTD (TAIWAN)
- (j) KAWASHO CORPORATION (JAPAN)
- (k) MEIWA TRADING COMPANY LTD (JAPAN)

All are "one off" sales except SANNO LUMBER which had two part ships.

There were, according to Lusco invoices, direct sales to:

- (a) Borneo Mercantile (Invoice Nos. 28, 32, 39, 44). On examination three of the four letters of credit are transferred through Allied Wood Trade International Inc.
- (b) Daimaru Inc. (Invoice No. 31). On examination the letter of credit is direct but expressly provides for USD3.00 per m3 to SAM ON CO LTD of Hong Kong.
- (c) Oriental Chemical Industries Co. (for Chungkoo) (Invoice No. 51).

(d) Sumitomo Forestry Co. (Japan) (Invoice No 53).  
The latter two are direct sales.

The significant feature however is that six other sales involve SAM ON CO LTD in that Lusco's invoice is addressed to it and the letter of credit comes from it. The details are:

Inv. No.	Notify Party	Letter of Credit (L/C)
24	ATAKA LUMBER	Transferred L/C - envisages substitute invoice
35	SANYO ELECTRIC TRADING	Transferred L/C - envisages substitute invoice
38	ORIENTAL CHEMICAL IND.	Transferred L/C
41	SHINTOA KOEKI KAISHA	Transferred L/C - envisages substitute invoice
49	TAKAHASHI SEIZAI GOOSHI GAISHA	Transferred L/C
50	DAIMARU INC.	Transferred L/C

These are all "one off" sales.

Allied Wood Trade International Inc. is the transfer pricing vehicle used by Shin Asahigawa in its sales to Borneo Mercantile and Sam On Co. is another such vehicle also used by Shin Asahigawa.

Again the arrangements through these vehicles and through Weyerhaeuser have all the classical signs of transfer pricing. In the absence of any explanation (and none has been given) there is every reason to consider Lusco would have benefitted from such arrangements.

Unit prices in this good market year are a mix of CNF and FOB and were not extracted.

1985

This bad market year was a spasmodic year for LUSCO with:

- (i) Eight shipments (Invoice Nos. 55, 57 to 62) from January to April
- (ii) Three shipments (Invoice Nos. 63 to 65) in July
- (iii) Three shipments (Invoice Nos. 67 to 69) in November and December

Over the year Lusco exported only 43,753 m3.

The producers who supplied were, as in 1984:

- (a) MENVUVU PTY LIMITED
- (b) ULAMONA CATHOLIC MISSION
- (c) LEYTRAC PTY LTD
- (d) WOODLARK IS. DEVELOPMENT CORPORATION

There were direct sales to:

- (a) DAIMARU INC. (JAPAN) (Inv No 58, 62)
- (b) ATAKA LUMBER (JAPAN) (Inv No 59, 60, 63, 65)
- (c) C. ITOH & CO. (Through C. Itoh HK) (Inv No 61)

All letters of credit were direct but Daimaru directed deduction of USD3.00 to USD3.50 per m3 to be paid to Timber Marketing Co Ltd of Tokyo.

There were indirect sales through Weyerhaeuser (Far East) Ltd (HK) to CYMASUN TRADING CO LTD TAIPEI, TAIWAN (Inv. No. 55) and to OK SAN INDUSTRIAL CO LTD SEOUL KOREA (Inv. No. 65).

There was an indirect sale through MEI LIN ENTERPRISES CO LTD (HK) to CYMASUN TRADING CO LTD TAIPEI, TAIWAN (Inv. No. 57) with specific provision to pay Weyerhaeuser USD1.00/m3 in Hong Kong. This was amended to provide for USD2,000 deduction by Weyerhaeuser (on a shipment of 5,000 m3).

Weyerhaeuser was thus involved in all indirect shipments. It could re-invoice the first CYMASUN shipment, MEI LIN could re-invoice the second CYMASUN shipment. Weyerhaeuser was to receive a massive USD40,000 commission on the OK SAN shipment (as to which see below under 1986).

The scope for transfer pricing, in the bad market conditions of 1985 was, to this stage at least, not great. What occurred in late 1985 forms a continuum with 1986 and is referred to below.

#### 1986

As stated earlier the full, detailed opening of what occurred during late 1985 and 1986 is included as a Schedule (Schedule 7).

The shipment numbers are as shown in the Marketing Table (Schedule 2).

Holdcrown was a dominant feature of Lusco's marketing in 1986 and Holdcrown was clearly and proveably used as a transfer pricing vehicle during 1986.

In most instances Lusco sold to Holdcrown and Holdcrown then resold to the buyer.

On the last 1985 sale through Weyerhaeuser (Far East) (before Holdcrown was introduced), the letter of credit provided for deduction of USD40,000.00 - on a 6,000 m3 shipment - for sales commission and other expenses.

The amount was extortionate and represented almost 15 per cent of the FOB price. This is blatant fund transferring.

Holdcrown's first shipment was modelled on the same lines and involved deduction of USD12,000.00 on a 3,000 m3 shipment which represented 8.6 per cent of the FOB price and which again involves blatant fund transferring. There is every reason to expect these payments are related in some way to the establishment costs of Holdcrown.

From December 1985 the pattern of Lusco selling to Holdcrown and Holdcrown reselling to the buyer becomes a system - a system structured to facilitate transfer pricing.

Documents were produced to prove this system and end invoices from Holdcrown on some of the shipments, obtained from Korea, were available firstly to show the full picture of the system and secondly to show the amount of the transfer pricing.

The system and its operation shipment by shipment for the last four shipments in 1985 and during 1986 is described in detail in Schedule 7 up to shipment No 8 and is tabulated for shipments 9-23 in Schedule 8.

The system was this:

- (a) Lusco arranges the sale from the producer to Holdcrown.
- (b) Holdcrown arranges the sale to the buyer which opens its letter of credit to Holdcrown.
- (c) Holdcrown transfers the letter of credit or opens its own letter of credit to Lusco.
- (d) Lusco invoices Holdcrown and obtains its "commission" on that price from the producer.
- (e) Holdcrown invoices the buyer and retains the difference between that price and what it pays Lusco.

The end invoices obtained relate to three shipments and on them the position is as follows:

(i) No 1 OCEAN RIVER (No 4 in Schedule 7)

The shipment was of 2929 m3 from Leytrac and 2612 m3 from Woodlark Island Development.

Lusco received K8653.00 from the producers as its commission.

Holdcrown made a markup of USD14,645 (or USD5.00 per m3) on the Leytrac logs and of USD9.142 (or USD3.50 per m3) on the Woodlark Island logs for a total markup of USD23,788 which was 9 per cent of the FOB price payable to the producers.

(ii) No 2 DAE YANG (No 5 in Schedule 7)

The shipment was of 4998 m3 from Menvuvu.

Lusco received K6,365.00 from Menvuvu as its commission.

Holdcrown made a markup of USD14,249 (or USD2.85 per m3) which was 6.6 per cent of the FOB price payable to the producer.

(iii) No 8 MARBELLA (No 7 in Schedule 7)

The shipment was of 5645 m3 from R. Gault Industries and Leytrac.

Lusco received K9,975 from the producers as its commission.

Holdcrown made a markup of USD11,734.88 (or USD3.50 per m3) on the R. Gault logs and of USD6,303.87 (or USD2.75 per m3) on the Leytrac logs for a total markup of USD18,038.75 which was 6.25 per cent of the FOB price payable to the producers.

These three shipments serve to exemplify what was happening and the scale of it. There is every reason to expect that these are not the worst examples and the efforts made to deceive the Commission and to avoid production of other end invoices clearly indicates a desire not to have the truth known.

In his second Statutory Declaration (Schedule 6) Mr Grattidge claims that producers were aware of Holdcrown and aware of the ownership of it. What he is careful not to say is that producers were aware that Holdcrown was making massive price margins on the sale of their logs in addition to the commission they were paying Lusco for its marketing services. He does say there were no secretive dealings. I have no doubt the producers were not aware of the additional price margins resposed in Hong Kong and that Mr Grattidge's acute embarrassment arises from this Commission disclosing the facts so that the producers do know the whole truth of what was occurring.

1987

Again and as stated earlier the full, detailed opening of what occurred during 1987 is included as a Schedule (Schedule 9).

The shipment numbers are as shown in the Marketing Table (Schedule 3).

Schedule 9 refers to Tables 1, 2 and 3 which are Schedules 8, 10 and 11 respectively.

During 1987 both Holdcrown and May Shan Trading Inc. feature in Lusco's marketing and the pattern of what occurred varies as described in Schedule 9.

There were four distinct periods three of which (the first second and last) involved Holdcrown and one of which (the third) involved May Shan Trading Inc. Generally they involve a mixture of what occurred during 1986; of apparently direct sales with a fixed rate or percentage commission payable to the Hong Kong intermediary and finally some direct sales on some of which Holdcrown was receiving 3 per cent commission.

Again there are clear indications of transfer pricing during 1987 though no destination end invoices were obtained to establish the amounts involved. In his Statutory Declaration (Schedule 6) Mr Grattidge makes reference to 3 per cent commission (in paras 9 and 10) and that is the pattern in late 1987.

It does not however take account of what occurred earlier and as is clear Mr Grattidge has carefully avoided addressing or answering what is proveable and proven documented fact.

### CONCLUSIONS

I can accept that the original concept of Lusco, as described by Mr Grattidge was a laudable one. There was and is real benefit in small producers having available an independent marketer as an alternative to the dominant Japanese buyers who were attempting to monopolise the buying and marketing of PNG logs.

In the early years there were only a few shipments through Sun Lord Co in Hong Kong and then close links were forged with Weyerhaeuser (Far East) Limited.

Mr Grattidge has said nothing of the financial arrangements with Weyerhaeuser and of the possibility of profit sharing in Hong Kong between Lusco and Weyerhaeuser.

He has also said nothing of the sales through the Hong Kong transfer pricing vehicles Yuwana International (used by Lusco in 1983), Allied Wood Trade International



Inc. (used by Lusco in 1984) and Sam On Co. (used by Lusco in 1984). There is every prospect these vehicles, established in order to be involved in transfer pricing, were involved in creating funds in Hong Kong from which Lusco benefitted.

In 1985 Holdcrown was introduced and it is abundantly clear that at this stage the laudable original concept had become perverted and was subservient to the reporting of transferred profits in Hong Kong where they received preferential tax treatment. Lusco, of course, still continued to obtain its agreed rates of commission in PNG based on prices paid in PNG.

The new Hong Kong vehicle Holdcrown was controlled by the owners of Lusco and Eddie Chow. The way in which it launched immediately into transfer pricing perhaps provides an insight into what had occurred in the past.

During 1986 and 1987 its transfer pricing was systematic and in the case of three shipments involving three different producers can be quantified. Bruce Tsang has described the profit sharing arrangements he had with Holdcrown in 1986 and 1987.

A deal of effort was made to delay the Commission's investigation of Lusco and to present a facade of co-operation whilst efforts were made to put the telltale Holdcrown resale invoices (which would have provided the full picture) beyond the reach of Mr Grattidge, and thus beyond the reach of the Commission.

With this achieved, Mr Grattidge considered he was safe to make vague, incomplete denials which do not address the clear evidence and to suggest he has been seriously wronged.

His conduct was disgraceful and the facts, uncontradicted, are quite clear.

I am satisfied Lusco has been involved in systematic transfer pricing which has deprived PNG of export earnings, export duty and company tax.

I recommend referral of Lusco and Mr and Mrs Grattidge to the Chief Collector of Taxes for a thorough investigation of their affairs and with a view to re-assessing their liability to tax on the proceeds of these transfer pricing activities.



*Reconciled 20/4/88*  
**LUSCO ENTERPRISE PTY. LTD.**



TEL. 92 1769 92 1833  
ELEX: NE92955  
FAX: 92 1837

P.O. BOX 915 RABAU  
PARK STREET  
PAPUA NEW GUINEA

11 April 1988


Commissioner  
Commission of Inquiry  
P O Box 2554  
BOROKO  
National Capital District

Dear Sir,

RE: LUSCO ENTERPRISE PTY LTD

Please find herewith completed questionnaire as requested.

Yours faithfully  
LUSCO ENTERPRISE PTY LTD

  
Rex W Grattidge  
MANAGER

Enclosures

**B. Marketing Table**

Please prepare and attach a Marketing Table covering all your log shipments in 1986 and 1987 in accordance with the attached instructions.

A specimen Marketing Table is supplied for producers.

A handwritten table is acceptable if typing would lead to delays. You will be expected to be able to produce documents substantiating the content of this table if summonsed by the Commission to do so.

**C. Log Sales Procedures**

Explain in short simple terms the procedure by which you negotiate sales of your logs.

Every parcel is different, however the general procedure is:-

- a) Obtain offer from producer, including detailed specification shipment date and his price idea.
- b) We generally offer to two potential buyers, sometimes three, however the strategy is to channel about 60-70% of each producers logs to a long term, reliable buyer.  
This ensures continuity. 'Spot' selling is rarely done, although top prices can be obtained in a strong market.  
The long term benefit is lost when the buyer disappears as soon as the market weakens.
- c) The buyer is selected on criteria of price, reliability, shipment date severity of inspection etc. The price should be above MEP.
- d) The final price is referred to the producer for approval (or otherwise) and telexes or faxes exchanged to confirm the sale.

**C. Fair Market Price**

By what means or method do you decide whether the price obtained is a fair market price for a shipment or part shipment?

We have developed an intelligence system to keep up to date on market trends  
and know almost exactly what the proper price is for any given parcel. We  
receive daily information from Holdcrown in Hong Kong. In 1986 and 1987 the  
FIC of PNG was paying Holdcrown a monthly fee to have a market intelligence  
report sent to it. The FIC then sent this report out to producers as its own  
information to tell producers what the market was doing.

**D. Sale to End Users**

Do you sell direct to end users or consumers? Yes/~~No~~\*  
If not why?

For Korea and, Taiwan it is possible to approach close to the end users,  
however Sales Channels in Japan generally prevent direct selling. Every  
attempt is being made to bypass/reduce middlemen.

**E. Relationship with Purchasers**

Do you have a relationship with any person or company which was a purchaser of logs from you in 1986 or 1987? ~~Yes~~/ No.  
If yes, supply full details of such relationship; eg:

- . Member of the same company group;
- . Purchaser or his company group supplies financial assistance (giving details)
- . Long term sales and purchase agreement.

\* When answering Yes/No questions in this Questionnaire cross out whichever word is inapplicable.

**F. Agents**

(a) Do you sell through agents? Yes/~~No~~. If yes, why?

Because Lusco, situated in PNG, does not have wide enough sales penetration  
in all markets, and if the price is good there is no reason not to sell  
through agents.

(b) Supply the names and country of all agents used in 1986 or 1987?

<u>Shin Asahigawa</u>	<u>(PNG)</u>	<u>Holdcrown Limited</u>	<u>(HONG KONG)</u>
<u>Gaisho Co. Ltd.</u>	<u>(JAPAN)</u>	<u>C.Itoh &amp; Co.</u>	<u>(TOKYO &amp; HONG KONG)</u>
<u>Kowa Lumber Corp.</u>	<u>(JAPAN)</u>	<u>State Marketing Authority</u>	<u>(FIC)</u>
<u>Quarter Enterprises</u>	<u>(AUSTRALIA)</u>	<u>May Shan Trading</u>	<u>(HONG KONG)</u>
<u>Sanyo Kokusaku</u>	<u>(JAPAN)</u>		

(c) Are any of your agents based in preferred tax areas (eg: Singapore, Hong Kong)? Yes/~~No~~  
If yes, give details.

<u>HOLDCROWN LIMITED</u>	<u>(HONG KONG)</u>
<u>MAY SHAN TRADING</u>	<u>(HONG KONG)</u>
<u>C. ITOH &amp; CO.</u>	<u>(HONG KONG)</u>

(d) What rate of commission is each of your agents paid and who pays such commission?

Holdcrown commission is usually three percent. Some sales, to be  
competitive do not attract commission, while other sales are in excess of  
3%. The overall average is about 3%.

- (e) Do you or any person or company with which you have a relationship have any arrangement in the nature of commission sharing with any such agent? ~~Yes~~/No.  
If 'Yes' give full details.

NO: Holdcrown Limited is owned equally by:- Mathiva Grattidge, Rex W Grattidge  
Eddie Chow. Two of these principals are shareholders in Lusco Enterprise Pty.  
Ltd., however there is no "commission sharing" arrangement. The two Companies  
are run as distinct units, with Holdcrown providing a service to Lusco,  
representing us in the market place, providing up to date market information  
and rendering Lusco competitive with our competition, mainly large Japanese  
Companies (eg. Sumitomo, C. Itoh, Shin Asahigawa etc).

**G. Sale to middle man**

- (a) Do you sell to any person or company which resells logs supplied by you? ~~Yes~~/No.

- (b) If yes, why do you sell to such person or company?

The sale is made if the offers made by those companies are judged to  
be better than other offers.

- (c) Does such person or company resell at a higher price than you obtain? ~~Yes~~/No. Presumably.

- (d) What is the range of additional or higher prices obtained in 1986 and 1987?

THIS IS NOT KNOWN.

- (e) Do you or any person or company with which you have a relationship have any arrangement whereby the higher price obtained is shared or participated in whether in whole or part. Yes/No. If yes, supply full details.

NO.

## II. Shipping

- (a) Who arranges shipping (ie: becomes party to a Charter Party or Fixture Note) for logs sold by you?

THE BUYER

- (b) Do you independently ascertain the freight rates available for each shipment? Yes/No. If yes by what means do you do so?

NO.

- (c) What is the range or freight rates paid for shipments by you?

(i) To Japan in 1986 NOT APPLICABLE

(ii) To Japan in 1987 NOT APPLICABLE

(iii) To South Korea in 1986 NOT APPLICABLE



- (iv) To South Korea in 1987 NOT APPLICABLE
- (v) To Taiwan in 1986 NOT APPLICABLE
- (vi) To Taiwan in 1987 NOT APPLICABLE
- (vii) To India in 1986 NOT APPLICABLE
- (viii) To India in 1987 NOT APPLICABLE

(d) Do you or does any person or company with which you have a relationship:

- (i) own or operate any vessel used by you to ship logs? Yes/No.
- (ii) share or participate in freight paid for shipment of logs by you? Yes/No.
- (iii) charter any vessel used by you to ship logs? Yes/No.
- (iv) share or participate in charterers fees paid for shipment of logs by you? Yes/No.
- (v) act as broker for any vessel used by you to ship logs? Yes/No.
- (vi) share or participate in brokerage paid for shipment of logs by you? Yes/No.

If "Yes" to any of the above supply full details on a separate sheet.

1. M.E.P.

- (a) Explain in short simple terms the relevance to you of MEP in relation to your log sales.

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PLEASE REFER TO ATTACHED COPY FOR EXPLANATORY NOTES.

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(b) Did you, in 1986 or 1987 sell logs below the prevailing MEP? Yes/No.

If yes:

(i) did you obtain dispensation. Yes/No.

(ii) what were the reasons for not obtaining MEP price?

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PLEASE SEE EXPLANATORY NOTES.

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#### J. Letters of Credit

Are letters of credit for your sale of logs to overseas buyers routinely established in the name of, and with the bankers of, the PNG producer company? Yes/No.  
If not, then why?

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PLEASE SEE EXPLANATORY NOTES.

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#### K. Offshore Payments

(a) Is any part of the FOB sale proceeds for sales of your logs not remitted to Papua New Guinea? Yes/No.

Apart from commission as specified in the actual letter of credit, no.  
Please see attached State Marketing Authority Letter of Credit for

(b) If so, specify: example.

Not applicable.

(i) The part payment left offshore and the manner in which it is calculated.

(ii) The country in which the part payment is left.

(iii) The person or company to which the offshore payment is made.

(iv) The purpose of leaving the payment offshore.

- (c) Is any person or company to which any such moneys are paid outside Papua New Guinea a person or company with which you have a corporate or similar relationship? Yes/No.

If Yes, explain the relationship.

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NOT APPLICABLE.

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- (d) Has the approval of the Bank of Papua New Guinea been obtained in respect of such non remittances? Yes/No.  
NOT APPLICABLE.

## Schedule 2

## SPECIMEN OF MARKETING TABLE

DURING WHOLE YEARS - NOTES ON INDEXES

② LEYTRAC - 3% FOB

③ WOODMARK - 500/m<sup>3</sup>

④ MERVUJ - 3% FOB

⑤ ULANONA - USD/1000 m<sup>3</sup> - only No 14 & 20/2 m<sup>3</sup>

⑥ R. GAULT - 3%

HOLDCKOWN RESALES	SHIPMENT NO.	VESSEL	MONTH OF SHIPMENT	NO. OF LOGS	(M3) VOLUME OF LOGS	FOB TO PRODUCER (US\$)	FREIGHT RATE(S)	NAME & COUNTRY OF PURCHASER	NOTIFY PARTY	M.E.P. COMPARISON		BREAKUP OF PROCEEDS (KINA)	
										PRICE (US\$)	AMOUNT & ROYALTY	PRODUCER	NAME OF PRODUCER
1986			1986										(US\$)
① INCL. 64/65 MC 64/65 MC 100 214645/181-1	1	Asia River	January	850	2,929	146,455	F.O.B. ①	Ocean Ind. Co., Seoul, Korea	Ocean Ind. Co., Seoul	144,557	1,898 1.31 -	139,593	Leytrac Pty. Ltd. 5.4%
② INCL. 64/65 MC 64/65 MC 100 214645/181-1	2	"	"	897	2,512	116,235	"	"	"	115,859	376 .32 -	114,333	Wanapoe Logging 501/m <sup>3</sup>
③ INCL. 785 MC 64/65 MC 100 214645/181-1	3	Dae Yang	"	1,320	4,998	214,919	"	② Chungco Lumber, Korea	Oriental Chemical, Seoul	202,533	12,386 6.12 -	205,274	Mervu Pty. Ltd. 3%
④ INCL. 785 MC 64/65 MC 100 214645/181-1	4	Koyo Maru	February	861	2,500	105,000	"	③ Sanyo Elec. Trading, Japan	Sanyo Elec. Trading, Osaka	97,279	7,721 7.94 -	103,747	Wanapoe ULANONA 100/m <sup>3</sup>
⑤ INCL. 785 MC 64/65 MC 100 214645/181-1	5	"	"	580	2,051	104,595	"	④ Nannin Tsusho Co. Ltd., Japan	Kowa Lumber Corporation	94,429	10,166 10.77 -	102,320	Mervu Pty. Ltd. 3%
⑥ INCL. 785 MC 64/65 MC 100 214645/181-1	6	"	"	328	949	48,386	"	"	"	42,117	6,269 14.88 -	44,728	Leytrac Pty. Ltd. 5%
⑦ INCL. 785 MC 64/65 MC 100 214645/181-1	7	Inna	March	855	2,500	107,500	"	"	"	105,818	1,682 1.59 -	100,276	Wanapoe ULANONA 101/m <sup>3</sup>
⑧ INCL. 785 MC 64/65 MC 100 214645/181-1	8	"	"	645	1,970	107,982	"	"	"	92,888	15,094 16.25 -	98,514	Leytrac Pty. Ltd. 5%
⑨ INCL. 785 MC 64/65 MC 100 214645/181-1	9	Hamlet	"	302	1,447	101,304	"	⑤ Quarner Enterprise, Australia	Bekol & Co., Amsterdam	75,510	25,794 34.16 -	96,239	" " " 5%
⑩ INCL. 785 MC 64/65 MC 100 214645/181-1	10	"	"	440	2,553	178,686	"	"	"	137,774	40,922 29.70 -	164,932	R. Gault Industries 3%
⑪ INCL. 785 MC 64/65 MC 100 214645/181-1	11	Sun Goddess	April	517	1,607	103,814	"	⑥ Sanyo Kokusaku Pulp, Japan	Sanyo Kokusaku Pulp, Tokyo	64,919	38,895 59.91 -	99,135	Millne Bay Logging 501/m <sup>3</sup>
⑫ INCL. 785 MC 64/65 MC 100 214645/181-1	12	"	"	444	1,436	86,177	"	"	"	78,749	7,428 9.43 -	76,270	Leytrac Pty. Ltd. 5%
⑬ INCL. 785 MC 64/65 MC 100 214645/181-1	13	Pippin	May	594	2,007	95,995	"	⑦ Nannin Tsusho Co. Ltd., Japan	Tsura Sanyo Co., Osaka	91,418	4,577 5.01 -	88,046	Millne Bay Logging 501/m <sup>3</sup>
⑭ INCL. 785 MC 64/65 MC 100 214645/181-1	14	"	"	894	2,682	142,159	"	⑧ Kowa Lumber Corp., Tokyo	Kowa Lumber Corp., Tokyo	135,336	6,823 5.04 -	124,288	Leytrac Pty. Ltd. 5%
⑮ INCL. 785 MC 64/65 MC 100 214645/181-1	15	No. 3 Marbella	"	860	3,353	167,641	"	⑨ Chungco Lumber, Korea	Oriental Chemical, Seoul	142,665	24,976 17.51 -	155,903	R. Gault Industries 3%
⑯ INCL. 785 MC 64/65 MC 100 214645/181-1	16	"	"	762	2,292	120,920	"	"	"	119,382	1,538 1.29 -	110,001	Leytrac Pty. Ltd. 5%
⑰ INCL. 785 MC 64/65 MC 100 214645/181-1	17	Asian Argosy	June	966	2,548	132,514	"	⑩ Nannin Tsusho Co. Ltd., Japan	Kowa Lumber Corp., Tokyo	115,387	17,127 14.84 -	126,740	Millne Bay Logging 501/m <sup>3</sup>
⑱ INCL. 785 MC 64/65 MC 100 214645/181-1	18	No 4 Bineka	June	377	1,586	76,144	"	⑪ Litaco Taiwan	Sergio Valente Inc., Taipei	65,682	10,462 15.93 -	70,284	R. Gault Industries 3%
⑲ INCL. 785 MC 64/65 MC 100 214645/181-1	19	"	"	1,394	4,133	177,713	"	"	"	161,414	16,299 10.10 -	164,739	Wanapoe ULANONA 101/m <sup>3</sup>
⑳ INCL. 785 MC 64/65 MC 100 214645/181-1	20	Kyowa Ocean	July	841	2,462	142,793	"	⑫ Nannin Tsusho Co. Ltd., Japan	Kowa Lumber Corp., Tokyo	138,950	3,843 2.77 -	131,358	Leytrac Pty. Ltd. 5%
㉑ INCL. 785 MC 64/65 MC 100 214645/181-1	21	Perlas 1	"	782	2,340	145,077	"	⑬ Sanyo Kokusaku Pulp, Japan	Sanyo Kokusaku Pulp, Tokyo	110,848	34,229 30.88 -	139,916	Millne Bay Logging 501/m <sup>3</sup>
㉒ INCL. 785 MC 64/65 MC 100 214645/181-1	22	Bortensia	August	900	2,999	179,954	"	⑭ Nannin Tsusho Co. Ltd., Japan	Kowa Lumber Corp., Tokyo	165,745	14,209 8.57 -	167,031	Leytrac Pty. Ltd. 5%
㉓ INCL. 785 MC 64/65 MC 100 214645/181-1	23	Sanko Maru	"	677	2,028	91,243	"	⑮ Kowa Lumber Corporation, Japan	"	88,244	2,999 3.40 -	84,855	Wanapoe ULANONA 102/m <sup>3</sup>
㉔ INCL. 785 MC 64/65 MC 100 214645/181-1	24	Perlas 1	September	501	1,493	89,568	"	⑯ Sanyo Kokusaku Pulp, Japan	Sanyo Kokusaku Pulp, Tokyo	64,555	25,013 38.75 -	86,967	Millne Bay Logging 501/m <sup>3</sup>
㉕ INCL. 785 MC 64/65 MC 100 214645/181-1	25	Sanko Maru	"	1,203	3,572	167,889	"	⑰ Kowa Lumber Corporation, Japan	Kowa Lumber Corp., Tokyo	167,306	583 .35 -	159,666	Wanapoe ULANONA 101/m <sup>3</sup>
㉖ INCL. 785 MC 64/65 MC 100 214645/181-1	26	"	"	666	2,553	153,159	"	"	"	129,383	23,776 18.38 -	142,230	Leytrac Pty. Ltd. 5%
㉗ INCL. 785 MC 64/65 MC 100 214645/181-1	27	Mitchell	"	730	3,424	160,944	"	⑱ Cymeson Trading Co., Taiwan	Cymeson Trading Co., Taipei	122,894	38,050 30.96 -	150,873	Mervu Pty. Ltd. 3%
㉘ INCL. 785 MC 64/65 MC 100 214645/181-1	28	Sanko Maru	October	850	2,556	120,137	"	⑲ Kowa Lumber Corporation, Japan	Kowa Lumber Corp., Tokyo	119,288	849 0.71 -	112,688	Wanapoe ULANONA 101/m <sup>3</sup>
㉙ INCL. 785 MC 64/65 MC 100 214645/181-1	29	"	"	356	1,166	71,099	"	"	"	64,214	6,885 10.72 -	65,229	Leytrac Pty. Ltd. 5%
㉚ INCL. 785 MC 64/65 MC 100 214645/181-1	30	Sarunta 2	"	688	2,500	149,995	"	⑳ Nannin Tsusho Co. Ltd., Japan	Nannin Trading, Tokyo	138,656	11,339 8.18 -	138,547	" " " 5%
㉛ INCL. 785 MC 64/65 MC 100 214645/181-1	31	Olympic 88	November	419	1,528	97,813	"	㉑ Sanyo Kokusaku Pulp, Japan	Sanyo Kokusaku Pulp, Tokyo	88,392	9,421 10.66 -	90,224	" " " 5%
㉜ INCL. 785 MC 64/65 MC 100 214645/181-1	32	Sanko Maru	"	1,380	4,005	188,223	"	㉒ Kowa Lumber Corporation, Japan	Kowa Lumber Corp., Tokyo	187,807	416 0.22 -	179,097	Wanapoe ULANONA 101/m <sup>3</sup>
㉝ INCL. 785 MC 64/65 MC 100 214645/181-1	33	"	"	506	2,177	121,920	"	"	"	113,089	8,831 7.81 -	114,988	Mervu Pty. Ltd. 3%
㉞ INCL. 785 MC 64/65 MC 100 214645/181-1	34	Ossania Queen	November	354	1,115	73,592	"	㉓ Nannin Tsusho Co. Ltd., Japan	Nannin Trading, Tokyo	65,047	8,545 13.14 -	67,883	Leytrac Pty. Ltd. 5%
㉟ INCL. 785 MC 64/65 MC 100 214645/181-1	35	"	December	1,225	3,905	217,125	"	"	"	204,506	12,619 6.17 -	208,729	Millne Bay Logging 501/m <sup>3</sup>
㊱ INCL. 785 MC 64/65 MC 100 214645/181-1	36	Lotus	"	727	2,500	169,998	"	㉔ " " " " "	Kawasho Corp., Tokyo	144,686	25,312 17.49 -	156,947	Leytrac Pty. Ltd. 5%
㊲ INCL. 785 MC 64/65 MC 100 214645/181-1	37	Sanko Maru	"	1,390	4,090	224,945	"	㉕ Kowa Lumber Corporation, Japan	Kowa Lumber Corp., Tokyo	216,723	8,222 3.79 -	210,636	Wanapoe ULANONA 101/m <sup>3</sup>

92566 w 4,899,620

K149,337

## SPECIMEN OF MARKETING TABLE

SHIPMENT NO.	VESSEL	MONTH OF SHIPMENT	NO. OF LOGS	(M3) VOLUME OF LOGS	FOB TO PRODUCER (US\$)	FREIGHT RATE(S)	NAME & COUNTRY OF PURCHASER	NOTIFY PARTY	M.E.P. COMPARISON			BREAKUP OF PROCEEDS (KINA)				
									PRICE (US\$)	AMOUNT ABOVE/BELOW	% ROYALTY	PRODUCER	NAME OF PRODUCER	MARKETER		
1987		1987														
25	Pippin 1	January	1,181	4,682	340,819	(H) F.O.B.	<i>Santa Lucia Island</i> Pacific Int. Inc., Hong Kong	Gen. Resources Co., Taipei	287,982	52,387	18	-	308,360	Leytrac Pty. Ltd.	5% 16,229	GEN. RESOURCES TAIWAN 318 BORDER OF TAIPEI HANK INVI109 PIPPAINT HK USD12.80
26	Pippin 1	February	667	2,077	149,577	(G) "	Daimaru Inc., Japan	Daimaru Inc., Tokyo	120,791	28,786	24	-	134,688	Milne Bay Logging	5% 4,166	DAIMARU INC USD25/m <sup>3</sup> LOG INVI112 HOKODACHI HK USD12.00
	"	"	595	2,368	189,475	(G) "	"	"	144,908	44,567	31	-	169,589	Leytrac Pty. Ltd.	5% 8,926	USD80.00
27	Sun Timor	March	876	3,133	250,632	(H) "	Sanyo Kokusaku Pulp, Japan	Sanyo Kokusaku Pulp, Tokyo	195,008	55,624	29	-	220,709	"	5% 11,616	HK MPH80337 INVI113 HOKODACHI HK USD20.00
	"	"	444	1,742	99,281	(A) "	<i>Santa Lucia Island</i> Simpson Int., Hong Kong	Gen. Resource Co. Ltd. Taipei	83,793	15,488	18	-	87,598	"	5% 4,610	INVI114 SIMPSON INT. HK USD57.00
28	Sanyo Maru	April	646	1,988	135,203	(H) "	Sanyo Kokusaku Pulp, Japan	Sanyo Kokusaku Pulp, Tokyo	124,031	11,172	09	-	114,965	Milne Bay Logging	5% 994	INVI115 SANYO KOKUSAKU HK USD78.00
	"	"	1,173	3,959	308,780	(H) "	"	"	253,454	55,326	22	-	263,796	Leytrac Pty. Ltd.	5% 13,884	INVI116 SANYO KOKUSAKU HK USD78.00
29	Sarunta 2	"	999	3,490	265,257	(I) "	Kawasho Int. Ltd., Hong Kong	Kawasho Corp., Tokyo	212,592	52,665	25	-	224,875	"	5% 11,835	HK HK 3 3/4 m <sup>3</sup> HOKODACHI INVI117 HOKODACHI HK USD76.00
30	Doyang Guide	May	847	2,999	227,956	(C) 21.00	<i>Rumout (Cape) Centre</i> Hanshine Int. Ltd., Hong Kong	Sackyang Ind., Korea	184,733	43,223	23	-	185,393	"	5% 10,171	HK HK 2 2 1/2 m <sup>3</sup> HOKODACHI INVI118 HANSKIN HK USD76.00
31	Siti Mida	May	347	1,419	86,902	F.O.B.	Quarter Enterprise, Australia	Centaur Export, Bontay	75,364	11,538	15	-	77,377	Milne Bay Logging	5% 709	INVI119 CENTAUR EXPORT HK USD55.00
32	Neptunia	June	1,264	4,334	312,014	(H) "	Sanyo Kokusaku Pulp, Japan	Sanyo Kokusaku Pulp, Tokyo	273,572	38,442	14	-	264,207	Leytrac Pty. Ltd.	5% 15,601	INVI120 SANYO KOKUSAKU HK USD72.00
33	Oceania Express	"	1,014	3,042	176,447	(D) 25.50	Hayundai Corp., Korea	Hayundai Wood Inc., Seoul	175,591	856	0	-	155,134	Milne Bay Logging	5% 1,521	INVI121 HAYUNDAI CORP. HK USD58.00
34	Sanyo Maru	"	982	3,989	210,978	(B) F.O.B.	Renown Industries, Taiwan	Renown Industries, Taipei	194,105	16,873	09	-	179,838	Leytrac Pty. Ltd.	5% 9,465	INVI122 RENOWN INDUSTRIES HK USD55.00
35	Global Strider	July	1,323	4,093	327,432	(H) "	Sanyo Kokusaku Pulp, Japan	Sanyo Kokusaku Pulp, Tokyo	249,563	77,869	31	-	281,020	"	5% 14,700	INVI123 SANYO KOKUSAKU HK USD50.00
36	Iarix	August	932	3,003	231,223	(J) "	C. Itch & Co., Hong Kong	C. Itch & Co., Tokyo	182,028	49,195	27	-	201,432	"	5% 10,602	INVI124 C.ITCH HK USD77.00
37	Sea Dragon	"	1,150	4,500	454,462	(H) "	Sanyo Kokusaku Pulp, Japan	Sanyo Kokusaku Pulp, Tokyo	288,934	165,528	57	-	409,965	Vinapope	5% 4,112	INVI125 SANYO KOKUSAKU (HANK) INVI126 MAY SHAN TRADING HK USD101.00
	"	"	537	1,529	152,916	(H) "	"	"	91,814	61,102	67	-	131,609	Leytrac Pty. Ltd.	5% 6,927	INVI127 MAY SHAN TRADING HK USD100.00
38	Sun Timor	"	1,568	5,005	382,903	(I) "	Nannin Tsusho Co. Ltd., Japan	Kawasho Corp., Tokyo	282,620	100,283	35	-	336,161	Milne Bay Logging	5% 1,512	INVI128 NANNIN TSUSHO CO. LTD. (HANK) INVI129 HANSKIN TRADING HK USD76.00
39	Oceania Courier	"	587	1,629	162,917	"	"	"	107,765	55,152	51	-	144,946	"	5% 815	INVI130 MAY SHAN TRADING HK USD100.00
40	Sparkle Moon	September	799	3,000	300,000	(C) "	<i>Rumout (Cape) Centre</i> Hanshine Int. Ltd., Hong Kong	Sackyang Ind., Korea	246,313	53,687	22	-	252,324	Leytrac Pty. Ltd.	5% 13,280	INVI131 HANSKIN TRADING HK USD100.00
41	Sea Dragon	"	662	2,082	212,405	(H) "	Sanyo Kokusaku Pulp, Japan	Sanyo Kokusaku Pulp, Tokyo	178,536	33,869	19	-	178,776	"	5% 9,409	INVI132 SANYO KOKUSAKU (HANK) 3 1/2 m <sup>3</sup> HANK INVI133 MAY SHAN TRADING HK USD100.00
42	Sea Highway	"	687	2,404	249,991	(H) "	Sanyo Kokusaku Pulp, Japan	Sanyo Kokusaku Pulp, Tokyo	210,814	39,177	19	-	209,372	"	5% 11,020	INVI134 SANYO KOKUSAKU (HANK) 3 1/2 m <sup>3</sup> HANK INVI135 MAY SHAN TRADING HK USD100.00
43	Romex Progress	"	206	683	70,983	(K) "	Naturra Trading Co., Singapore	Naturra Trading Tokyo	60,392	10,591	18	-	60,517	"	5% 3,185	INVI136 NATURRA TRADING CO. SINGAPORE INVI137 MAY SHAN TRADING HK USD100.00
	"	"	882	2,690	215,201	"	"	"	186,997	28,204	15	-	184,667	Milne Bay Logging	5% 8,651	INVI138 MAY SHAN TRADING HK USD100.00
	"	"	625	2,006	224,177	(L) "	Ogo Lumber Co., Japan	"	203,014	21,163	10	-	192,371	"	5% 8,651	INVI139 OGO LUMBER CO. LTD. (HANK) INVI140 MAY SHAN TRADING HK USD100.00
44	Oceania Express	October	792	2,509	208,286	"	Nannin Tsusho Co. Ltd., Japan	Kawasho Corporation, Tokyo	189,232	19,054	10	-	184,160	"	5% 8,333	INVI141 NANNIN TSUSHO CO. LTD. (HANK) INVI142 MAY SHAN TRADING HK USD100.00
	"	"	594	1,901	199,626	(I) "	"	"	165,419	34,207	21	-	167,827	Leytrac Pty. Ltd.	5% 8,333	INVI143 MAY SHAN TRADING HK USD100.00
	"	"	521	1,600	143,995	"	"	"	129,946	14,049	11	-	123,509	R.Gault Industries	5% 3,808	INVI144 MAY SHAN TRADING HK USD100.00
45	Treasurer	"	463	1,679	192,634	(H) "	Sanyo Kokusaku Pulp, Japan	Sanyo Kokusaku Pulp, Tokyo	170,913	21,721	13	-	162,496	Leytrac Pty. Ltd.	5% 8,552	INVI145 SANYO KOKUSAKU (HANK) 3 1/2 m <sup>3</sup> HANK INVI146 MAY SHAN TRADING HK USD100.00
46	Sun Coral	"	555	1,710	194,300	(E) "	Nam Mui Co. Ltd., Hong Kong	Nam Mui Co. Ltd., Hong Kong	171,719	22,581	13	-	165,785	"	5% 8,726	INVI147 NAM MUI CO. LTD. (HANK) INVI148 MAY SHAN TRADING HK USD100.00
47	Sun Coral	"	987	2,719	274,618	(H) "	Sanyo Kokusaku Pulp, Japan	Sanyo Kokusaku Pulp, Tokyo	179,507	95,111	53	-	240,687	Milne Bay Logging	5% 8,671	INVI149 SANYO KOKUSAKU (HANK) 3 1/2 m <sup>3</sup> HANK INVI150 MAY SHAN TRADING HK USD100.00
48	Bo Chum	"	636	2,097	232,822	(I) "	Nannin Tsusho Co. Ltd., Japan	Kawasho Corp., Tokyo	191,579	41,243	22	-	201,019	Leytrac Pty. Ltd.	5% 10,580	INVI151 NANNIN TSUSHO CO. LTD. (HANK) INVI152 MAY SHAN TRADING HK USD100.00
49	Estacion	November	369	903	112,920	(M) "	Gaisho Co. Ltd., Japan	Gaisho Co. Ltd., Tokyo	101,830	11,090	11	-	96,020	"	5% 5,054	INVI153 GAISHO CO. LTD. (HANK) INVI154 MAY SHAN TRADING HK USD100.00
50	Ewan	"	970	3,008	255,711	(J) "	C. Itch & Co. Ltd., Japan	C. Itch & Co. Ltd., Tokyo	253,110	2,601	01	-	218,449	Milne Bay Logging	5% 6,838	INVI155 C.ITCH & CO. LTD. (HANK) INVI156 MAY SHAN TRADING HK USD100.00
51	Durian King	December	841	3,019	301,930	(F) "	Won Kyung Trading Ltd., Korea	Daewoo Corp., Seoul	279,061	22,969	08	-	253,275	Leytrac Pty. Ltd.	5% 13,330	INVI157 WON KYUNG TRADING LTD. (HANK) INVI158 MAY SHAN TRADING HK USD100.00
52	No. 4 Binska	"	224	596	50,978	(N) "	Iitaneika Ltd., Japan	Iitaneika Ltd., Japan	44,559	6,419	14	-	42,270	"	5% 2,225	INVI159 IITANEIKA LTD. (HANK) INVI160 MAY SHAN TRADING HK USD100.00
	"	"	112	423	38,287	(M) "	Gaisho Co. Ltd., Japan	Gaisho Co. Ltd., Osaka	38,224	63	0	-	31,747	"	5% 1,671	INVI161 GAISHO CO. LTD. (HANK) INVI162 MAY SHAN TRADING HK USD100.00

94,010 US \$ 894,601

249,584

## Schedule 3

### EXPLANATORY NOTES

#### I. MEP

The MEP has little relevance but we would make the following points:-

- a) Most producers do not know the MEP of a parcel until loading of the vessel is completed (because species and volumes change from predictions), therefore it is difficult/impossible to determine if the sale is "legal" or not in advance.
- b) The determination of the MEP groupings and prices, has in the past been somewhat erratic because the bodies involved in the decision making have been poorly informed of market movements. Out of date "historical" data was used several years ago, however recent MEP adjustments have been more in line with the market. More regular reviews are required in today's volatile market.
- c) The MEP is structured on SEALPA grading. Since its inception grading has not achieved its purpose. Few producers determine prices based on Sealpa grading. The buyers reject the system, grading between producers is non-consistent and has not been policed and enforced with proper licensing of graders. Therefore grading is viewed as useless and just another imposition on the producer. In our negotiations with the SMA at no stage was grades involved in price setting or even mentioned.  
  
In relation to the MEP Sealpa grading introduces yet another variable which cannot be properly evaluated.
- d) The current system of issuing Export Licences on a ship to ship basis also renders the MEP redundant. The Marketing Section of Forests and DFAT look at each sales on its merits and have been known to reject sales even though above MEP.

#### J. LETTERS OF CREDIT

No not always. For various reasons.

- a) Some producers are very isolated and it is difficult for them to physically handle the L/C, without office facilities in a major town.
- b) Some producers do not have the expertise and clerical ability to prepare and present documents to satisfy a L/C and request us to provide that service.

..2..

J. c) Some producers prefer to avoid the problems of:-

- obtaining Export Permit
- obtaining Export Licence
- Preparation of Shipping documents to satisfy customs.
- Arrange bank cheque for Customs Duty prior to ship commencing loading (as is now enforced).
- Preparation of all documents to satisfy L/C conditions.

They request us to do all this and they are paid a cheque for net amount after clearance of the L/C.<sup>2</sup>

- d) Contractor situation where the contractor usually insists that the Permit Holder does not receive, and have first call on the funds. Since he has shouldered the full cost of production he requires either to hold the L/C or allow an independent third party to do this.

P.O. BOX 225,  
RABAU. PAPUA NEW GUINEA.

3 3 88

<b>DOCUMENTARY CREDIT</b>		Issuing Bank's No. <b>LC-904768</b>	Advising Bank's No. <b>476/8905</b>
Issuing Bank <b>CREDIT LYONNAIS HONGKONG.</b>	Applicant <b>KOLON SANGSA (HK) LIMITED, 1906-7 WING ON CENTRE, 111 CONNAUGHT ROAD, CENTRAL, HONGKONG.</b>		
Beneficiary <b>LEYTRAC PTY. LTD, P.O. BOX 915, RABAU. PAPUA NEW GUINEA.</b>	Amount <b>USD466,000.00 FOUR HUNDRED AND SIXTY SIX THOUSAND DOLLARS ONLY (UNITED STATE CURRENCY)</b>		
		Expiry Date <b>15TH APRIL, 1988.</b>	

Dear Sirs,

The above named issuing bank/branch of this bank have informed us they have opened their **IRREVOCABLE  
DOCUMENTARY CREDIT**  
in your favour available

- \* ☒ For payment/acceptance of your draft(s) at **HONGKONG** **SIGHT** drawn on **CREDIT LYONNAIS**  
accompanied by the following documents:
- \* ☒ For payment against presentation of the following documents:
- 1) SIGNED COMMERCIAL INVOICES IN QUADRUPLICATE
  - 2) LOG LIST IN TRIPLICATE.
  - 3) FULL SET OF CLEAN SHIPPED ON BOARD OCEAN BILLS OF LADING MADE OUT TO  
ORDER OF THE CHASE MANHATTAN BANK SEOUL BRANCH MARKED "FREIGHT PREPAID  
-D NOTIFYING KOLON INTERNATIONAL CORPORATION, C.P.O BOX 1052, SEOUL  
KOREA.

Evidencing Shipment of **4,000 CBM OF PAPUA NEW GUINEA ROUND LOGS, USD446,000.00  
ORIGIN PAPUA NEW GUINEA  
C.AND F. INCHON KOREA.**

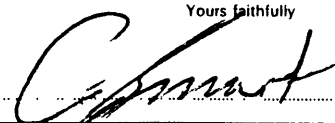
From <b>PAPUA NEW GUINEA PORT(S)</b> To <b>INCHON , KOREA.</b>	Partial Shipments <b>PERMITTED</b> Transshipment <b>PROHIBITED</b>
Special Conditions <b>LATEST SHIPMENT DATE 31 MARCH, 1988.</b>	
<b>1) ALL BANK CHARGES OUTSIDE HONGKONG ARE FOR ACCOUNT OF BENEFICIARY.</b> <b>2) INSURANCE COVERED BY BUYERS AT FINAL DESTINATION.</b> <b>3) ON DECK CARGO ACCEPTABLE.</b> <b>4) DOCUMENTS PRESENTED LATER THAN 21 DAYS FROM B/L DATE BUT WITHIN CREDIT</b> All negotiations must be endorsed on this letter of advice. <b>VALIDITY ACCEPTABLE.</b>	

- \* ☐ Details of this credit are advised without engagement or responsibility on our part.
- \* ☒ We undertake that drafts marked as drawn under this credit and presented in conformity with the terms of this credit  
will be duly honoured.
- \* ☐ We have been requested to add our confirmation to this credit and we therefore undertake that any drafts drawn by  
you in accordance with the terms of the credit will be negotiated by us without recourse.

\* Applies only when completed thus



Yours faithfully



Manager



P.O. BOX 225,  
RABAU,  
P PUA NEW GUINEA.

3 / 3 / 19 88

PAGE 2 CONTINUATION

ATTACHED TO AND FORMING PART OF

DOCUMENTARY CREDIT

Issuing Bank's No.

Advising Bank's No.

- 5) CHARTER PARTY BILL OF LADING, THIRD PARTY B/L AND THIRD PARTY DOCUMENTS  
ACCEPTABLE.  
) BOTH CREDIT AMOUNT AND QUANTITY READING ONLY 10 PERCENT MORE OR LESS  
ACCEPTABLE.

ON PAYMENT BY CREDIT LYONNAIS THEY WILL DEDUCT 1) USD 1.00 PER CMB FROM  
PROCEEDS BEING SALES COMMISSION FOR KOREA EXCHANGE BANK YEOKSAMDONG BRANCH,  
SEOUL KOREA ACCOUNT MR. PARK SOON - JOO (ACCOUNT NO. 057-13-110-0) 2) USD 106,  
000.00 BEING OCEAN FREIGHT. (USD 106,000.00)

BENEFICIARY'S DRAFT SHOULD BE BEARING THE CLAUSE 'DRAWN UNDER DOCUMENTARY  
CREDIT NO. LC-904768 OF CREDIT LYONNAIS HONGKONG.





## COMMISSION OF INQUIRY INTO ASPECTS OF THE FOREST INDUSTRY

TELEX NE: 23290

P.O. BOX 2554  
BOROKO.

FACSIMILE

PAPUA NEW GUINEA

The Manager  
Lusco Enterprise Pty Ltd  
RABAU ENB

DATE: 17 May, 1988.

OUR REF:

YOUR REF:

TELEPHONE: 277703

Dear Sir,

I refer to your letter of 11 April 1988 answering the Commissions' Questionnaire and supplying marketing tables for 1986 and 1987. I have also checked certain of your returns to the Department of Forests for 1984 and 1985 and note that numerous sales appear to be transacted through Hong Kong intermediaries.

In 1986 - contrary to your marketing table - the majority of your invoices to a diversity of purchasers are addressed to Holdcrown Limited and not to the purchaser shown in the Table.

In 1987 - contrary to your marketing table - some invoices are addressed to Holdcrown Limited and a number (to different purchasers) to May Shon Trading Limited of Hong Kong.

In the circumstances I request that you:-

- (a) Prepare and submit Marketing Tables in the same format as previously for the years 1984 and 1985 for Lusco.
- (b) Produce copies of all purchase and sale invoices for each shipment or part shipment for the years 1984, 1985, 1986 and 1987 - being the purchase invoice from the producer to Lusco and the sales invoice from Lusco to the buyer. Also please produce for each invoice a copy of the related Letter of Credit in favour of Lusco (front & back please) and of the exchanged telexes or faxes referred to in your Questionnaire, Answers page 4 item C(d).

FACSIMILE

Page 2.

Manager, Lusco Enterprise Pty Ltd.  
17 May, 1988.


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- (c) Produce copies of such of the sales invoices of Holdcrown and May Shqn Trading to the true buyer of logs sold by Lusco as you are able to obtain from those companies.
- (d) Produce copies of Agreements and/or explain sales arrangements between Lusco and the PNG producer as to division of the FOB price obtained by Lusco in respect of 1984-1987 shipments. I cannot follow how the breakup between producer and marketer shown in the Tables for 1986 and 1987 does not add to the FOB price. I thus cannot ascertain if Lusco buys and resells or works on a commission basis.
- (e) Produce copies of Agreements and/or explain sales arrangements between Lusco and/or the producer of the one part and Holdcrown and May Shqn Trading of the other part. I wish to know, among other things, whether there is a true commission agent relationship.

I will be seeking to have Mr Gratfidge appear as a witness before the Commission in Port Moresby on Monday 30 May 1988.

Please advise promptly that such a date is convenient whether Mr Gratfidge requires to be Summoned to appear and which of the above requested information can be furnished before that date.

Yours faithfully,



JOHN S REEVE,  
Counsel Assisting.

Schedule 5

ELLIOTTS

Schedule 5

PRINCIPAL:

Christopher J. Coady, LL. B.

Notary Public.

CONSULTANT:

Stephen Train.

SOLICITORS & ATTORNEYS

OUR REF

YOUR REF

1 88 0718/042

Mango Avenue

P O Box 1588

RABAU

Papua New Guinea

Telephone: (675) 92 1544

Facsimile: GP 2/3 (675) 92 1527

14th June 1988

Mr. John Reeve  
Forest Commission of Inquiry  
Parliament House  
P O Box 2554  
BOROKO

Dear John,


Herewith amended Marketing Tables for Lusco Enterprises Pty Ltd. My apologies for the delay but the correction and computation were a tortuous task having regard to Company records.

I must further apologise to yourself and Judge Barnett for being unable to appear with Lusco Enterprises on the 14th of June as previously arranged. I am part-heard before Justice Hinchcliffe in Rabaul (being led by R.J. O'Regan Q.C.) in an important Banking and Constitutional case involving the ANZ Bank.

It is further the case that Lusco Enterprises do not have all the material available to meet your requests and that must be obtained from Hong Kong.

I will inform you as soon as possible as to the availability of the material and the Company's witnesses.

Yours faithfully  
ELLIOTTS

  
per: Chris Coady

Encl:

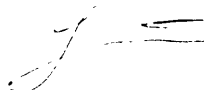
## STATUTORY DECLARATION

I, REX WILLIAM GRATTIDGE, Company Director of P O Box 915, Rabaul in Papua New Guinea, do solemnly and sincerely declare as follows:-

1. That the particulars provided by me in response to the Questionnaire of the Commission of Inquiry had some errors in the Marketing Table due to incorrect figures being supplied to me by my staff and by my incorrectly interpreting the questions in the Questionnaire.
2. Now annexed hereto and marked with the letters "A", "B", "C" and "D" are corrected Marketing Tables for Lusco Enterprises Pty Limited for the years 1984, 1985, 1986 and 1987 respectively.
3. In the Marketing Tables included export sales arranged through Lusco Enterprises but do not include domestic sales maintained by Lusco Enterprises on behalf of the producers whereby sales were generated to for example Shin Asahigawa.

I make this solemn declaration by virtue of the Oaths Affirmations Laws of Papua New Guinea and subject to the penalties provided by the Act for the making of false statements in statutory declarations, conscientiously believing the statements contained in this Declaration to be true in every particular respect.

DECLARED at Rabaul                    )  
this 10<sup>th</sup> day of                        )  
June 1988                                )



Before me:-

A Commissioner For Oaths

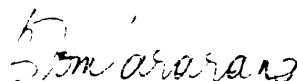


EXHIBIT NOTE

This is the annexure marked with the letter "A" and referred to in the Statutory Declaration of Rex William Grattidge sworn the ~~10<sup>th</sup>~~ day of June 1988 before me:-

*Sam Ararane*

A Commissioner For Oaths

Deponent

*[Signature]*

INVOICE NO.	VESSEL	MNTH	NO. LOGS	(M3) VOL OF LOGS	FOB TO PROD (\$US)	NAME/CNTRY PURCHASER	NOTIFY PARTY	COMPARISON		BREAKUP OF PROCEEDS (Kina)				LUSCO
								M.E.P. (US\$)	M.E.P. COMP.	%	K PRODUCER	NAME OF PRODUCER		
23	Hano #7	Jan	1,925	5,669	260,649		Olsan Ind.	256,460	24,169	9.0	223,668	Vunapope	20,375	
24	Carmilla	"	454	2,200	127,600		Ataka Lumber	120,686	6,914	6.0	105,659	Menuvu P/L	2,156	
	"	"	682	3,177	187,452		Ataka Lumber	175,248	12,204	7.0	155,270	Leytrac P/L	3,184	
25	Daeyang	Feb	675	3,745	210,647		Olsan Ind.	202,763	7,884	4.0	174,642	Menuvu P/L	1,248	
27	Hocksan	Mar	1,059	3,052	152,251		Sam Hae Co.	147,967	4,284	3.0	125,537	Vunapope	2,576	
	"	"	545	2,895	180,225		Sam Hae Co.	162,475	17,750	11.0	148,620	Leytrac P/L	3,033	
28	Hoyo Maru	"	470	1,886	109,366		Borneao Merch.	97,840	11,526	12.0	90,260	Menuvu P/L	1,835	
31	Tenshin	"	471	1,985	121,075		Daimaru Inc.	118,307	2,768	2.0	95,438	Menuvu P/L	1,956	
32	Long An	"	567	2,487	161,633		Borneo Merc.	156,038	5,595	4.0	134,590	Leytrac P/L	2,736	
33	Calm Way	Apr	957	3,839	179,087		Song Jing	171,103	7,984	5.0	149,163	Menuvu P/L	3,044	
34	Yue On	"	1,245	3,609	186,519		Meiwa Trading	165,670	20,849	13.0	153,806	Vunapope	6,191	
35	Saloma	"	580	2,371	158,867		Sanyo Elec.	146,773	12,114	8.0	133,642	Menuvu P/L	2,727	
36	Pr.Mary	May	697	2,992	206,018		Meina Trading	197,786	8,232	4.0	172,813	Leytrac P/L	3,527	
37	"	"	467	1,742	124,614		Hanwa Co.	116,283	8,331	7.0	104,306	Leytrac P/L	2,129	
38	Oasis Pr.	"	529	2,032	113,798		Oriental Chem	100,993	12,805	13.0	96,725	Menuvu P/L	1,975	
39	Tenshin	"	585	2,438	173,103		Borneo Merc.	134,635	38,468	29.0	147,290	Leytrac P/L	3,006	
40	#5 Yunam	"	1,600	4,506	255,832		Samsung Co.	241,255	14,577	6.0	215,470	Vunapope	7,867	
	"	"	290	1,184	67,023		Samsung Co.	65,698	1,325	2.0	57,540	Menuvu P/L	1,170	
41	Celtic C.	Jun	114	498	50,806		Shintoa Koeki.	32,837	17,969	55.0	43,449	Leytrac P/L	896	
42	Estella	"	690	2,715	168,968		Oriental Chem.	164,341	4,627	3.0	144,489	Menuvu P/L	2,939	
	"	"	957	2,898	180,665		Oriental Chem.	168,750	11,915	7.0	154,797	Vunapope	2,838	
43	Baliwag D	"	1,173	4,788	366,367		Shin Hung Lbr.	271,156	95,211	35.0	314,258	Leytrac P/L	6,413	
44	Hoyo Mary	"	274	1,279	101,026		Borneo Merc.	69,935	31,091	44.0	86,934	Leytrac P/L	1,774	
45	"	"	720	2,100	130,542		Kaiseng Timb	122,234	8,308	7.0	116,144	Vunapope	3,861	
46	Pr. Mary	"	753	3,100	260,560		Kawaso Corp.	195,361	65,199	33.0	234,294	Leytrac P/L	4,777	

INVOICE NO.	VESSEL	MNTH	NO. LOGS	(M3) VOL OF LOGS	FOB TO PROD (\$US)	NAME/CNTRY PURCHASER	NOTIFY PARTY	COMPARISON		BREAKUP OF PROCEEDS (Kina)				LUSCO
								M.E.P. (US\$)	M.E.P. COMP.	%	PRODUCER	NAME OF PRODUCER		
47	Sun Timor	Sep	550	1,499	89,964		Sanno Lumber	49,610	73	0.0	441,610	Menyudu P/L	906	
49	Sun Timor	Sep	550	1,499	89,964		Daimaru Inc.	86,025	3,939	6.0	78,828	Vunapope	3,788	
50	Sun Timor	"	463	1,500	89,966		Takahashi-Sei.	86,046	3,940	6.0	78,848	Vunapope	3,788	
51	Sun Coral	"	916	2,164	129,863		Oriental Chem.	126,399	3,464	3.0	115,235	Vunapope	5,767	
53	Marquise	Dec	978	2,536	142,003		Sumitomo For.	142,062	(59)	0.0	134,244	Milne Bay Log.	1,268	
54	Sorabol	"	1,177	3,000	167,614		Sanno Lumber	167,614	-	0.0	132,563	Vunapope	5,492	

NOTE: Freight rates are all F.O.B. with the exception of the following shipments:

Invoice	Rate (US\$)
24	22.0
28	22.0
31	18.3
32	21.0
35	20.5
38	19.5
39	21.5
41	23.0
44	23.0
49	22.0
50	22.0
51	23.0

No royalties were received in 1984.



EXHIBIT NOTE

This is the annexure marked with the letter "B" and referred to in the Statutory Declaration of Rex William Grattidge sworn the 10<sup>th</sup> day of June 1988 before me:-

*Bonpararany*

A Commissioner For Oaths

Deponent

*[Signature]*

M.A.E.K.E.I.N.G. T.A.B.L.E. - LUSCO ENTERPRISE P.Y. LTD 1985  
COMPARISON BREAKUP OF PROCEEDS (Kina)

INVOICE NO.	VESSEL	MNTH	NO. LOGS	(M3) VOL OF LOGS	FOB TO PROD (\$US)	NAME/CNTRY. PURCHASER	NOTIFY PARTY	M.E.P. (US\$)	M.E.P. COMP.	%	PRODUCER	NAME OF PRODUCER	LUSCO
55	Bow's Br	Jan	784	3,500	187,797		Cymasun Trade	165,929	21,868	13.0	173,886	Menvuvu P/L	5,361
57	Bona Star	"	1,202	5,053	236,589		Cymasun Trade	235,212	1,377	0.0	212,102	Menvuvu P/L	6,482
58	Tensho	Mar	528	2,600	152,857		Daimaru Inc.	152,857	-	0.0	142,605	Menvuvu P/L	3,848
59	Enyo	"	865	2,200	111,394		Ataka Lumber	110,792*	(602)	0.0	96,271	Vunapope	9,168
60	Glory Rv	Apr	420	1,700	98,690		Ataka Lumber	98,690*	-	0.0	200,706	Menvuvu P/L	4,996
61	Glory Rv	"	460	2,000	108,912		C. Itoh & Co.	108,912*	-	0.0	-	Menvuvu P/L	
62	Este G1	"	436	1,898	101,513		Daimaru Inc.	101,513*	-	0.0	95,372	Menvuvu P/L	2,573
	"	"	1,368	4,096	218,303		Daimaru Inc.	218,303*	-	0.0	192,051	Milne Bay Log.	2,048
63	Este G1	Jul	498	1,991	96,321		Ataka Lumber	96,321	-	0.0	93,833	Menvuvu P/L	2,623
64	Field	"	820	3,014	136,936		Daimaru Inc.	136,939*	-	0.0	121,216	Menvuvu P/L	3,487
65	Asia Rv	"	760	2,997	141,516		Oksan Ind.	144,200*	-	0.0	136,871	Menvuvu P/L	3,963
	"	"	699	2,719	130,753		Oksan Ind.	125,274*	-	0.0	123,479	Leytrac P/L	3,895
69	Estella	Nov	819	2,994	139,278		Sanno Lumber	139,274	-	0.0	122,081	Leytrac P/L	4,160
70	Oriental	Dec	553	1,999	95,941		Sanyo Elec.	91,388	4,553	5.0	86,219	Leytrac P/L	2,030
71	Rainbow	"	761	2,037	87,575		Sanyo Elec.	89,492	-	0.0	89,451**	Milne Bay Log	(920)
	"	"	554	1,987	85,427		Sanyo Elec.	79,932	-	0.0	78,455**	Menvuvu P/L	2,350
	"	"	973	973	41,863		Sanyo Elec.	44,981	-	0.0	41,050**	Leytrac P/L	1,270

\* Allowed dispensation.  
\*\* Renegotiated to M.E.P.

NOTE: Freight rates are all F.O.B. with the exception of the following shipments:

Invoice	Rate (US\$)
58	23.0
59	22.0
60	23.0
61	23.0
62	24.5
63	23.5
64	24.5

**EXHIBIT NOTE**

This is the annexure marked with the letter "C" and referred to in the Statutory Declaration of Rex William Grattidge sworn the 10<sup>th</sup> day of June 1988 before me:-

  
A Commissioner For Oaths

Deponent



MARKETING TABLE - LUSCO ENTERPRISE PTY LTD 1986

														COMPARISON		BREAKUP OF PROCEEDS (Kina)			
INVOICE	NO.	VESSEL	MONTH	NO. LOGS	(M3) UNL OF LOGS	FOR TO PROD (\$US)	NAME/ENTRY PURCHASER	NOTIFY PARTY	M.F.P. (US\$)	M.F.P. COMP.	%	PRODUCER	NAME OF PRODUCER	UNIT					
73	Asia Rv	Jan	850	2,929	146,455	Holdcrown	Oksan Ind.Co.		144,557	1,898	1.31	139,593	Leytrac P/L	7,347					
74	"	"	897	2,612	116,235	"	" " "		115,859	376	.32	114,662	Milne Bay Log.	1,306					
77	Dae Yang	"	1,320	4,998	214,919	"	Oriental Chem.		202,533	12,386	6.12	199,452	Menvuvu P/L	6,365					
78	Koyo Maru	Feb.	861	2,500	105,000	"	Sanyo Elec		97,279	7,721	7.94	104,046	Vunapope	(2,421)					
79	"	"	580	2,051	105,484	"	Kowa Lumber		94,429	10,166	10.77	102,594	Menvuvu P/L	3,173					
79	"	"	328	949	48,386	"	Kowa Lumber		42,117	6,269	14.88	40,943	Leytrac P/L	2,148					
82	Inna	Mar	855	2,500	107,500	"	Mitsubishi		105,818	1,682	1.59	100,623	Vunapope	2,396					
82	"	"	645	1,970	107,982	"	Koide Lumber		92,888	15,094	16.25	98,710	Leytrac P/L	5,185					
82A	Hamlet	"	302	1,447	101,304	Qtr Ent.	Bekol & Co.		75,510	25,794	34.16	91,866	"	4,835					
	"	"	440	2,553	178,696	"	" "		137,774	40,992	29.70	165,473	R.Gault Ind.	5,104					
83	Sun God.	Apr	517	1,607	103,814	Holdcrown	Sanyo Kokusaku		64,919	38,895	59.91	99,135	Milne Bay Log.	(3,223)					
83	"	"	444	1,436	86,177	"	" "		78,749	7,428	9.43	76,270	Leytrac P/L	4,014					
84	Pippin	May	594	2,007	95,995	"	Tsuda Sangyo		91,418	4,577	5.01	88,046	Milne Bay Log.	1,003					
85	"	"	894	2,682	142,159	"	Kowa Lumber		135,336	6,823	5.04	124,288	Leytrac P/L	6,541					
87	Marbella	"	860	3,353	167,641	"	Oriental Chem		142,665	24,976	17.51	156,344	R.Gault Ind.	4,186					
	"	"	762	2,292	120,920	"	" "		119,382	1,538	1.29	109,999	Leytrac P/L	5,791					
88	Asian A.	Jun	966	2,548	132,514	"	Kowa Lumber		115,387	17,127	14.84	125,740	Milne Bay Log.	1,274					
89	#4 Bineka	"	377	1,586	76,144	"	Sergio Valente		65,682	10,462	15.93	70,537	R.Gault Ind.	2,182					
90	"	"	1,394	4,133	177,713	"	" "		161,414	16,299	10.10	165,174	Vunapope	3,932					
91	Kyowa Q.	Jul	841	2,462	142,793	"	Kowa Lumber		138,950	3,843	2.77	131,358	Leytrac P/L	6,914					
														715					
														Diff.					
														Price					
														Averaging					
92	Perlas 1	Jul	782	2,340	145,077	"	Sanyo Kokusaku		110,848	34,229	30.88	139,916	Milne Bay Log.	1,170					
93	Hortensia	Aug	900	2,999	179,954	"	Kowa Lumber		165,745	14,209	8.57	167,031	Leytrac P/L	8,791					
94	Sanko Mar	"	677	2,028	91,243	"	" "		88,244	2,999	3.40	85,136	Vunapope	3,960					
														271					
														Diff.					
														Price					
														Averaging					
95	Perlas 1	Sep	501	1,493	89,568	"	Sanyo Kokusaku		64,555	25,013	38.75	86,967	Milne Bay Log.	746					
96	Sanko Mar	"	1,203	3,572	167,889	Kowa	Kowa Lumber		167,306	583	.35	160,122	Vunapope	3,481					
97	"	"	666	2,553	153,159	"	" "		129,383	23,776	18.38	142,230	Leytrac P/L	7,486					
98	Mitchell	"	730	3,424	160,944	Holdcrown	Cymasun Trade		122,894	38,050	30.96	151,347	Menvuvu P/L	4,667					
99	Sanko Mar	Oct	850	2,556	120,137	"	Kowa Lumber		119,289	849	0.71	113,015	Vunapope	2,457					
100	"	"	356	1,166	71,099	"	" "		64,214	6,885	10.72	65,229	Leytrac P/L	3,433					

INVOICE NO.	VESSEL	MNTH	NO. LOGS	(M3) VOL OF LOGS	FOB TO PROD (\$US)	NAME/CNTRY PURCHASER	NOTIFY PARTY	COMPARISON		BREAKUP OF PROCEEDS (Kina)				LUSCO
								M.E.P. (US\$)	M.E.P. COMP.	%	PRODUCER	NAME OF PRODUCER		
101	Sarunta	2 Oct	688	2,500	149,995	Holdcrown	Namura Trading	138,656	11,339	8.18	138,547	Leytrac P/L	7,292	
102	Olymp	88 Nov	419	1,528	97,813	"	Sanyo Kokusaku	88,392	9,421	10.66	90,224	Leytrac P/L	4,749	
103	Sanko Mar	Nov	1,380	4,005	188,223	Kowa	Kowa Lumber	187,807	416	0.22	179,603	Vunapope	3,904	
104	"	"	"	506	2,177	Kowa	Kowa Lumber	113,089	8,831	7.81	115,333	Menvuvu P/L	3,567	
105	Oceania	Nov	354	1,115	73,592	Holdcrown	Namura Trading	65,047	8,545	13.14	67,883	Leytrac P/L	3,573	
106	"	Dec	1,225	3,905	217,125	"	"	204,506	12,619	6.17	208,729	Milne Bay Log.	1,953	
107	Lotus	"	727	2,500	169,998	"	Kawasho Corp.	144,686	25,312	17.49	156,458	Leytrac P/L	8,260	
108	Sanko Mar	"	1,390	4,090	224,945	Kowa	Kowa Lumber	216,723	8,222	3.79	211,224	Vunapope	3,911	
160 Price Averaging Diff.														

NOTE: Freight rates for 1986 are all F.O.B.

No royalties were received for 1986.

NOTE: Milne Bay Logging pays commissions of .50t per M3.

NOTE: Leytrac pays commissions of 5% of F.O.B. price which includes management ancilliary services and marketing.

NOTE: Vunapope logs are purchased domestically and exported at a gross profit of US\$1.00 per M3.

NOTE: Menvuvu, Lombda, R. Gault at commission of 3% of F.O.B. price.

EXHIBIT NOTE

This is the annexure marked with the letter "D" and referred to in the Statutory Declaration of Rex William Grattidge sworn the 10<sup>th</sup> day of June 1988 before me:-

  
A Commissioner For Oaths

Deponent 

INVOICE NO.	VESSEL	MONTH	NO. LOGS	(M3) VOL OF LOGS	FOB TO PROD (\$US)	NAME/CNTRY PURCHASER	NOTIFY PARTY	COMPARISON		%	BREAKUP OF PROCEEDS (Kina)		LUSCO
								N.E.P. (US\$)	M.E.P. COMP.		PRODUCER	NAME OF PRODUCER	
139	Treasurer	"	463	1,679	192,634	" "	Sanyo Kokusaku	170,913	21,721	13.0	157,258	Leytrac P/L	8,552
142	Sun Coral	Oct	555	1,710	194,300	May Shan Tr.	Nam Hui Co.	171,719	22,581	13.0	160,282	Leytrac P/L	8,726
143	Sun Coral	"	987	2,719	274,618	" "	Sanyo Kokusaku	179,507	95,111	53.0	240,687	Milne Bay Log.	227
144	Bo Chum	"	606	2,097	232,822	" "	Kawasho Corp.	191,579	41,243	22.0	194,599	Leytrac P/L	10,595
145	Estacion	Nov	369	903	112,920	Gaisho Co.	Gaisho Co.	101,830	11,090	11.0	96,020	Leytrac P/L	5,054
146	Ekman	"	970	3,008	255,711	Holdcrown	C.Itch & Co.	253,110	2,601	1.0	219,075	Milne Bay Log.	
147	Durian	Dec	841	3,019	301,930	"	Daewoo Corp.	279,061	22,869	8.0	245,211	Leytrac P/L	13,330
148	84 Binaka	"	224	596	50,978	Gaisho Co.	Imanaka Ltd	44,559	6,419	14.0	42,270	Leytrac P/L	2,225
149	"	"	12	423	38,287	"	Gaisho co.	38,224	63	0.0	31,747	Leytrac P/L	1,671

NOTE: \*Freight rate for invoice no. 118 was 21.00.  
 \*\*Freight rate for invoice no. 120 was 25.50.

All other freight rates for 1987 were F.O.B.

There were no royalties received for 1987.

MARKETING TABLE - LUSCO ENTERPRISE PTY LTD 1987

INVOICE NO.	VESSEL	MNTN	NO. LOGS	(M3) VOL OF LOGS	FOB TO PROD (\$US)	NAME/CNTRY PURCHASER	NOTIFY PARTY	COMPARISON			BREAKUP OF PROCEEDS (Kina)		LUSCO
								N.E.P. (US\$)	N.E.P. COMP.	%	PRODUCER	NAME OF PRODUCER	
109	Pippin 1	Jan	1,181	4,682	340,819	Pacific Int	Gen. Resources	287,982	52,387	18.0	308,390	Leytrac P/L	16,229
112	"	Feb	667	2,077	140,512	Holdcrown	Daimaru Inc.	120,791	28,786	24.0	134,688	Milne Bay Log.	2,070
112	"	"	595	2,368	189,475	"	"	144,908	44,567	31.0	164,243	Leytrac P/L	8,926
113	Sun Timor	Mar	876	3,133	250,632	"	Sanyo Kokusaku	195,008	55,624	29.0	212,583	Leytrac P/L	11,616
114	"	"	444	1,742	99,281	"	Gen. Resources	83,793	15,488	18.0	84,795	Leytrac P/L	4,610
115	Sanyo Mar	Apr	646	1,988	135,203	Sanyo Kokusa.	Sanyo Kokusaku	124,031	11,172	9.0	114,965	Milne Bay Log.	953
116	"	"	1,173	3,959	308,780	"	"	253,454	55,326	22.0	254,430	Leytrac P/L	13,884
117	Sarunta 2	"	999	3,490	265,257	Kawasho Int.	Kawasho Corp	212,592	52,665	25.0	213,899	Leytrac P/L	11,835
118	Dooyang	May	847	2,999	227,956*	Hanshine Int	Seokyoung Ind	184,733	43,223	23.0	186,101	Leytrac P/L	10,171
119	Siti Mida	"	347	1,419	86,902	Quarter Ent.	Centaur Exp.	75,364	11,538	15.0	77,377	Milne Bay Log.	779
119A	Neptunia	Jun	1,264	4,334	312,014	Sanyo Kokusa.	Sanyo Kokusaku	273,572	38,442	14.0	255,751	Leytrac P/L	15,601
120	Oceania	"	1,014	3,042	176,447**	Hayundai Corp	Hayundai Wood	175,591	856	0.0	156,397	Milne Bay Log.	1,726
121	Sanyo Mar	"	982	3,989	210,978	Renown Ind.	Renown Ind.	194,105	16,873	9.0	174,206	Leytrac P/L	9,465
123	Global St	Jul	1,323	4,093	327,432	Sanyo Kokusa.	Sanyo Kokusaku	249,563	77,869	31.0	269,106	Leytrac P/L	14,790
124	Larix	Aug	932	3,003	231,223	C.Itch & Co.	C. Itch & Co.	182,028	49,195	27.0	195,184	Leytrac P/L	10,602
125	Sea Dragon	"	1,150	4,500	454,462	May Shan Tr	Sanyo Kokusaku	288,934	165,528	57.0	411,074	Vunapope	4,111
126	"	"	537	1,529	152,916	"	"	91,814	61,102	67.0	131,609	Leytrac P/L	6,927
127	Sun Timor	"	1,568	5,005	382,903	"	Kawasho Corp.	282,620	100,283	35.0	336,161	Milne Bay Log.	946
128	Oceania	"	587	1,629	162,917	"	"	107,765	55,152	51.0	144,946	Milne Bay Log.	815
129	Sparkle Mn	Sep	799	3,000	300,000	Hanshine Int	Seokyoung Ind	246,313	53,687	22.0	244,295	Leytrac P/L	13,280
130	Sea Dragon	"	662	2,082	212,405	May Shan Tr.	Sanyo Kokusaku	178,536	33,869	19.0	172,966	Leytrac P/L	9,409
132	Sea Highway	"	687	2,404	249,991	"	"	210,814	39,177	19.0	202,645	Leytrac P/L	11,020
133	Pomex Pr.	"	206	683	70,983	"	Namura Trading	60,392	10,591	18.0	59,268	Leytrac P/L	3,185
134	"	"	882	2,690	215,201	"	"	186,997	28,204	15.0	184,667	Milne Bay Log.	
135	"	"	625	2,006	224,177	"	"	203,014	21,163	10.0	192,371	Milne Bay Log.	
136	Oceania	Oct	792	2,509	208,286	"	Kawasho Corp.	189,232	19,054	10.0	184,160	Milne Bay Log.	163
137	"	"	521	1,600	143,995	"	"	129,946	14,049	11.0	123,509	R.Gault Ind.	3,808



## Schedule 6

### STATUTORY DECLARATION

I, REX WILLIAM GRATTIDGE, Company Director of P O Box 915, Rabaul in Papua New Guinea, do solemnly and sincerely declare as follows:-

1. I was born in Australia on the 7th of September 1940 and arrived in Papua New Guinea on the 29th of November 1959 to take up employment in the Treasury Department of the Administration. I was granted a cadetship by the Australian Government and attended University in Australia where I completed a four year course in Forestry and returned to Papua New Guinea to work with the Forestry Department. I thus remained between 1964 and 1969 and took up employment with Stettin Bay Lumber as Forest Engineer in 1969. I remained in that position until 1971 when I formed my own logging Company which I operated until 1979.
2. Lusco Enterprises Pty Limited was incorporated in 1981 the name being a derivative for the Lu Brothers of Taiwan with whom I was then involved. The Messrs Lu did not remain in Papua New Guinea and I took over the Company in 1981 and have continued marketing and trading in Papua New Guinea logs up until the present time. Annexed and marked "A" is a Resume previously provided to the Commission. Holdcrown Limited was incorporated on the 19th of July 1985 with a capital of HK\$10,000.00. The Shareholding was previously myself 40% my Wife 40% and Eddie Chow 20% which changed on the 20th April, 1987 to myself 33%, my wife 33% and Eddie Chow 34%. On the 31st of March 1988 my wife and I resigned as directors of Holdcrown Limited and we have sold all of our shares to Mr. Eddie Chow. Any monies received from that sale will be brought

back to Papua New Guinea. The reason that I sold the interest in Holdcrown was that whilst I had the best intentions in the creation of the Company I feel my actions have been misinterpreted and that my wife and I have suffered as a result of the publicity arising mainly from the Forest Inquiry. Holdcrown was not designed to be a transfer pricing receptacle. Mr. Chow is extensively experienced and well respected in the international timber market. He continues to provide market reports to Government and semi Government agencies and to timber industry associations dealing in South Seas logs including Papua New Guinea. With his experience and contacts it was foreseen that Holdcrown could create a viable alternative to Japanese buyers in the Papua New Guinea market and could as well create pressure on Japanese Companies to offer fair prices for logs out of Papua New Guinea.

3. This Inquiry has received sufficient information about the Japanese way of doing business to know that it is impossible for a Papua New Guinea producer or marketer to sell directly to end users. It is a part of Japanese Korean and Taiwanese markets that agents or middlemen exist. The industry cannot operate without them. It is common for an end user to deal only through its own agent and for that agent to take a commission somewhere along the chain of the sale process. If therefore a Papua New Guinea producer wishes to sell logs he must seek out those agents in order to reach the end user. Mr. Chow's experience and contacts are such that selling through Holdcrown ensures for the producer a fair market price and a definite market.

4. As I state in the summary to the Resume it is essential for Papua New Guinea producers to be represented overseas. The costs of that representation must be seen and accepted as a proper cost in the marketing process. Holdcrown of necessity must pay commissions to agents of the end user and I say it does so effectively and efficiently. Annexed hereto are charts prepared by me of the relative performance of Lusco and some of the producers selling through Lusco. Firstly, Chart No. 1 is a comparison of Leytrac's FOB average to its MEP average from January 1986 to December 1987. Chart No. 1 demonstrates that Leytrac was always well in front of the MEP price. I say that was effectively because of the use of Holdcrown in the marketing process. Look particularly at October 1987 when the MEP price for that parcel of logs was US\$95.00 and the FOB sale price obtained was US\$111.00 July 1987 MEP price was US\$61.00 against an FOB price of US\$80.00. I say that the Commission of Inquiry will have to go a long way before finding prices as good as we have been able to obtain.
5. Chart No. 2 is a comparison of composite MEP average against composite FOB average. The composite is of all logs marketed through Lusco. It is submitted that there are substantial gains made over the MEP average directly as a result of marketing assistance given by Holdcrown.

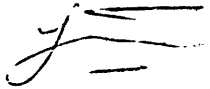
6. Chart No. 3 is a comparison of the Lusco marketed logs with the Papua New Guinea average. The Chart indicates that the average for PNG logs on an FOB basis for 1987 was \$80.54. During the same period Lusco obtained an average of \$84.50. It is notable as well but not to Lusco's advantage that it was a little under \$3.00 a cubic metre behind the Papua New Guinea FOB average for 1986. This is explainable however, by the fact that Lusco is selling logs produced by the Catholic Mission at Ulamona where in fact the Church is 'Salvage logging' and producing logs of particularly small diameter which are therefore of lesser value than 'regular' size logs. The logs produced by Milne Bay Logging Pty Ltd, operating in the Woodlark Islands, are also of a smaller size and additionally the parcels contain less desirable species e.g. Watergum and Garogaro. These two producers by their lower than average value parcels drag down the overall figures of Lusco as is shown in the Lusco comparison to the PNG average.
7. I make particular emphasis of the fact that at no time was any attempt made to conceal Holdcrown's marketing activities or its relationship by way of common shareholding with Lusco Enterprises Pty Limited. I informed log producers in Papua New Guinea of the relationship and the Forest Department. There are a myriad of opportunities in the international market place to disguise ownership of assets including shareholding in corporations. My wife and I did not attempt any such secretive dealings and at all times had the best interest of Lusco's customers and Lusco Enterprises in mind in the creation of Holdcrown Limited.

8. It is regrettable that certain statements have been made in open hearings without the Commission of Inquiry being aware of the complete picture. Mr. Reeve was reported in the Times Newspaper as saying that Holdcrown resold timber at a substantial profit tax free and not disclosed to the PNG producers or the Government.
9. Hong Kong is not a tax haven and the profits made by Holdcrown are subject to tax. It is not true that Holdcrown makes a substantial profit as effectively it has substantial expenses including commissions to be paid in the sale of PNG logs. My examination of the accounts of Holdcrown whilst I was in Hong Kong recently is that the average commission or gross profit taken by Holdcrown since its inception in 1985 is 3% of the PNG FOB export price. I believe that 3% to be reasonable and that it additionally generates substantial benefit to the producers, to Lusco and to Papua New Guinea.
10. It is indisputable that Mr. Chow of Holdcrown has a great degree of expertise in marketing and is highly regarded by the Timber industry in the South Pacific. If the average commission that Holdcrown was receiving for its marketing services was 10% as Mr. Reeve is believed to have alleged it could be said that Holdcrown was receiving an excessive compensation for its services. My information however I reiterate is that the average was 3% and I maintain that that is fair.
11. Mr. Chow was solely responsible for the day to day running and operation of the Hong Kong Office and I had no knowledge of the individual trades or expenses incurred. Holdcrown does not only buy or market logs from Lusco nor does it deal solely in Papua New Guinea logs.

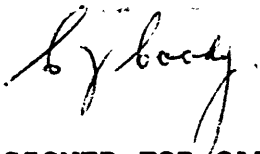
12. Whilst I have resolved to dispose of my interest in Holdcrown because of the unpleasantness surrounding the publications in the press since the commencement of the Forest Inquiry, I believe it will be a disservice to Papua New Guinea in the long term if producers are not represented adequately in the international markets. Transfer pricing can be controlled in many ways and I support any recommendations or legislation to protect the interest of Papua New Guinean producers so long as any action taken sufficiently identifies the dynamics of the international log trade and allows sufficient freedom to both producers and traders to make a profit in the promotion and sale of PNG Timbers.
13. In particular reply to Mr. Reeve's letter of the 17th of May 1988 I have already revised the marketing tables for 1986 and 1987 where they were previously incorrect. I have submitted the 1984 and 1985 tables as requested. I do not have nor do I have access to copies of sale invoices of Holdcrown or May Shan Trading.
14. So far as Lusco business relationships with producers is concerned there are no written agreements. The sales arrangements differ from Company to Company and on occasions are payments by way of agency commission and on other occasions a purchase and resale by Lusco. The price variances referred to by Mr. Reeve in paragraph (d) of his letter I believe were errors in the original tables which have now been rectified.
15. There are no written agreements between Lusco and Holdcrown or between the producer and Holdcrown. The arrangements for sale of logs by Lusco to overseas companies (whichever of the many purchasers) varies from shipment to shipment and depends upon the movements of the market.

I make this solemn declaration by virtue of the Oaths Affirmations Laws of Papua New Guinea and subject to the penalties provided by the Act for the making of false statements in statutory declarations, conscientiously believing the statements contained in this Declaration to be true in every particular respect.

DECLARED at Rabaul )  
this 20th day of August )  
1988 )



Before me:-



A COMMISSIONER FOR OATHS

## RESUME' OF HOLDCROWN/LUSCO

### PRIOR TO 1979

Log exports commenced from PNG during the 1960's and expanded during the early 1970's. The major market was Japan and the marketing of logs from PNG was totally controlled by Japanese buyers, mainly large trading firms.

Independent (non Japanese) producers were at the mercy of the buyers for two main reasons:-

1. Complete lack of knowledge of the markets and lack of marketing expertise.
2. Financial dependence upon the buyers. Most producers were small, and underfinanced, and depended upon advances from buyers from ship to ship to allow production to continue. Prices were manipulated to insure continuing dependence.

### 1979-1983

Towards the later half of 1979 Lu Brothers of Taiwan visited PNG to investigate the situation here. They had previously purchased PNG logs through Japanese agents. They were impressed by the better general quality of logs seen in PNG than those available in Taiwan, and also they were surprised at the low price producers were being paid for the logs.

The writer was approached to assist Lu Brothers to set up an Office to purchase logs for Taiwan. Lusco Enterprise was established, with 100% Taiwanese shareholding.

At the middle of 1979 log prices were around \$35-40/m<sup>3</sup> but by the end of the year had doubled. The increase was in line with Indonesian and Malaysian prices but it was through our efforts, the FIC and another independent marketer that PNG prices followed world trends in this case.

In those early years great pressure was brought to bear against Lusco to force them out of the market place, mainly through the big Japanese trading houses using their size to outbid us on each parcel we were interested in. Lu Brothers lost interest and ownership of Lusco was taken over by Mathiva Grattidge 76% and Rex W. Grattidge 24%.

The main objects at that stage was to:-

- gain support with independent producers to present a united front to the traditional buyers. If we had 10,000m<sup>3</sup>/month committed from several small producers, there would be more leverage to bargain than if each offered small parcels separately.
- diversify markets. To this end we did a lot of ground work with Korea & Taiwan, and also Europe. Quite a few parcels were sold to Europe at good prices, until the European currency problems curtailed further sales.



- obtain regular reliable market intelligence from producer and consumer countries. At this time we were not strong enough to have our own representatives in the market place, however, in 1981 progress was made when we commenced business with Weyerhaeuser (Far East) who had had a brief experience with PNG in the 1970's but had then concentrated on Indonesia. They had a good penetration of the Asia markets with their representatives in Japan, Korea, & Hong Kong and contracts in Taiwan, as well long experience in the marketing of Indonesia and Malaysia logs.

While we did not sell all logs available to Weyer Haeuser we used the tactic of forcing the established (Japanese) buyers to compete with Weyerhaeuser and hence obtaining more equitable prices. During 1984 there was a concerted effort to form a cartel of several large buyers to control the PNG market, but again, we and other independents were able to provide sufficient competition to avoid that situation.

By mid 1985 Weyerhaeuser had made the decision to curtail their Pacific Basin activities, and it was at that stage we were able to obtain their top marketing person, to continue to represent us in the consumer countries. Eddie Chow had 15 years of marketing experience and is regarded as a top authority on the SS log market. He is invited as a guest to all Sealpa meetings and acts as advisor/consultant to the Sabah and Sarawak Forest Industry Associations. He recently played a large part to get both Sabah and Sarawak together to control the volume of export in order to stabilize the market.

A Company Holdcrown Ltd. was set up in Hong Kong with the shareholding Eddie Chow, Mathiva Grattidge and Rex W Grattidge and Eddie Chow as Chief Executive. Hong Kong was chosen because:-

- it is central to the supplying and consumer countries (Japan, Korea, Taiwan, Hong Kong, and in the future P.R.C.)
- the cost of maintaining an office in Hong Kong is cheaper than the only other real alternative which is Tokyo, particularly since Mr. Chow already owned his own home in Hong Kong.
- efficient banking facilities, currency movement and tax conditions.

Holdcrown together with Lusco has these main objectives:-

- to establish a sound market footing in the three main consumer countries. (Japan, Taiwan, Korea). We do not believe in continual "spot" sales, rather we need several good reputable buyers in each country, with whom we can do regular business, during good and bad market conditions.

- to sell as far as possible to end users, thus achieving a better price for the producer. This is an on-going process, with the greatest difficulty long experienced in Japan where "traditional" patterns are hard to break.
- to collect and collate latest market information, regarding the situation in producing and consuming countries as well as shipping movements etc. In the past, PNG missed out on improvements in the market by several months because of lack of this kind of information. Lusco provides our customers some Provincial Governments, Banks and lending houses, with such information. Education of the industry marketers is essential to obtain the best prices for our logs.
- Penetration of new markets. Emphasis is put on introducing new customers to our logs in existing trading countries, as well as expanding markets into new fields. We have concentrated on PRC and expect to make initial direct sales shortly.

## S U M M A R Y

1. Lusco is a PNG based and owned Company. Over the past 8-9 years we have played a large part in rationalizing the marketing of PNG logs. We have provided competition to overseas based companies who have a vested interest in holding prices for our logs down. Checking of our sales figures would show that although we handle a wide range of species that our prices are above the national average. By providing real competition we have been able to assist in obtaining prices approaching a parity with overseas competitors.
2. We believe that ignorance of the market has been a key factor in allowing our logs to be undersold. To this end we have tried continuously to keep the FIC, Forests, and producers well informed of the latest market movements and future trends. eg: Regular market reports were supplied initially through Weyerhaeuser and later Holdcrown to the FIC. Lusco provides market updates to our suppliers, interested Provincial Governments and the banking and financial institutions.

We believe that "transfer pricing" could be easily controlled if Government authorities had at least one person with Eddie Chow's knowledge. The FIC of PNG in 1986 and 1987 paid a monthly fee to Holdcrown to supply them with a monthly market report similar to that enclosed.

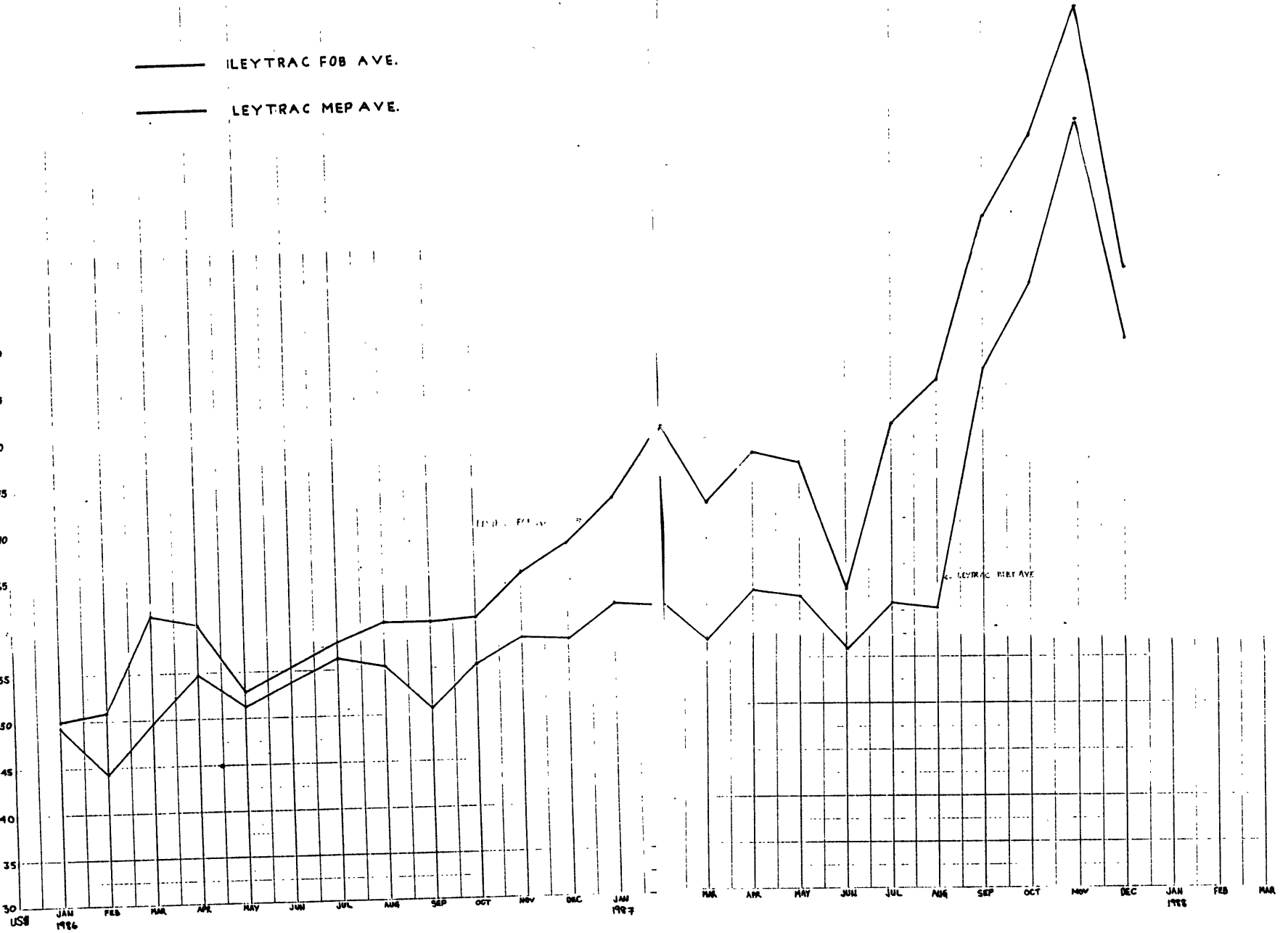
The State marketing authority also used Holdcrown as it's agent to sell parcels of logs.

3. Lusco believes it is essential to have our own office and representatives in the market place. Being PNG based, however, we cannot compete with offshore companies unless we have people on the spot. There is paranoia and suspicion about offshore offices here in PNG at present, but the alternative is to stay home and lose the advantage of first hand information.

Lusco has demonstrated that we are not here to put money offshore since we are investing heavily in redeveloping run-down plantations, in ENB Province. Old cocoa and virgin bush has been cleared to plant over 400ha. of hybrid cocoa, and another plantation has been acquired with a view to redevelop with cocoa and to commence commercial deer breeding in PNG.

125  
120  
115  
110  
105  
100  
95  
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US\$

LEYTRAC FOB AVE.  
LEYTRAC MEP AVE.



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105  
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US\$

COMPOSITE FOB AVE.

COMPOSITE MEP AVE.

COMPOSITE FOB AVE. →

← COMPOSITE MEP AVE.

JAN 1986 FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC JAN 1987 FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC JAN 1988 FEB

— PNG FOB AVE.

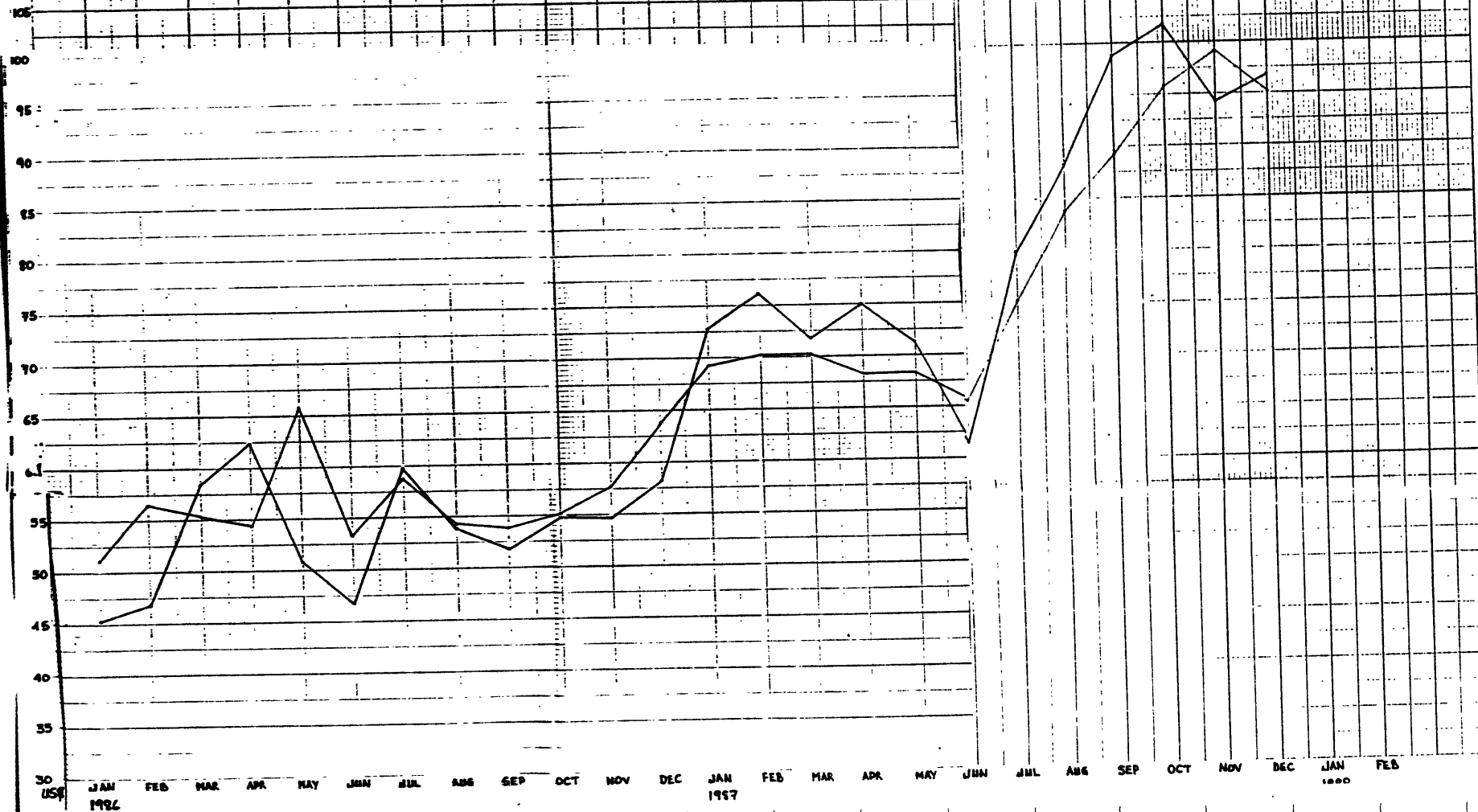
1986 = 55.00

1987 = 51.54

— LUSCO FOB AVE.

1986 = 52.45

1987 = 49.50



Began with Analysis of 1986.

LUSCO 1986 -

Operated as a marketer of produce for small PNG producers.

Sent shipments on 22 different vessels of which it seems about 8 were full shipments 1, 3, 7, 8, 10, 16, 21, 22 and 16 were part shipments 2, 4, 5, 6, 9, 11, 12, 13, 14, 15, 17, 18, 19, 20, 23, 24.

but of this total all were sold through Holdcrown HK except:

- (a) one part shipment to Amsterdam through QUARTER ENTERPRISES (NO.5).
- (b) two part shipments (Nos.14 & 24) and three full shipments (Nos. 16, 18, 21) to KOWA LUMBER CORPORATION which is the parent of Open Bay Timber and which is itself a reseller.

Interestingly the change to direct sales to KOWA only began in August 1986 - there were earlier sales through NANRIN TSUSHO (Nos. 3, 7, 9, 11 & 13) invoiced through Holdcrown.

This was before FIC marketed and the change came when FIC was talking of marketing.

Lusco's supply sources were five (5) producers of which four were regular.

It had clear patterns of return from these producers to LUSCO.

- (a) Leytrac Pty Ltd - 5% FOB
- (b) Woodlark Island Development  
or Milne Bay Logging - 50t per m3
- (c) Menvuvu Pty Ltd - 3% of FOB
- (d) Vunapope or Ulamona Catholic  
Mission - USD1.00 per m3
- (e) R. Gault Industries - 3% of FOB  
- Gault only sold  
2 part shipments:  
May 3,353  
June 1,586  
4,939 m3

Whether these rates are disclosed is not known - presumably they are.

The only exception to the above pattern was on Shipment 14 - interestingly enough the first direct sale to Kowa Lumber where the Ulamona Mission was charged USD2.00 per m3.

In 1986 three full ships went to Korea and one full ship and one part ship to Taiwan.

- A. No.1 To OK SAN INDUSTRIAL CO. (KOREA)  
via HOLDCROWN.
- B. No.2 & 8 To CHUNG KOO LUMBER via ORIENTAL  
CHEMICAL (KOREA) via HOLDCROWN.
- C. No.10 To SERGIO VALENTE INC. via LIMACO  
(TAIWAN) via HOLDCROWN.
- D. No.17 To CYMASUN TRADING CO. (TAIWAN)  
via HOLDCROWN.
- E. This was one odd shipment to Amsterdam BEKOL  
via ALBERT DE BARRY through QUARTER ENT.

In effect three buyers were direct (ORIENTAL always L/C's for CHUNGKOO).

All other 1986 shipments were to Japan and the real customers were:-

- F. SANYO ELECTRIC TRADING - 1 PART No.3 DIRECT  
via HOLDCROWN
- G. KOWA LUMBER - 5 PART 3, 7, 9, 11, 13  
via NANRIN TSUSHO via HOLDCROWN  
- 2 FULL 16, 21 DIRECT  
- 3 PART 18, 24 DIRECT
- H. MITSUBISHI CORP. - 1 PART 4 via NANRIN TSUSHO  
via HOLDCROWN
- I. KOIDE LUMBER - 1 PART 4 via NANRIN TSUSHO  
via HOLDCROWN
- J. SANYO KOKUSAKU PULP - 4 PART 6, 12, 15, 20  
DIRECT via HOLDCROWN
- K. TSUDA SANGYO - 1 PART 7 via NANRIN TSUSHO  
via HOLDCROWN



L. NAMURA TRADING CO. - 1 PART 19 &  
1 FULL 22 via NANRIN TSUSHO  
via HOLDCROWN

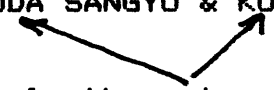
M. KAWASHO CORP. - 1 PART 23 via NANRIN TSUSHO  
via HOLDCROWN

The three main buyers were thus KOWA LUMBER - via  
NANRIN TSUSHO then direct.

SANYO KOKUSAKU - Direct  
NAMURA TRADING - via NANRIN TSUSHO.

The other five buyers were one off - one direct and  
four through NANRIN TSUSHO.

Of the five: SANYO ELECTRIC  
MITSUBISHI  
KAWASHO are large & we don't know  
about TSUDA SANGYO & KOIDE  
LUMBER.



NANRIN TSUSHO was an organiser - only these two at most  
needed it.

This bears comparing to Questionnaire at Page 5(d).  
Clearly leaves open to question the role of HOLDCROWN.

In Marketing Table shows name of buyer & notify party  
- they show nothing about Holdcrown as buyer - in fact  
LUSCO INVOICES HOLDCROWN.

In the answers to Questionnaire Holdcrown is described  
as our agent.

Why was this done?

Not only are invoices to Holdcrown from Lusco but in  
all cases it seems the L/C is from Hong Kong & from  
Holdcrown to LUSCO.  
Holdcrown is in fact the buyer from Lusco not the  
buyer shown - and the notify party is the notify party  
named in Holdcrown L/C.

When one examines the Holdcrown L/C one sees in each  
case a special condition - which gives a clue as to  
its role - in those terms:-

*"Documents other than drafts and invoices must  
not show this CREDIT NO., (L/C NO)., UNIT PRICE  
and VALUE OF GOODS/(TOTAL VALUE OF GOODS)" or*

*words to like effect."*

Why would it be sufficiently important that the Hong Kong L/C number, unit price and total value not be mentioned in any documents other than the draft and the invoice - and why is it the draft and invoice can contain those details.

The answer to the second question is simple - the invoice and draft must be presented to negotiate Holdcrowns Hong Kong L/C - the draft must claim the total price and Hong Kong L/C number and the invoice must show the unit and total price to support the amount claimed in the draft.

The answer to the first question seems reasonably clear also - the true buyer is to get another invoice from Holdcrown (and if payment is by L/C to get another draft from Holdcrown) and they do not want anything in the other documents which "gives away" to the true buyer the unit price and total value paid by Holdcrown to Lusco.

This means Holdcrown is reselling Lusco logs to the true buyer.  
To test this answer we need to have recourse to the available evidence.

Mr and Mrs. Grattidge are principals in Holdcrown - they say so in Questionnaire answers.  
Holdcrown becomes involved in LUSCO's marketing in November 1985 with the shipment on M.V. ESTELLA (Lusco's Invoice No.69).

Before examining this transaction bear in mind it is preceded by a sale through WEYER HAUSER (FE) to OK SAN IND CO. (KOREA) on MVASIA RIVER.

That sale as per LUSCO INV. NO.65 was of 1459 pcs = 5716.393 m3 for a total FOB of USD 272,269.27.

The Lusco invoice specifies credit No. M1838-506-NU-00025 which clearly a Korean L/C number.

The L/C to Lusco is not a Korean L/C but one from WEYERHAUSER (FE) in Hong Kong showing OK SAN IND. CO. as notify party.

The L/C covers 6000 m3 FOB. It is clearly back to back as it requires all documents to bear credit No. M1838-506-NU-00025 - the number on Lusco's invoice.

A further condition requires "upon negotiation the amount of USD40,000 being sales commission and other shipping expenses be TT remitted to Weyerhaeuser F.E. This is extraordinary - it is 14.69% of the FOB price and 12.21% of the L/C amount (USD327,400) - it is the first L/C provided which has such lump sum fee. The producers were Leytrac and MENVUVU from whom LUSCO got

5% and 3% respectively as commission in 1986.  
This bears explanation.

#### HOLDCROWN SHIPMENTS

1. The invoice refers (Lusco invoice 69) to L/C 318/8905
  - it covers  
819 pcs = 2993.939 m3 @ 46.52 = USD 139,278.04.  
When that L/C is examined it is HOLDCROWNS HK L/C  
FOR 3,000 M3 ON AN FOB basis:
  - SANNO LUMBER CO. is the notify party  
- the true buyer.
  - the clause about unit price and value is included.
  - there is a special condition that on first negotiation "deduct USD12,000-00 from proceeds payable to beneficiary - LUSCO - being sales commission and other marketing/shipping expenses and remit by TT to Holdcrown Limited".  
Holdcrown therefore got USD12,000 or 8.6% of Lusco's FOB price.

From the 1986 Marketing Table Lusco got only 5% commission from the producer Leytrac. This arrangement bears explaining.

It would also be necessary for Holdcrown - when we remember the non disclosure condition to reinvoice Sanno Lumber. The potential then exists for further profit to Holdcrown on this re invoicing.

At this stage I ask Your Honour to assume Holdcrown's Invoice was numbered 1/85 whether it be a re invoicing or an invoice to cover USD12,000 to LUSCO.

2. Holdcrown's next shipment was Lusco's next shipment M.V. ORIENTAL ACE in December 1985.  
The invoice (LUSCO INVOICE NO.70) COVERS 553 PCS = 1998.778 M3 @ 48 = USD 95,941.34.  
The invoice refers to L/C No WFH 505950BB.
3. Holdcrown's next shipment was again Lusco's next shipment M.V. RAINBOW VOLANS in Dec. 1985.  
The invoice (LUSCO Inv.71) covers 1635 pcs = 4996.869 m3 @ 43 = USD214,865.37.  
The invoice refers again to L/C No.505950 BB.  
Because both invoices (70) No.2 and (71) No.3

refer to the same L/C and the L/C allows partial shipments these two shipments are dealt with together.

When the L/C is examined it is HOLDCROWNS Hong Kong L/C for 8000 m3 (at 43.75 per m3) FOB.

- SANYO ELECTRIC TRADING CO. - the true buyer  
- is the notify party.
- the clause about unit price and value is included.
- there is a special condition that on first negotiation the bank is to "deduct USDB,000-00 from the proceeds payable to the beneficiary being sales commission and other marketing/shipping expenses and remit by TT to Holdcrown Limited".  
Holdcrown therefore gets USDB,000 at first negotiation - a rate of USD1.00 per m3 over the L/C quantity.

Lusco's entitlements were as follows (if the rates were as in 1986).

ORIENTAL ACE - producer LEYTRAC - 5% of FOB of  
USD 4797.07

RAINBOW VOLANS

- producer WOODLARK - 2036.629 M3 @ 50t per m3  
= K 1,018.
  - producer MENVUVU - 3% of FOB of USD 85,427.20  
= USD 2,562.81
  - producer LEYTRAC - 5% of FOB of USD 41,863.12  
= USD 2,093.15
- ie: K1,018.32 plus USD 9,453.03

If Lusco disclosed the true position to all it received US 9,453.03 and K1018.32 and Holdcrown received USDB,000.

This should be explained as should be fact the L/C gives a unit price of USD43.75 per m3 whereas the invoice is at USD43.00 per m3.

It would also be necessary for Holdcrown - when we remember the non disclosure condition - to reinvoice Sanyo Electric Trading.

The potential thus exists for further profit to Holdcrown on this re invoicing.

At this stage I ask Your Honour to assume Holdcrowns invoice was numbered 2/85 on the ORIENTAL ACE part shipment and such invoices were numbered 3/85, 4/85 and 5/85 on the three

RAINBOW VOLANS part shipments.

4. This brings us to the end of 1985 and the first 1986 shipment which is in January on the M.V. Ocean River. This is a shipment where we have all the evidence - it is shown as 1 in Lusco's 1986 Marketing Table. The Table shows a direct sale of two parcels - one from LEYTRAC and one from MILNE BAY LOGGING CO. - to OK SAN INDUSTRIAL CO. LTD. of SEOUL, KOREA.

There are two invoices from LUSCO to HOLDCROWN:

(a) LEYTRAC logs 850 pcs = 2929.093 m3 @ 50  
=USD146,454.65

(Inv73)

(b) MILNE BAY (WOODLARK)  
897 PCS = 2612.026 m3 @ 44.50 = USD116,235.16

(Inv74)

**TOTAL PRICE            USD262,689.81**

Both invoices refer on their face to L/C NPH 852023.

When the L/C is examined it is HOLDCROWN's Hong Kong L/C for 6,000 m3 (USD47.00 per m3) FOB:

- OK SAN INDUSTRIAL CO. - the true buyer - is the notify party.
- the Bill of Lading must show DC No. M-1838-512-NU-00018- a Korean L/C No.
- the clause about unit price and value is included.

In its Marketing Table for 1986 Lusco shows the breakup of this shipment in Kina:

For Leytrac	5% of FOB	K7,347	)	<i>There seems an</i>
For Milne Bay	50t per m3	<u>K1,303</u>	)	<i>error here as</i>
				<i>for LEYTRAC Prod</i>
LUSCO thus received				<i>Mkt in K&gt;FOB in USD</i>
a Total		<u>K8,650</u>		<i>for MILNE BAY Prod</i>
				<i>Mkt in K&lt;FOB in USD</i>

Again it would also be necessary for Holdcrown, when we remember the non-disclosure condition - to reinvoice OK SAN INDUSTRIAL.

The potential thus exists for further profit to Holdcrown on this re invoicing.

In this case we have end invoices from Holdcrown to OK SAN INDUSTRIAL.

They are CNF invoices but fortunately split the FOB price and the freight.

They are:

INV. HCL 6A/85

(a) LEYTRAC logs @ 55			
(cf LUSCO's 50)	161,100.11		
(cf LUSCO's		146,459.65)	
MARK UP			USD14,645
MARK UP			USD5.00/m3

INV. HCL 6B/85

(b) Milne Bay logs @ 48			
(cf LUSCO's 44.50)	<u>125,377.25</u>		
(cf LUSCO's		<u>116,235.16)</u>	
MARK UP			USD 9,142
MARK UP			<u>USD3.50/m3</u>
	<u>286,477.36</u>	<u>262,689.19</u>	<u>23,788</u>

The potential has been used and an amount equal to USD23,788 or over 9% of the PNG FOB price has been reposed in Hong Kong - seemingly in addition to the K8,650-00 paid in PNG to LUSCO by the producers.

I have previously asked Your Honour to assume the numbers of Holdcrown reinvoices. On that assumption the invoice numbers would 6/85 - they are as assumed invoices No.6A/85 and 6B/85.

5. The next LUSCO shipment is again in January 1986 on M.V. DAE YANG.

Again we have all the evidence - it is shown as Shipment 2 in Lusco's 1986 Marketing Table.

The Table shows a sale to CHUNGKOO LUMBER of KOREA which Your Honour knows from various sources has its L/C's established by ORIENTAL CHEMICAL CO. of KOREA. The shipment is from one producer MENVUVU.

There is one invoice from LUSCO to HOLDCROWN - No.77  
1320 pcs = 4998.113 @ 43 = USD214,918.86

The invoice refers on its face to D/C No.NPH 860105.

When the L/C is examined it is HOLDCROWNS Hong Kong  
L/C FOR 5500 M3 (US 42.727 per m3) FOB

- ORIENTAL CHEMICAL is the notify party and the Inspection Certificate is from a representative of CHUNGKOO LUMBER - clearly another CHUNGKOO purchase via ORIENTAL CHEMICAL.
- the B/L must be to order of CHASE MANHATTAN BANK SEOUL - obviously the Bank issuing the L/C to

which this is back to back.

- the clause about not disclosing D/C NO., UNIT PRICE, VALUE is included.

In its Marketing Table for 1986 Lusco shows the shipment breakup in Kina - Lusco gets 3% of the FOB value from the producer Menvuvu - K6,365-00.

As with the system we have seen it would be necessary for Holdcrown to reinvoice ORIENTAL CHEMICAL CO. and again the potential for profit to Holdcrown on re-invoicing exists.

In this case we again have the invoice from HOLDCROWN to ORIENTAL CHEMICAL CO.

It is Invoice HCL 7/85 -

1320 pcs with a volume of 4998.113 with split price at USD40 and USD 50 per m3

on a CNF basis but again the FOB prices and freight are shown separately.

Lusco's own price was FOB 43 per m3 for the whole shipment.

The total FOB is 229,167.57 (cf LUSCO's 214,918.86) - a markup of USD14,249 - average USD2.85 per m3.

The potential has thus been used and USD14,249 or 6.6% of the PNG FOB price has been reposed in Hong Kong - seemingly in addition to the K6,365-00 paid to LUSCO in PNG by the producer MENVUVU.

Again on the Holdcrown invoice number assumption the invoice for this shipment would have been No.7 and the invoice No. as assumed is in fact No.7/85.

6. After this second 1986 shipment the system continues Shipments 3, 4, 6 & 7 in February, March, April and May 1986 - details are shown on the 1986 Marketing Table -

- (a) No.3 M.V. KOYO MARU was for a total of 5500 m3 from 3 producers - ULAMONA CATH. MISSION, MENVUVU and LEYTRAC with a total PNG FOB price of USD257,981.

Lusco's invoices No.78 & 79 were to Holdcrown and the L/C's NPH 860205 were from Holdcrown.

The true buyers were SANYO ELECTRIC TRADING direct and KOWA LUMBER through NANRIN TSUSHO.

In the Table Lusco shows it got K3146

- from Menvuvu - 3% FOB

K2354

- from Leytrac - 5% FOB

K5518

The Table shows no commission for ULAMONA (VUNAPOPE) but a note pressed onto the invoice suggests the usual rate applied K2419.68 - at a rate of USD1 per m3.

If this is so Lusco received K7937 from PNG producers for this shipment.

Again Holdcrown would have reinvoyced and if there was a running number system I ask Your Honour to assume the 3 part ship invoices were numbered 8, 9 & 10.

- (b) No.4 M.V. INNA was for a total of 4470 m3 from 2 producers ULAMONA (VUNAPOPE) and LEYTRAC with a total PNG FOB price of USD115,482.

Lusco's invoices Nos. 80 & 82 were to Holdcrown and the L/Cs NPH860383 and 860 405 were from Holdcrown Hong Kong.

The true buyers were MITSUBISHI CORP. and KOIDE LUMBER through NANRIN TSUSHO.

In the Table LUSCO shows it got K2396

- from Ulamona at USD1 per m3

- from LEYTRAC at 5% of FOB

K5185

K7581

If this is so Lusco received K7581 from PNG producers for this shipment. Again Holdcrown would have reinvoyced and with a running number system I ask Your Honour to assume the invoice for the two part shipments were 11 & 12.

- (c) Shipment No.5 was for an Amsterdam sale and not invoiced to Holdcrown but to Quarter Enterprise.
- (d) Shipment 6 - M.V. SUN GODDESS was for a total of 3043 m3 from 2 producers MILNE BAY (WOODLARK) and LEYTRAC with a total PNG FOB price of USD189,991.

Lusco's invoices No.83 is to Holdcrown and the



L/C No.NPH860337 is from Holdcrown.

The true buyer was Sanyo Kokusaku Pulp direct.

In the Table LUSCO shows it got K 804  
 - 50t per m3 from WOODLARK  
 - 5% FOB from LEYTRAC K4014

If this is so LUSCO received K4818 from PNG  
 producers for this shipment.

Again Holdcrown would have reinvoiced and with a running  
 number system and I ask Your Honour to assume the invoices  
 for the two part shipments were Nos. 13 & 14.

(e) Shipment 7 - M.V. PIPPIN was for a total of  
 4689 m3 from 2 producers; MILNE BAY (WOODLARK)  
 and LEYTRAC with a total FOB price of USD238,154.

Lusco's invoices Nos.84 & 85 are to Holdcrown and the  
 L/C's No. NPH 860595B/B & 860714B/B are from Holdcrown.  
 I would suggest there are no prizes for guessing what  
 B/B stands for - BACK TO BACK.

The true buyers were TSUDA SANGYO and KOWA LUMBER both  
 through NANRIN TSUSHO.

In the Table LUSCO shows it got K1003  
 - 50t per m3 from WOODLARK  
 5%FOB from Leytrac K6541

If this so LUSCO received K7544 from PNG  
 producers for this shipment.

Again Holdcrown would have reinvoiced and with a running  
 number system I ask Your Honour to assume the invoices for  
 the two part shipments were Nos. 15 & 16..

7. The next Lusco shipment No.8 in May 1986 was on No.3  
 MARBELLA.

In this case we have all the documents including the  
 back to back invoice.

The Table again shows a sale to CHUNGKOD LUMBER through  
 its L/C raiserORIENTAL CHEMICAL COMPANY.

The shipment is from 2 producers R. Gault Industries  
 and Leytrac.

There is one invoice from Lusco to Holdcrown (No.87)

1622 pcs = 5645.141 m3 @ 50 - R Gault  
 - 52.75 Leytrac  
 = USD288,560.91

The invoice refers on the face of it to L/C  
 NPH 860791 B/B - clearly back to back.

When the L/C is examined it is Holdcrowns Hong Kong  
 L/C for 5600 m3 (average 50) FOB.

- ORIENTAL CHEMICAL is notify party and  
 Inspection Certificate is from rep. of  
 CHUNGKOO LUMBER.

- the clause on non disclosure of L/C No,  
 Unit Price and Total Value is included.

In its Marketing Table Lusco shows marketer fees:

K4,186	-	R Gault at 3% FOB
<u>K5,789</u>	-	Leytrac at 5% FOB

If this is so Lusco got K9,975 from PNG producers on  
 this shipment.

Again Holdcrown would need to reinvoice Oriental  
 Chemical Co. with potential for profit on re-invoicing  
 and again we have the end invoice Holdcrown to ORIENTAL  
 CHEMICAL CO.

It is Invoice HCL 17/86.

The invoice is CNF but the freight is separated as, are  
 the logs from each producer.

Details are:-

(a) R Gault Logs 53.50			
(cf Luscos 50)	179,376.24		
(cf Lusco's		167,641.35)	
MARK UP			11,734.88
MARK UP			3.50/m3
(b) Leytrac Logs @ 55.50			
(cf Lusco's 52.75)	<u>127,223.43</u>		
(cf Lusco's		<u>120,919.56</u>	
MARK UP			6,303.87
MARK UP			<u>2.75/m3</u>
	<u>306,599.67</u>	<u>288,560.91</u>	<u>18,038.75</u>

The potential has been used and an amount equal to  
 USD18,038.75 or 6.25% of the PNG FOB price has been  
 reposed in Hong Kong - seemingly in addition to the

K9,975 paid in PNG to Lusco by the producers.

I have previously asked Your Honour to assume Holdcrown reinvoice numbers on a running number system. On the requested assumption this number would be 17 and the number is as assumed 17.

8. After this shipment the system apparently continues for the balance of 1986 with all shipments invoiced by Lusco through Holdcrown except the sales direct to KOWA LUMBER from August 1986.

I hand up a summary of Holdcrown invoiced shipments showing Shipment No., Vessel Name, Month, Total Volume, Buyer, Total Price, Marketer Fee, Lusco Invoice No., Price per m3, Holdcrown L/C number.

There is every reason to suspect onward invoicing by Holdcrown on all of these shipments and seemingly the profit made is in addition to the commissions paid to Lusco by its PNG producers.

These matters lead to an intensive study of Lusco's 1987 Operations.

LUSCO ENTERPRISES PTY LTDTABLE 1 - 1986

SHIP NO.	VESSEL NAME	MONTH	TOTAL VOLUME	END BUYER	TOTAL PRICE (USD)	MARKETER FEE (K)	LUSCO INVOICE	PRICE PER M <sup>3</sup>	HOLDCROWN L/C NO.
9	ASIAN ARGOSY	JUNE	2,548	KOWA LUMBER	132,514	1,274	88	52.00	NPH860884 B/B
10	NO.4 BINEKA	JUNE	5,719	SERGIO VALENTE	253,857	6,115	89 90	48.00 43.00	NPH860951 B/B "
11	KYOWA OCEAN	JULY	2,462	KOWA LUMBER	142,793	6,914	91	58.00	NPH860884 B/B (No copy)
12	PERLAS 1	JULY	2,340	SANYO KOKUSAKU PULP	145,077	1,170	92	62.00	NPH860337* (Used in S/ment 6)
13	HORTSENIA	AUGUST	2,999	KOWA LUMBER	179,954	8,791	93	60.00	NPH861364 B/B
15.	PERLAS	SEPTEMBER	1,493	SANYO KOKUSAKU PULP	89,568	746	95	60.00	NPH860337* (Used in S/ment 6)
17	MITCHELL	SEPTEMBER	3,424	CYMASUN TRADING	160,944	4,860	98	47.00	NPH861529 B/B
19	SARUNTA 2	OCTOBER	2,500	NAMURA TRADING	149,995	7,292	101	60.00	NPH861829 B/B ♂
20	OLYMPIC 88	NOVEMBER	1,528	SANYO KOKUSAKU PULP	97,813	4,749	102	64.00	NPH860337
22	OCEANIA QUEEN	NOV/DEC	5,020	NAMURA TRADING	290,717	5,526	105 106	66.00 55.60	NPH861829 B/B ♂
23	LOTUS	DECEMBER	2,500	KAWASHO CORP	169,998	8,260	107	68.00	NPH862163 B/B

\*20

\* Shipment Nos. 6, 12 & 15/were all to SANYO KOLUSAKU PULP - the same L/C number is on each invoice suggesting the one L/C was amended for each shipment.

♂ Shipment Nos. 19 & 22 were both to NAMURA TRADING - the same L/C number is on each invoice suggesting the one L/C was amended for each shipment.

## Schedule 9

1

In 1987 Lusco sent shipments on 27 different vessels (i.e. different shipments) It seems four were full shipments 25,26,37,44.

23 were part shipments 27, 28, 29, 30, 31,32, 33, 34, 35, 36, 38, 39, 40, 41, 42, 43, 45, 46, 48, 49, 50,51, 52

It seems all sales up to August 1987 save two (No 31 to India through Quarter Enterprise & No 33 to Hyundai Corp in Korea) involved Holdcrown of HK in one way or another. Holdcrown address has always been Room 1318 FORTRESS TOWER 250 KINGS RD NORTH POINT HK. Between August and November 1987 all sales save one (No 40 to SEOKUNG IND of Korea through Hanshine Int. Ltd) involved an entity MAY SHAN TRADING INC with an address at Flat D, 12th Floor BANK TOWER 351-353 KINGS RD, NORTH POINT HK. In November & December the pattern changed again with two direct sales to Gaisho Japan one direct sale to Imanaka Japan and two sales involving Holdcrown again but note well Holdcrown's address now is Flat D, 12th Floor BANK TOWER 351-353 KINGS RD, NORTH POINT HK. The alterations in the pattern of dealing with the regular customer SANYO KOKUSAKU pulp also bear examination.

Lusco's supply sources were four producers of which two were regular and the other two supplied only one part shipment each during the year. Generally Lusco had the same pattern of returns as in 1986.

- (a) Leytrac P/L - 5% of FOB
- (b) Milne Bay Logging - 50t/m<sup>3</sup>
- (c) Vunapope or Ulamona - USD1/m<sup>3</sup> for its one part shipment of 4500m<sup>3</sup>
- (d) R Gault Industries - 3% of FOB for its one part shipment of 1901 m<sup>3</sup>

With Milne Bay Logging the position seems confused. When Holdcrown was involved the rate was clearly 50t/m<sup>3</sup>.

Thereafter the position is-

Shipment 38 - the invoice note say the rate is  
US2.30/m<sup>3</sup> = K10,420.09 but the table shows K11,512  
which is K2.30/m<sup>3</sup>  
Shipment 39 - the rate shown in the table is 50t/m<sup>3</sup>  
Shipments 43,44,47,50 - the invoice notes say as agreed  
no fee and that is shown in the table on No 44

The table shows	43pt	K3.08/m <sup>3</sup>	
	43pt	K4.30/m <sup>3</sup>	This needs to be
	47	K3.19/m <sup>3</sup>	explained
	50	K2.27/m <sup>3</sup>	

It must be remembered that from mid to late 1986 FIC marketing involvement was discussed and became reality in late 1986 and early 1987.

In 1987 Lusco sent one full and two part ships to Taiwan, four part ships to Korea, one part ship to India and one part ship to Hong Kong.

- (A) No 25 part No 27 GEN RESOURCES CO (TAIWAN) using  
 - PACIFIC INT INC } BOTH OF SAME } - WITH NO intermediary  
 - SIMPSON INT INC } HK ADDRESS } with Holdcrown 1.71/m<sup>3</sup>  
 from L/C
- (B) No 34 RENOWN INDUSTRIES TAIWAN DIRECT but with  
 Holdcrown getting 1.56/m<sup>3</sup> from L/C - DWK HANSHINE  
 US2.28/m<sup>3</sup> to Holdcrown.

- (C) No 30 + No 40 SEOKYUNG IND (KOREA) VIA HANSHINE  
INT (HK) - L/C HANSHINE US2.28/m<sup>3</sup> to HOLDCROWN  
- L/C (HAS NON DISCLCL + CLEAR B/B TO KOREA
- (D) No 33 direct to HYUNDAI CORP (KOREA) - DIRECT L/C
- (E) No 46 direct to NAM MUI CO LTD (HONG KONG) - DIRECT L/C  
BUT USD 3.55/m<sup>3</sup> TO MAY SHAN.
- (F) No 51 DAEWOO CORP (KOREA) VIA WON KYUNG TRADING (KOREA)  
- invoice to and L/C from HOLDCROWN  
- L/C provides 3% COMMISSION TO HOLDCROWN

No buyers were buyers in 1986 - two have 2 part shipments - the other four are "one off." They show different and varied patterns of invoicing + L/C's examined later.

All other 1986 shipments were to Japan + the real buyers were:

- (G) DAIMARU INC NO 26 - DIRECT VIA HOLDCROWN L/C  
2.25/m<sup>3</sup>
- (H) - SANYO KOKUSAKU PULP NO27 - DIRECT VIA HOLDCROWN  
- SANYO KOKUSAKU PULP NO28,32,35 - DIRECT L+C DIRECT  
PROVIDE FOR HOLDCROWN - 2.61/M<sup>3</sup>, 2.16M<sup>3</sup>, 2.16/M<sup>3</sup> FROM  
L/C  
- SANYO KOKOSAKU PULP No37,42,45,47 - DIRECT -  
L/C+INVOICE TO MAYSHAN+PROVIDE (NON X CL) - CL+3.15,  
3.48, no copy L/C  
- SANYO KOKUSAKU PULP NO41 - DIRECT PROVIDES FOR  
MAYSAHN 3.12/M<sup>3</sup>
- (I) KWASHO CORP. NO29, VIA KWASHO HK L/C DIRECT 3.50/M<sup>3</sup> TO  
HOLDCROWN  
NO38,44,48 VIA NANRIN TSUSHO L/C+INV FROM+  
TO MAYSHAN+PROV:-FIRST TWO-XCLCL THIRD HAS XCLCL  
+3.33/M<sup>3</sup>

- (J) CITOH NO36,50 VIA CITO HK L/C FROM CITOH HK 2.25/M<sup>3</sup> TO HOLDCROWN and on second L/C FROM + INV. TO HOLDCROWN + L/C PROVIDES 3%
- (K) NAMURA TRADING NO43 PART VIA NAMURA (SING).  
L/C+ FROM SING 4.40/M3 TO MAYSHAN
- (L) OGD LUMBER DIRECT L/C FROM OGD 3.42/M3 TO MAYSHAN
- (M) GAISHO JAPAN NO49,52, DIRECT
- (N) IMNAKA NO 52 DIRECT

The two main buyers were SANYO KOKUSAKU PULP + KAWASHO CORP. CITOH and GAISHO took 2 part shipments each + the others one off. The different + varied methods of invoicing and L/C can be seen even between the same buyers. As indicated earlier LUSCO'S 1987 sales logically fall into time periods and can be divided into four periods.

- (1) January to March 1987 - the period of FIC's intense involvement in marketing. During the period there were three shipments numbered 25,26+27 and as the pattern seen so clearly in 1986 alters somewhat each needs examination

(a) The first is No 25 PIPPIN which is the first of two shipments to Taiwan to GEN Resources in this case through Pacific International of Hong Kong. The address of Pacific International as shown in Lusco's Invoice No 109 and the L/C AA84565 IS Suite 1211 Central Building Street Hong Kong. The second Taiwan shipment to Gen Resources is through Simpson International of Hong Kong and is of part of the third 1987 Shipment No 27 MV SUN TIMOR. The address of Simpson International as shown in Lusco's Invoice No 114 and the L/C AA86251 is again Suite 1211 Central Building Pedder Street Hong Kong. It is convenient to deal with both these shipments together and to compare them as they show the development of the system that follows in the second part of the 1987 sequence.



In each case it seems quite clear from the Marketing Table and the letters of credit that the true recipient of the logs is GEN RESOURCES COMPANY (the notify party in the L/C) that the L/C's were back to back as the Bills of Lading (in the Hong Kong L/C's) are required in each case to be to the order of Development Bank of Singapore Ltd. Taipei Branch. The Hong Kong L/C's are in each case issued in Hong Kong by Shanghai Commercial Bank, Hong Kong. In the first L/C (PACIFIC INTERNATIONAL) there is no mention of Holdcrown. In the second L/C (SIMPSON INTERNATIONAL) there is a specific provision that "For first drawing only - upon negotiation the negotiating bank is to deduct USD 1.71/m3 based on B/L quantity being sales commission and marketing expenses and remit by T.T to Holdcrown Limited in Hong Kong.

In each case the Hong Kong company would have to reinvoice the buyer GEN RESOURCES. We don't know what the relationship was between these Hong Kong intermediaries + Lusco or Holdcrown. We only know that in the second case (an apparent commencement of the new system)-the L/C to LUSCO provided for deduction of a payment to Holdcrown from the remittance to LUSCO as a result of negotiation of the L/C. What we seek to know is (a) whether Lusco or Holdcrown received in addition any share of the mark up on re-invoicing by these two Hong Kong intermediaries (b) whether the Holdcrown share is in addition to or deducted from the amount paid to Lusco by the producer. In this last respect Lusco shows:

- (1) MV PIPPIN - it received K16,229 - 5% FOB from Leytrac.
- (2) MV SUN TIMOR - for this part of the shipment it received K4610 - 5% FOB from Leytrac. Holdcrown entitlement was  $1.741.768\text{m}^3 \times \text{USD}1.71 = \text{USD}2978.42$ .

(b) The second 1987 shipment was MV PIPPIN again in February, 1987. In this case the Marketing Table shows the buyer + notify party as DAIMARU INC of Japan.

The Invoice & letter of Credit - as was the case in 1986 show a different story. LUSCO's invoice/No 112 is to HOLCROWN not DAIMARU and the L/C is a Hong Kong L/C from HOLDCROWN.

The L/C is reminiscent of the 1986 pattern - its number is NP+87007B/B - it has a clause - documents other than drafts and invoices must not show unit price, value of goods, any reference to this credit. Unlike the 1986 documents the L/C provides for deduction of USD2.25/m3 for sales commission and marketing commission to be TT to Holdcrowns Bank - the very Bank which issued the L/C.

In the marketing table Lusco discloses marketing fees aggregating K13,092 on this shipment. Under the L/C terms Holdcrown would get  $4445.899\text{m}^3 \times \text{USD}3 \times 2.25 = \text{USD}10,003.27$  presumably - but this will need to be checked - out of Luscos Commission. Again this provision only deals with relationships between Lusco and Holdcrown. The shipment would have to be reinvoyced by Holdcrown to Daimaru and there is potential for further profit to Holdcrown out of this reinvoycing.

(c) The other part of the third 1987 shipment on MV SUN TIMOR was to SANYO KOKUSAKU PULP. This is again described in Marketing Table as a sale to SANYO KOKUSAKU PULP but the invoice Lusco's Invoice No 00113 is to HOLDCROWN. The L/C number shown and the invoice is NPH 860337. This is the same L/C number as shown for shipments 6,12,15, and 20 in 1986 - LUSCO's 1986 shipments to SANYO KOKUSAKU PULP. The system does not change from 1986 but - as indicate above - it does change after this shipment.

The pattern disclosed in these shipments is an interesting one and shows variety. The Sanyo Kokusaku sale merely finalises the existing system. The Daimaru sale follows the 1986 pattern but the Commission payable by Lusco to Holdcrown is specified in the L/C.

The two Taiwanese shipments follow the 1986 pattern using two different Hong Kong Companies (with the same exact address) and not Holdcrown but in the second the Commission payable to Holdcrown is specified in the L/C and the potentials to reinvoice is not to Holdcrown but the other companies.

## (2) MARCH TO AUGUST - the second period in 1987.

During this period the system experienced changes. There are no LUSCO invoices to Holdcrown and no L/C's came from Holdcrown - the timing of the change is interesting.

In October/November 1986 LUSCO was partly involved in a sale by FIC of logs from WOODLARK IS. DEV. CORP. direct + Lusco was only involved to some extent - the sale was not through Lusco. Between December 1986 and early February 1987 Lusco and Mr Grattiaze were far more involved in another FIC sale of logs from LEYTRAC to Korea. After March 1987 Lusco's prior pattern further changes. Between March and August 1987 (shipments No 28-36 inclusive) all Lusco invoices are to the buyer or what is clearly an associate of the buyer. The only exceptions are:-

- (a) Shipment 30 - to SEOKYUNG IND KOREA where the Hong Kong Intermediary HANSHINE INT LTD was used.
- (b) Shipment No 31 which was a part shipment to CENTAUR in India where Ron Gibbs company Quarter Enterprise was used.

It bears mention that a later sale to SEOKYUNG IND KOREA (Shipment No 40) was also made through the same Hong Kong Intermediary HANSHINE INT. LTD.

In all but two of the shipments during this period the letter of credit in favour of Lusco makes provision for deduction of a fee per m3 for HOLDCROWN LIMITED to be deposited to its Hong Kong account. The two exceptions are

- (a) The said shipment NO 31 to Centaur (India)-through Quarter Enterprises - obviously because Holdcrown could not have been involved.
- (b) Shipment No 33 to Hyundai in Korea - where there is no mention of any commission to Holdcrown in the L/C.

A table, Table 2 is handed to YH which shows for each shipment during this period the shipment number volume, marketer fee (in Kina) NOTIFY PARTY, L/C APPLICANT/LUSCO INVOICE ADDRESSEE L/C NO, rate of payment to Holdcrown/m3, amount of payment to Holdcrown & relevant comments.

Interestingly the only two shipments where Holdcrown was not involved were the two where the marketing fee was negligible - aggregating only K2230 on both shipments. In the other six shipments Lusco shows aggregate marketing fees of K87,342.00 of which it seems USD 59,125.10. went to Holdcrown in Hong Kong. A very substantial part of the fees was thus apparently reposed in Hong Kong.

In respect of each shipment during this period the potential for Lusco or Holdcrown to obtain further payments by re-invoicing is virtually non-existent.

It must also be remembered this is the time during which F/C was in marketing and this Commission was established.

### 3. AUGUST TO OCTOBER inclusive 1987

This period is characterised by two features:-

(a) Holdcrown disappears and in its place we find a new entity MAY SHAN TRADING INC. During this period the bulk of Lusco invoices are addressed to and L/C's received from this entity. In the four cases (Shipment No 40,41,43,46) where another party is LUSCO's INVOICEE and raises the L/C there is provision in all but one (Shipment No 40) for a commission to be paid to May Shan in Hong Kong.

- (b) There is a mix of cases where the L/C mentions the rate of commission payable to MAY SHAN (as was the system with Holdcrown earlier in 1987) and where the L/C is from MAYSHAN but does not mention a rate of commission (as was the system with Holdcrown in 1986).

A table is handed to YH - TABLE 3 - setting out similar detail to Table 2 for these shipments being shipments 37 to 48. The notes are part of the table.

**Several observations can be made:**

- (i) When one regards Table 1 every L/C has the prefix NPH and all but one have the suffix B/B - the exception is Sanyo Kokusaku Pulp. - there are Holdcrown intermediary shipments. In table 2 - where neither Holdcrown nor Mayshan are involved there are no such suffixes or prefixes. In Table 3 such prefix + suffix appear in shipments 39 + 48.

It seems the prefix or suffix is used where Holdcrown or Mayshan issues a separate back to back letter of credit & incurs the cost in so doing - this suggests the profit covers the cost. In other cases the L/C/s from Mayshan appear - from the clues given studying SANYO KOKUSAKU - to be transfers of the true buyers L/C.

(ii) Generally it seems May Shan is not used as an intermediary where another Hong Kong or Singapore intermediary is involved. It is used in each other case subject to two exceptions - shipments 41 and part of ship 43. For shipment 41 SANYO KOKUSAKU PULP's L/C was not transferable but that does not explain part 43 to Ogo Lumber because the L/C does not preclude transfer.

(iii) Where the change from no mention of Commissions of Commissions in the L/C occurs is clear with the only addity being shipment 44. This is not logically explained by the evidence on hand. Indeed the 3 shipments to Kokusaku Corp. via Nanrin Tsusho use three different variations:

- (1) No 38 transferred L/C + invoice to Mayshan - non disclosure clause - no rate. No 44 transferred L/C + invoice to Mayshan - non disclosure clause - no rate.
- (2) No 34 B/B L/C + invoice to Mayshan - non disclosure clause - no rate.
- (3) No 48 B/B L/C to Mayshan - non disclosure clause - rate specified.

With the other regular customer SANYO KOKUSAKU PULP similar variations can be noted through the periods in 1987.

It must be remembered that where the L/C is from MAYSHAN TRADING and that Company is invoiced it must in turn reinvoice the real layer with the additional project potential we have seen. This is not diminished by the fact on L/C is transferred rather than a back to back L/C being used. During the period covered in Tabel 3 it can be seen

the Marketer fee to Lusco (where Mav Shan's figure is known) aggregated K77060.00 if the Marketing Table is correct. If no fee was charged on shipment 47 and only K3185 was charged on shipment 43 the aggregate reduces to K60,103.00. On the same shipments the Commission due to May Shan under the L/C's amounted to USD64,128-71.

Again it seems the "lions share" is located in Hong Kong. With the end of October May Shan drops out of the picture in 1987.

#### 4. NOVEMBER AND DECEMBER 1987

Three part shipments (No 49 and two parts of No 52) were made to Gaisho Co. (Osaka) and its regular customer Imanaka. The invoices (Lusco Invoices 145, 148 & 149) were direct and the L/C's 30-501-071327 for Gaisho & A 30 -1201 072056 for Imanaka were direct with no provision for commission. The other two part shipments - No 50 to C Itch Japan, No 51 to Daewoo Corp Korea reintroduce Holdcrown to the scene. Lusco's Invoices 146 and 147 are to Holdcrown and the L/C are from Holdcrown - also note well Holdcrowns address has changed - it is the exact same address Mav Shan had been using.

The sequence of transactions and addresses and use of the one Hong Kong Bank gives a clear like and raises real questions about the frankness of the answers and disclosures in Lusco's questionnaire and the frankness of disclosure in its marketing tables - these require a great deal of explanation that should be sought publicly.



The Holdcrown L/C's are NPH 872271 B/B (notify CITOH) and NPH 872272 B/B. The familiar prefix + suffix reappear - back to back letters of credit. The familiar clause of non disclosure of unit price, total value & credit number is a condition of both L/C's.

Both required deduction of 3% commission + credit to Holdcrown's account in Hong Kong. The 3% is based on shippers invoice value + amounts to:

- (a) USD 7671.32 on the C Itoh Shipment.
- (b) USD 9057.89 on the Daewoo shipment. The percentage commission rate is a new feature.

The marketers fee shown by Lusco in the marketing Table were:

- (A) K6838 on the C Itoh Shipment
- (b) K13,330 on the Daewoo shipment.

If the Marketing Table is correct the lions share again went to Hong Kong. If the invoice notes are correct and the marketing table is wrong the total on the two shipments was K13,330 whereas a total US 16,729.21 was paid to Holdcrown.

Again and both these shipments the 3% is as between Holdcrown + Lusco. As we have seen the need exists for Holdcrown to reinvoice the true buyer with the further profit potential we have seen.

SCHEDULE 10

LUSCO ENTERPRISES PTY LTD

TABLE 2 - 1987

SHIP NO.	VOLUME (M <sup>3</sup> )	MARKETER FEE (K)	NOTIFY PARTY	L/C APPLICANT/ LUSCO/INVOICEE	L/C NUMBER	HOLDCROWN RATE USD/M <sup>3</sup>	HOLDCROWN FEE USD	LUSCO INV. NO.
28	5947	14,878	SANYO KOKUSAKU PULP	SANYO KOKUSAKU PULP	0110/617029	2.61	15,521.67	115 116
29	3490	11,835	KAWASHO CORP. (JAPAN)	KAWASHO INT. (HK)	806/LC/0933	3.50	12,215.00	117
30	2999	10,171	SEOKYUNG IND. CO.	HANSHINE INT. (HK)	8887/7014 *	2.28	6,837.72	118
31	1419	709	TO ORDER OF INDIAN BANK BOMBAY	QUARTER ENT. (AUST)	2024.152997 **		N I L	119(sic)
32	1264	15,601	SANYO KOKUSAKU PULP	SANYO KOKUSAKU PULP	0110/617029 ***	2.16	2,730.24	119(sic)
33	3042	1,521	HYUNDAI WOOD	HYUNDAI CORP.	MO696.706 NU-50010		N I L	120
34	3989	9,465	RENOWN IND	RENOWN IND	7NHI/04443 /3093	1.56	6,222.84	121
35	4093	14,790	SANYO KOKUSAKU PULP	SANYO KOKUSAKU PULP	0110/617029 ****	2.16	8,840.88	123
36	3003	10,602	C. ITOH (JAPAN)	C. ITOH (H.K.)	ICD.0002577 HK	2.25	6,756.75	124

NOTES \* Apparently B/B ) BB Number  
Korean L/C includes not disclosure clause.

\*\* Quarter Enterprises was the agent - Holdcrown clearly not involved.

\*\*\* This is a variation of the earlier L/C used on shipment No. 28.

\*\*\*\* This is a variation of the L/C used on shipments Nos. 28 and 32.

LUSCO ENTERPRISES PTY LTD  
TABLE 3 - 1987

SHIP NO.	VOLUME	MARKETER FEE (K)	NOTIFY PARTY	L/C NUMBER	L/C APPLICANT LUSCO INVOICEE	MAYSHAN RATE(USD)	MAYSHAN FEE(USD)	LUSCO INV. NO.
37	6029	11,039	SANYO KOKUSAKU PULP	0110/ 709179A	MAYSHAN TRADING INC	NONE SHOWN	UNKNOWN	125 126
38	5005	11,512*	KAWASHO CORP. TOKYO	1044860380- 00056B	MAYSHAN TRADING INC	NONE SHOWN	UNKNOWN	127
39	1629	815	KAWASHO CORP TOKYO	NPH871403B/B	MAYSHAN TRADING INC	NONE SHOWN	UNKNOWN	128
40	3000	13,280	SEOKYUNG IND. KOREA	NKH406261BB	HANSHINE INT'L (HK)	NONE SHOWN	UNKNOWN	129
41	2082	9,409	SANYO KOKUSAKU PULP	0110/71087B	SANYO KOKUSAKU PULP	3.12	6495.84	130
42	2404	11,020	SANYO KOKUSAKU PULP	0110/712145	MAYSHAN TRADING INC	3.15	7572.60	132
43	3373	11,471*	NOHURA TRADING (JAPAN)	ILC295043000 ILC245042200	NOHURA TRADING (SINGAPORE)	4.40	14842.20	133 134
43	2006	8,631*	OGO LUMBER CO (JAPAN)	411376494071	OGO LUMBER CO (JAPAN)	3.42	6860.52	135
44	6010	12,641	KAWASHO CORP TOKYO	LC/30-001 -133353A	MAYSHAN TRADING INC	NONE SHOWN	UNKNOWN	136 137 138
45	1679	8,552	SANYO KOKUSAKU PULP	0110/709179A **	MAYSHAN TRADING INC	3.48	5842.92	139
46	1710	8,726	NAM MUI CO (HONG KONG)	HKH011261	NAM MUI (KIN KEE) HK	3.55	6070.50	142
47	2719	8,671*	SANYO KOKUSAKU PULP	0110/709179A	MAYSHAN TRADING INC	3.48	9462.12	143
48	2097	10,580	KAWASHO CORP TOKYO	NPH871901B/B	MAYSHAN TRADING INC	3.33	6983.01	144

\* The marketer fee is based on the Marketing Table - if, as may be the case the Table is wrong then these figures would need to be amended accordingly.

\*\* The L/C 0110/709179 was a Fuji Bank Tokyo L/C which was transferred. There was no deduction clause in the original L/C used on No. 37 but it was added in the variation for 4500m<sup>3</sup> sent in shipments 45 and 47.

## **APPENDIX 9**

**TONOLEI DEV CORP**

## APPENDIX 9

### TONOLEI DEVELOPMENT CORPORATION PTY LTD

#### INTRODUCTION AND BACKGROUND

This company operates in the Tonolei TRP area of about 43,500 hectares in the Kieta and Buin Districts of North Solomons Province. The Permit is for a period of 10 years from 1 October 1982.

Tonolei Development Corporation (TDC) appears to be a genuine landowner company the shareholders in which are business groups representing the landowners in its operating area. TDC engaged a foreign owned company Buin Earthmoving as its contractor to carry out roadbuilding works, and log extraction in return for 56 per cent of the FOB proceeds of sale of export logs.

It seems the principals of Buin Earthmoving were also involved (whether as concession holder, contractor or marketer is not known) with a Solomon Islands log producer Allardyce.

At the time the Commission was about to investigate this company it was found that it was negotiating for bank loans to take over the roading and logging operations from Buin Earthmoving. Representations were made to defer public hearings until those negotiations had been completed, as TDC was concerned that adverse publicity about failure to complete the Tonolei Road and about aspects of TDC's marketing, might deter financial institutions from making the loans necessary to finance the takeover.

I satisfied myself that TDC was a genuine landowner company and that it was genuinely seeking to take full control of its own operations. It seemed to me that

its default in meeting its roading obligations was explicable (and what was sought was in fact an extension of time) and that the apparent irregularities in marketing were matters in the past. For these reasons I acceded to this request.

Regrettably time and staff constraints and the magnitude of the Commission's task have not permitted a return to complete this investigation.

### PERMIT CONDITIONS

Under its Permit TDC was obliged to complete (by October 1986) a road from Abia River to Tonolei Harbour to a standard trafficable by conventional two wheel drive vehicles in all weather conditions and capable of carrying a traffic volume of 400 vehicles per day. Permanent bridges were required and TDC was obliged to maintain roads, bridges and crossings to their required standard of construction. Further conditions required:

(a) construction during 1984 of a two classroom permanent material school and low cost permanent material married quarters for a teacher.

(b) construction by October 1985 of two permanent material medical aid posts with related accommodation and staffing and operation of those aid posts with two aid post orderlies.

(c) construction by October 1985 of a sawmill with an input capacity of 12,000 m<sup>3</sup> per year on a single shift basis.

(d) provision of a rural liaison officer to advise on formation of landowning groups, advise on small scale business development and liase between the people, TDC and Government.

(e) establish by October 1985 a cocoa seedling nursery of 10,000 seedling capacity.

(f) establish reforestation plantations of 800 ha at a rate of 100 ha per year between 1985 and 1992 (inclusive).

## PERFORMANCE OF CONDITIONS

TDC was forwarded and answered the Commission's questionnaire on its performance (Schedule 1).

DOF accepts the accuracy of the answers given. Generally TDC has made reasonable efforts to perform its main operating requirements.

It has frankly conceded the deficiencies in performance being:

- (i) failure to complete about 16 km of roading to link Orava and Sari villages to the existing road network.
- (ii) delay and incompleteness in complying with its aid post construction obligation.
- (iii) failure to comply with its reafforestation obligation.

In relation to the roading obligation TDC is seeking a deferral of its obligation, not release from it. It has arranged to meet the immediate needs of the people by erecting a school and aidpost and related accommodation whilst the road building is rescheduled. It had the support of the Provincial Government and had sought the Minister for Forests approval (see Schedule 2). It has built one aid post and arranged to build the second but has in effect performed more than it was obliged to by building a health centre and two houses in addition. There has been no compliance with the reafforestation plantation obligation and this is a matter of real concern. Mr McNeill has explained to me the proposal to establish more than the required hectarage of the very suitable plantation species *Terminalia Brassii* which should grow well in the swamp country which is not suitable for cash cropping with cocoa. The problem which exists is persuading the landowners to sell land to the State which can then make it available to TDC. This is a

more general problem and as I have reported elsewhere there is little point in imposing reforestation obligations which rely on the State obtaining suitable land (to be made available for that purpose) if the State does not have that land available. The Permit Holder can simply sit back and avoid the obligation by relying on lack of action by the State.

In this instance I believe TDC would plant the required plantations, and more, if land was available. As TDC is a landowner company real effort should be made by State agencies to procure the land and have TDC establish the forest plantations it is obliged to plant.

#### MARKETING

TDC answered the Commission's Marketing questionnaire (Schedule 3) and supplied Log Marketing Tables for 1986 (Schedule 4) and 1987 (Schedule 5). The sales system described by TDC in the questionnaire was that operating in early 1988 and was competitive in that it invited bids from a number of known buyers and then involved negotiation (to try to increase the price) with the highest bidder to whom TDC then sold. Such a system between genuinely competitive buyers is likely to produce a competitive price unless there is collusion between the buyers to whom the offer is made.

#### 1986

During 1986 TDC exported 63,870m<sup>3</sup> of logs. Management of sales changed in 1986 - in about July when TDC's new General Manager Gordon McNeil took over marketing from the contractor Buin Earthmoving.



### Buin Earthmoving Sales

It seems Buin Earthmoving made ten shipments up to July 1986. During that period it sold to three Taiwanese buyers (Tzeng Yih, Sheng Hong and Jeu Yuen Trading) on two shipments; two Japanese traders (C. Itoh and Co and Sumitomo Forestry) on six shipments and to three Korean buyers (Samsung, Miwon Trading and Korea Trading) on two shipments. Shipments sold to the Japanese buyers were sold on an FOB basis and those sold to Korean and Taiwanese buyers were sold on a CNF basis.

The FOB unit prices, and price margins over MEP prices on each shipment were:

Ship	Unit (USD/m3)	Buyers	MEP %
1	51.62	Tzeng Yih, Sheng Hong	+ 51.70
2	57.00	C. Itoh	+ 18.53
3	63.50	C. Itoh	+ 35.16
4	50.54	Korea Tr, Miwon Trading, Samsung	+ 22.76
5	55.50	C. Itoh	+ 16.14
6	54.00	C. Itoh	+ 5.42
7	55.00	Sumitomo Forestry	+ 23.27
8	49.62	Samsung, Miwon Trading	- 5.65
9	30.50	Jeu Yuen Trading	- 40.85
10	56.00	Sumitomo Forestry	+ 9.52

The prices obtained were thus generally well above MEP but the information given in Schedule 4 coupled with the above analysis indicates three shipments - Nos 4, 8 and 9 - require examination. The shipment files of TDC for these shipments were obtained.

### Shipment 4 - M.V. Kyowa Ocean

This sale was effected through an agency (probably LOGIMEX) telex coded CHAOWOOD run by Chary Chen and Nily Chen. The shipment seems to have been arranged through an organisation telex coded AMINEX in Australia and

covered three parcels of 1000 m3 each and an additional loading from Allardyce in the Solomon Islands.

The sales were concluded on a CNF basis and TDC (or rather Buin Earthmoving on its behalf) arranged the vessel. Telexes from John Dixon of TDC show this clearly. The details from letters of credit and invoices are:

Buyer	CNFpr/m3	FOB pr/m3	Freight/m3
Korea Trading	97	63	34
Miwon Trading	62	33	29
Samsung	77	55	22

Korean end invoices for the shipment were obtained (Schedule 6) and are in order. The cargo for Korea Trading was all Vitex graded SS2 with small quantities (less than 30 m<sup>3</sup>) graded SS1 and SS3. The cargo for Miwon Trading was of Taun, Calophyllum, Compnosperma, Burchella and Terminalia all graded SS2 except for 108 m<sup>3</sup> graded SS1 and one log graded SS3.

The cargo for Samsung was mainly Taun and Burchella with two Pencil Cedar, three Planchonella and four Amoora logs. Two-thirds was graded SS2, one-third SS1 and one log SS3.

All three part shipments were to Inchon Korea. The Letters of Credit authorised deduction and payment of freight to Kyowa Shipping in Tokyo.

TDC sent invoices and then revised invoices to Chary Chen on 9 May 1986.

A Commission on this sale was paid, as usual, to Framton Investments in Hong Kong and nothing appears to have been paid to the Chens for their services.

As sales were made CNF it would not matter to the buyers how the price was split - freight was TDC's responsibility. The ship discharged at one port only - Inchon Korea.

The freight rates of USD34.00 and USD29.00 per m3 are ridiculously high - the USD22.00 per m3 is reasonable. The freight was paid, according to the letters of credit. The position is very strange and clearly suggests freight manipulation on a very large scale. The fact that freight was paid to the shipowner does not affect this as Allardye in the Solomon Islands was providing the balance of the shipment and credits could be applied to the freight on that part shipment. The price would not be queried as though the price was well below MEP on one part shipment it was above MEP overall.

#### Shipment 8 - M.V. Jindalle

This sale to Korea was again effected through the Chens and again involved part shipment with Allardye.

The system was again the same details being:

Buyer	CNF pr/m3	FOB pr/m3	Freight/m3
Samsung	P.C. 100) B 85) 88.10	P.C. 87) B 62) 65.10	23
Samsung	62	30.50	31.50
Miwon Trading	80	53.00	27.00

(P.C. refers to Pencil Cedar and B to Burchella)

Korean end invoices for the shipment were obtained and are in order (Schedule 7). The first part of the Samsung cargo was mainly Burchella and all logs were grade SS1 or SS2. The second part of the Samsung cargo was composed mainly of Taun and Terminalia with other minor mixed species quantities. Of this 999.182 m3 of

logs — 852 m3 was graded SS2, 144 m3 was graded SS1 and one log was graded SS3.

The Miwon Trading shipment was in fact from Bougainville Forest Enterprises, was mainly Taun and Terminalia. The Terminalia was graded SS1 and all but five logs in the rest of the cargo were graded SS2.

All part shipments were again to Inchon Korea and again the Letters of Credit authorised deduction and payment of freight to Kyowa Shipping in Tokyo. TDC in fact obtained the CNF price and clearly paid the freight.

Again a commission was paid to Frampton Investments in Hong Kong which had nothing to do with the sale and again nothing was paid to the Chens for their services.

The freight rates of USD31.50 for m3 and USD 27.00 per m3 are ridiculously high - the USD 23.00 per m3 is reasonable. Again there seems to be large scale freight manipulation and again the balance shipment was provided by Allardyce.

The price was below MEP on part shipment and above MEP on the others. It was below MEP overall and the grading does not indicate that the logs were of different quality from the usual.

#### Shipment 9 - Tropical Moon

Again this sale was effected by the Chens at a price of USD50.50 per m3 with freight of USD20.00 per m3. It is a small part shipment of 1435.414 m3 and the ship must have been shared. The shipment contained 1160 m3 of Taun and minor quantities of other species. Over 1220 m3 was graded SS2 and the balance SS1. The part shipment was sold at well below MEP prices and the price was very low for what was in effect a shipment of Taun.

On all its sales in 1986 TDC paid Framton Investments in Hong Kong a commission equal to 2 per cent of the FOB price. Quite clearly, from dates of documents, the Framton Investments invoices were written out in PNG and then used to justify remittance to Hong Kong through the banking system.

The amounts paid on each shipment to Framton Investments were:

<u>Ship No.</u>	<u>USD Amount</u>
1	5775.50
2	7457.09
3	5714.76
4	2988.68
5	4720.93
6	5915.61
7	2798.07
8	3769.66
9	875.60
10	<u>5892.60</u>
	<u>45908.50</u>

There is nothing whatever on any document (including telex addresses) to connect the Chens to Framton Investments.

With the involvement of the Chens, Framton Investments, an agency with the telex code LOGIMEX in Taipei and the entity with the telex code AMINEX in Australia coupled with the links with Allardyce in the Solomon Islands it seems quite a lot was involved in marketing for TDC by Buin Earthmoving. When all this is coupled with the gross freight discrepancies on a single shipment to different buyers at the same destination port it is clear detailed investigation is warranted of marketing during this period.

### TDC Sales

After July 1986 the marketing responsibility was taken over by TDC. Five shipments were made. Two were through FIC to India and one each to Sanno Lumber and Sumitomo Forestry of Japan. One shipment was made to two Korean buyers. The FOB unit prices, buyers and price margins over MEP on each shipment were:

Ship No.	Unit (USD/m3)	Buyers	MEP%
11	43.69	Samsung, Samwon	- 5.18
12	59.00	Sanno	+ 9.38
13	61.26	FIC/India	+ 22.57
14	60.00	FIC/India	+ 6.59
15	59.42	Sumitomo	+ 3.78

Clearly shipment 11 (M.V. Tropical Moon) required investigation because there were freight rate variants and because of the low unit price. TDC's file on this shipment was obtained. This shipment was again arranged through the Chens. There are some quite strange documents on the TDC file indicating planned freight manipulations (Schedule 8) and price manipulation to cover claims (Schedule 9).

An MEP dispensation was requested and sought on some previous reject logs at an FOB price of USD30-50 per m3. These logs, of almost 1500 m3, were inspected by the PFO and dispensation was approved - this was sold to Miwon Trading.

The balance shipment was sold on an FOB basis and prices were fixed according to agreed FOB prices.

The letters of credit were established for the reject logs and for part of the other logs each on a CNF basis with provision to deduct freight at USD20.00 and USD25.55 per m3 respectively but TDC was paid its agreed

FOB price. Korean end invoices for the shipment were obtained and are in order (Schedule 10).

Again on TDC's files are telexes between Chary Chen and TDC arguing about deadfreight and demurrage credits and debits and with Mr McNeill telling Mr Chen that he should look to Mr Wilkie of Buin Earthmoving in relation to those matters.

This shipment continues, in effect, the previous arrangements and is the last shipment arranged through the Chens or having a link with them.

At my direction Counsel Assisting wrote to our Ambassador in Japan, Mr Nombri, to seek to obtain details of actual freight from the ships operators/owners (Schedule 11). At the time of this report Sir Joseph has not been able to obtain the information (for reasons which he has explained - he may be able to obtain it in the near future).

### 1987

During 1987 TDC exported 67,287 m3 of logs. It sold to various Japanese and Korean buyers and made one shipment through Quarter Enterprises to India.

The FOB unit prices, buyers and margins over MEP prices on each shipment were:

Ship	Unit (USD/m3)	Buyers	MEP %
1	65.00	Bando Lumber	+ 7.11
2	76.00	Okura & Co	+ 19.90
3	77.00	Sumitomo	+ 21.14
4	49.51	Samsung	- 13.24
5	72.00	Sumitomo	+ 15.69
6	73.00	Imanaka	+ 14.82
7	69.00	Sumitomo	+ 12.41
8	69.00	Samsung	N/A
9	75.00	Indian Buyer	+ 42.19
10	88.50	Ssangyong	+ 31.24
11	85.00	Eagon Ind.	+ 30.69
12	97.00	Taesung	+ 38.76
13	99.38	Ssangyong	+ 40.84
14	109.00	Samsung, Samwon	+ 43.34

The only shipment requiring explanation is shipment No 4 (M.V. Sanko Maru) for which TDC's shipment file was obtained. The reason why a low unit price and price below MEP was obtained was that the bulk of the shipment consisted of reject logs. Application was made for MEP dispensation and was approved after the PFO inspected the cargo. TDC's marketing in 1987 shows acceptable unit price patterns and price margins - varying in excess of MEP levels. No further investigation of marketing during 1987 appears to be necessary.

#### OTHER ASPECTS

Two other aspects of TDC's marketing require mention:

##### (a) State Marketing

In October 1986 TDC made an offer of a shipment to FIC, among other buyers, after earlier refusing to agree to sell the shipment to FIC without competition (at USD60.00 per m3). When the general offer was made, asking each buyer to bid its best price, FIC offered TDC



USD61.00 per m3 and pressed TDC to accept the offer quickly as the FIC buyer imposed time deadlines. TDC refused and FIC then demanded to know TDC's best offer and advised they would ask their buyer to match it. This occurred and it seems FIC matched the best offer.

The FIC offer was not accepted at the time, as FIC was told, and TDC advised FIC that it would advise its decision on Saturday 1 November at 8 am.

At 7.55 am TDC received a fax through FIC from Minister for Forests Ted Diro reading:

"I am given to understand that the FIC was successful in marketing your next shipment with a price which is competitive.

You are aware of the Government policy in marketing through overseas middlemen. FIC is a national organisation working on behalf of all its members of which TDC is one. I am sure you know where your loyalty lies."

TDC then advised FIC that its offer was not successful; that "Dutch auctions" were not desirable; somewhat facetiously, that it appeared the Minister had been misinformed, and that it had sold to the highest bidder at USD63.50 per m3.

Cowan sent a reply in very polite terms and of the Minister's facsimile said:

"The Minister for Forests is the government's nominee under the term "Administrator" to oversee the FIC Act and as such this Minister is in very close touch directly and through the Forestry Department with FIC and its day to day activities. In this capacity he made an unofficial call to our offices last Saturday morning.

During general conversation he asked for up to date briefings on our marketing activities and current FOB prices. In giving him this, our offers to TDC were referred to. You cannot blame him for requesting TDC to close business through FIC when our offer was similar (to) that of an overseas middleman's offer. You are aware of the government's fanatical views on overseas middlemen."

FIC and DOF then went on to the attack against TDC asking for a State Purchase Option Offer, with DOF complaining about TDC's low price levels and low levels of grading and referring directly to an intention to suspend log exports by companies who are involved in underpricing and under grading.

TDC replied quoting prices since it took over marketing and referring to recent inspection when there was no complaint about grading. I have no doubt Cowan drafted the letter for Minister Diro to put pressure on TDC. The whole sequence of events illustrates how stupidity and an almost childish reaction to failing to obtain a sale by FIC, can lead to friction between a producer who was previously co-operative and both DOF and FIC.

Minister Diro's letter was improper and constituted an interference in the marketing process. Whilst the complaints about pricing, grading and freight differentials were undoubtedly valid, as I have indicated, it was unfortunate that they were raised in an emotional way in this context.

(b) Undermeasuring

In late 1985 there was a major conflict in TDC and attacks were made upon the General Manager of TDC, John Dixon, which included attempts to have Mr Dixon deported. One of the matters involved in this debate concerned a

sum of money due on a log shipment in March on M.V. Pacific Satu and sold to C. Itoh and (through C. Itoh & Co. Hong Kong).

TDC invoiced this shipment on the 5521.731 m3 of logs was shipped at a unit price of USD58.50 per m3 for a total price of USD323,02

Due to differences in scaling techniques and in Japan, if the shipment was correctly measured in PNG, it would normally be expected to measure 5% less on rescaling in Japan. In fact, the shipment was rescaled in Japan it measured 5,9

This meant that it was undermeasured in PNG

- (a) 397.971 m3; plus
- (b) the 2% to 5% differential which would be expected and which would be in the order of 150 to 300 m3.

What C. Itoh did was to reduce the price of 200 m3 of the undermeasured quantity to USD58.50 and pay the agreed price for the balance of the undermeasured quantity. The price for the undermeasured quantity, on this basis, was USD58.50

That amount was eventually paid to C. Itoh. The relevant documents are included as Schedule 12

The seriousness of such an occurrence is underestimated and shows clear undermeasurement at a high level.

(X)

## CONCLUSION

In 1987 the Marketing of TDC fits patterns indicate a reasonable spread of buyers and free forces operating. TDC thus gives the appearance of a genuinely independent marketer of the type Ashenden urged in his report should be used to assist establishing guideline prices.

Its marketing up to mid 1986 causes concerns. is clear evidence of extensive undermeasuring of shipment and of very peculiar freight differentials for part shipments to the different buyers at the destination port thus suggesting freight manipulation. There is also reason to suspect less than average prices may have been obtained and that there may have been grading abuses.

I suggest this whole area should be investigated.

Action is also needed to procure land for TDC to fulfil its reforestation obligation and to ensure it adheres to its rescheduled timetable to complete construction.

**COMMISSION OF INQUIRY INTO FORESTRY****QUESTIONNAIRE**Name of Timber Area: TONOLEI TRP AREAName of Permit Holder: TONOLEI DEVELOPMENT CORPORATION LTD.Name of Contractor (if any): BUIN EARTHMOVING PTY. LTD.**A. Compliance with Conditions of Timber and/or Project Agreement or Letter of Intent or other authorisation**

Please briefly summarise each condition or obligation in Column 1 and briefly indicate whether the Company has complied with the condition in Column 2. (Attach additional sheets of paper if necessary).

(1) Condition	(2) Degree of Compliance
<u>Road Construction</u>  Conditions (design, standard, gravelling, culverts, bridges etc.)	
Cl.9 Tonolei Harbour Road standard	Approximately 16 km to complete.
- 400 vehicles/day	Subcontractor has refused to complete
- all weather use by 2WD	road as required therefore TDC is
vehicles	terminating agreement with subcontractor.

(1) Condition	(2) Degree of Compliance
<u>Road maintenance</u>	
Obligations imposed, etc.	
Cl.9 Maintain all roads used by TDC	Such roads are being maintained satisfactorily
<u>Special Bridge Construction requirement</u>	
<u>Local processing condition</u> (Construction of sawmill, etc.)	
Cl.16 Sawmill and/or other wood processing plant with minimum input capacity of 12.000 M3 PA.	100%



<b>(1) Condition</b>		
<b><u>Reafforestation/Regeneration requirement</u></b>		
Cl.32	Forest replacement activities	Nil
	100 ha pa after Year 3 (1986)	of
		sel
		on-
		coo
<b><u>Follow up Land Use requirements</u></b> <b>(eg: agriculture project)</b>		
Cl.31	Establish a cocoa nursery	TD
	of 10.000 seedling capacity	to
		a
<b><u>Other conditions imposed for public benefit</u></b>		
Cl.30	Employment of a Rural	TD
	Liason Officer	gr
Cl.10	Construction of a double classroom and house	10
Cl.11	Construction of 2 aid-post and 2 houses	1 1 1 co



# THE PROVINCIAL SECRETARIA

TELEF 951344  
TELEPHONE 951344  
951168

P O BOX 12  
ARARA  
PROVINCE OF  
PAPUA NEW

Honourable Mr Tom Horik MP  
Minister for Forests  
P.O. Box 5055  
BOROKO, N.C.D.

DATE: 27th May 1968  
OUR REFERENCE: 06-01  
ACTION OFFICER  
DESIGNATION:  
YOUR REFERENCE  
DATE:

My dear Minister

RE: TDC TIMBER PERMIT NO. 17-8

We refer to a letter from TDC ref. F1-076/GEM/lm faxed to you on the 9th May on the above subject.

We are in support of TDC's new road construction efforts in Tonolei Harbour. We understand that certain difficulties, resulting from change of alignment have lead to the delay in construction of the road within the prescribed period.

On the other hand the provision of health facilities and financial assistance to schools have been more than adequately met by the company. These services are of more immediate concern to the community within this TRP area.

The road to Tonolei is meant to link Orava and Sari Village and to open up land en-route. However as far as these villages are concerned their immediate need is for the facilities mentioned in the company's letter to you as agreed to at a meeting.

We trust that this letter is sufficient communication of our views that the Tonolei road was completed in accordance with the Forests working plan to be submitted to you shortly.

For your additional information we advise that TDC had made close consultation with the Provincial Government on major issues affecting the resource and the people within the TRP area.

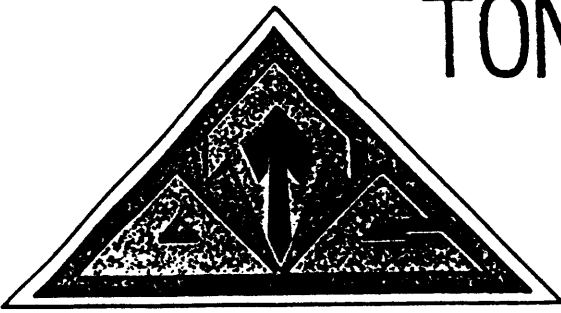
Your approval of TDC's request is supported by us.

Yours faithfully,

JOHN SIAU  
Provincial Secretary

cc: Secretary for Forests





# TONOLEI DEVELOPMENT CORPORATION

PO BOX 429  
KIETA  
PNG

FAX NO: 95 6205  
TEL: 95 6042 TELEX: TONDECO NE95910

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YOUR REF:

OUR REF: F1-076/GEM/lm

---

9th May, 1988

Hon Tom Horik MP,  
Minister for Forests,  
Ministry of Forests,  
P. O. Box 5055,  
BOROKO.

FAX: 254433

Dear Sir,

TIMBER PERMIT NO. 17-8

Tonolei Development Corporation Ltd. (TDC) will takeover the logging and roading operations of TDC's foreign contractor on 31 May 1988. TDC has obtained approval in principle from financial institutions within Papua New Guinea, however such approval is conditional upon TDC obtaining confirmation in writing from yourself that TDC's Timber Permit 17-8 will not be terminated as a result of the non-completion of the Tonolei Road which is required under the Permit.

A meeting was held recently between landowners from Orava and Sari villages, representatives of North Solomons Provincial Government and TDC at Sari village. These landowners are the ones who would benefit from the completion of the Tonolei Road. Orava and Sari are the only villages in the vicinity of Tonolei Harbour. The landowners stated at the meeting that their main requirements are:-

- (a) a double classroom and a teacher's house; and
- (b) an aid-post and an APO's house.

The landowners further stated that if TDC established these buildings under its Community Services programme they would agree to TDC constructing the Tonolei Road in accordance with its logging programme. TDC agreed to establish these buildings on that basis.


The above agreement can be confirmed by the Division of Forests' staff who attended the meeting.

As the Tonolei Road is not considered a priority by the villages nor by Provincial Government, TDC hereby requests your permission to complete the Tonolei Road in accordance with TDC's revised Forest Working Plan which will be submitted to the Department of Forests in September 1988; the three month period June-August is necessary for forest survey work and preparation of the Plan.

TDC must confirm orders for logging and roading equipment immediately in order that roading equipment is on-site at the end of May to start roading in early June. As the financiers' approval is necessary before ordering equipment it essential that your response to this request is received as soon as possible.

As the takeover falls within your Government's policy regarding national participation, especially in the forestry sector, I trust that your response will be favourable.

Yours faithfully,  
TONOLEI DEVELOPMENT CORPORATION LTD.

  
.....  
PETER KUNGKA  
CHAIRMAN.

- 4 -

**B. Marketing Table**

Please prepare and attach a Marketing Table covering all your log shipments in 1986 and 1987 in accordance with the attached instructions.

A specimen Marketing Table is supplied for producers.

A handwritten table is acceptable if typing would lead to delays. You will be expected to be able to produce documents substantiating the content of this table if summonsed by the Commission to do so.

**C. Log Sales Procedures**

Explain in short simple terms the procedure by which you negotiate sales of your logs.

APPROXIMATELY 6 WEEKS PRIOR TO EXPECTED SHIPMENT LOGS ARE OFFERED BY  
FAX/TELEX TO 3-6 POTENTIAL BUYERS WHO ARE GIVEN APPROXIMATELY 1 WEEK  
TO SUBMIT BY FAX/TELEX. ONCE OFFERS ARE RECEIVED TDC TELEPHONE THE BUYERS  
AND ENDEAVOURS TO HAVE THEM RAISE THEIR OFFERS. GENERALLY TDC THEN SELLS  
TO THE HIGHEST BIDDER UNLESS THERE ARE REASONS TO BELIEVE THERE MAY BE  
PROBLEMS WITH THE SALE E.G. LATE VESSEL ETA. UNSATISFACTORY LC CONDITIONS.  
INSPECTION PROBLEMS ETC.

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**C. Fair Market Price**

By what means or method do you decide whether the price obtained is a fair market price for a shipment or part shipment?

APART FROM KEEPING REGULAR CONTACT WITH OTHER SHIPPERS AND ANALYSING  
MARKET REPORTS. THE DECISION IS BASED IN VIEW OF THE OTHER OFFERS  
RECEIVED FOR THAT PARTICULAR SHIPMENT.

**D. Sale to End Users**

Do you sell direct to end users or consumers? ~~Yes~~/No.\*  
If not why?

DESPITE ATTEMPTS TO DO SO. TDC HAS BEEN UNABLE TO IDENTIFY ANY END  
USERS WHO ARE CAPABLE OF PROCESSING ALL TDC LOGS USING THEIR OWN  
FACILITIES E.G. EAGON. A KOREAN PLYWOOD MANUFACTURER. MAY BUY A SHIPMENT  
BUT ON-SELL THOSE LOGS THEY CANNOT USE FOR PLYWOOD TO SAWMILL WHOLE-  
SALERS WHO THEN ON-SELL TO SAWMILLS.

**E. Relationship with Purchasers**

Do you have a relationship with any person or company which was a purchaser of logs from you in 1986 or 1987? Yes/~~No~~.  
If yes, supply full details of such relationship; eg:

- . Member of the same company group;
- . Purchaser or his company group supplies financial assistance (giving details)
- . Long term sales and purchase agreement.

SALES AGREEMENT WITH CENTAUR EXPORTS AND QUARTER ENTERPRISES REGARDING  
VITEX (SEE ATTACHMENT)

\* When answering Yes/No questions in this Questionnaire cross out whichever word is inapplicable.

**F. Agents**

(a) Do you sell through agents? Yes/~~No~~ If yes, why?

THEY ARRANGE SALES AT SATISFACTORY PRICES

(b) Supply the names and country of all agents used in 1986 or 1987?

1. FRAMPTON INVESTMENTS (HONG KONG)

2. QUARTER ENTERPRISES (AUSTRALIA)

3. YUYU TIMBER (KOREA)

(c) Are any of your agents based in preferred tax areas (eg: Singapore, Hong Kong)? ~~YES~~/No.  
If yes, give details. YES/~~No~~

TDC'S SUBCONTRACTOR (BUIN EARTHMOVING) UNTIL MID-1986 UNDERTOOK

TDC'S MARKETING VIA AN ASSOCIATED COMPANY (FRAMPTON INVESTMENTS). THIS ARRANGEMENT WAS TERMINATED WHEN THE PRESENT GENERAL MANAGER TOOK OVER MARKETING.

(d) What rate of commission is each of your agents paid and who pays such commission?

SALES ARE NEGOTIATED ON AN F.O.B. BASIS. L.C.'S AND TDC INVOICES ARE ON A C.N.F. BASIS. THE AGENT RECEIVES THE C.N.F. VALUE LESS FREIGHT LESS THE F.O.B. VALUE. THE VALUE OF COMMISSIONS VARIES FROM SALE TO SALE BUT PROBABLY AVERAGE USD2-3/M3.

- (e) Do you or any person or company with which you have a relationship have any arrangement in the nature of commission sharing with any such agent? Yes/No. If 'Yes' give full details.

G. Sale to middle man

- (a) Do you sell to any person or company which resells logs supplied by you? Yes/No.

- (b) If yes, why do you sell to such person or company?

AS EXPLAINED UNDER POINT D. IT IS VIRTUALLY IMPOSSIBLE TO SELL

DIRECTLY TO END USERS.

- (c) Does such person or company resell at a higher price than you obtain? Yes/~~NO~~

- (d) What is the range of additional or higher prices obtained in 1986 and 1987?

WHERE AGENTS ARE USED PRESUMABLY THE DIFFERENCE IS THE COMMISSION.

REGARDING OTHER SALES. IT WOULD BE DIFFICULT TO DETERMINE AT WHAT

PRICES THEY ON-SELL AT.

- (e) Do you or any person or company with which you have a relationship have any arrangement whereby the higher price obtained is shared or participated in whether in whole or part. Yes/No. If yes, supply full details.

**H. Shipping**

- (a) Who arranges shipping (ie: becomes party to a Charter Party or Fixture Note) for logs sold by you?

THE AGENT. THE BUYER OR SOME OTHER UNKNOWN PARTY

- (b) Do you independently ascertain the freight rates available for each shipment? Yes./No. If yes by what means do you do so?

IF SALES ARE VIA AN AGENT AND THE LC AND INVOICE ARE ON A C.N.F. BASIS. THE FREIGHT RATE IS EITHER SPECIFIED IN THE LC OR ADVISED BY FAX/TELEX BY THE AGENT.

- (c) What is the range or freight rates paid for shipments by you;

- (i) To Japan in 1986 \_\_\_\_\_
- (ii) To Japan in 1987 \_\_\_\_\_
- (iii) To South Korea in 1986 \_\_\_\_\_

- (iv) To South Korea in 1987 \_\_\_\_\_
- (v) To Taiwan in 1986 \_\_\_\_\_
- (vi) To Taiwan in 1987 \_\_\_\_\_
- (vii) To India in 1986 \_\_\_\_\_
- (viii) To India in 1987 \_\_\_\_\_

(d) Do you or does any person or company with which you have a relationship:

- (i) own or operate any vessel used by you to ship logs? ~~Yes~~/No.
- (ii) share or participate in freight paid for shipment of logs by you? ~~x~~Yes/No.
- (iii) charter any vessel used by you to ship logs? ~~Yes~~/No.
- (vi) share or participate in charterers fees paid for shipment of logs by you? ~~Yes~~/No.
- (v) act as broker for any vessel used by you to ship logs? ~~x~~Yes/No.
- (vi) share or participate in brokerage paid for shipment of logs by you? ~~x~~Yes/No.

If "Yes" to any of the above supply full details on a separate sheet.

1. M.E.P.

- (a) Explain in short simple terms the relevance to you of MEP in relation to your log sales.

MEP IS IRRELEVANT EXCEPT WHEN MARKET PRICES FALL BELOW MEP IN

WHICH CASE. UNLESS MEP WAS CONSIDERABLY BELOW MARKET PRICES.

MEP WOULD BE USED AS A MINIMUM NEGOTIATING POSITION.



(b) Did you, in 1986 or 1987 sell logs below the prevailing MEP? Yes/No.  
If yes:

(i) did you obtain dispensation. Yes/No.

(ii) what were the reasons for not obtaining MEP price?

LOGS HAD BEEN REJECTED BY SEVERAL BUYERS AND HAD DETERIORATED  
SIGNIFICANTLY. CONSEQUENTLY BUYERS WOULD NOT ACCEPT MEP.

#### J. Letters of Credit

Are letters of credit for your sale of logs to overseas buyers routinely established in the name of, and with the bankers of, the PNG producer company? Yes/No.  
If not, then why?

#### K. Offshore Payments

(a) Is any part of the FOB sale proceeds for sales of your logs not remitted to Papua New Guinea? Yes/No.

(b) If so, specify:

- (i) The part payment left offshore and the manner in which it is calculated.
- (ii) The country in which the part payment is left.
- (iii) The person or company to which the offshore payment is made.
- (iv) The purpose of leaving the payment offshore.

Vessel	Month of Shipment	No. of Logs	Vol. of Logs	F.O.B. Price to TDC (USD)	Freight (USD)	Name & Country of Purchaser	Notify Party	Schedule		Breakup of	Proceeds	BEM
								M.E.P. Price (USD)	M.E.P. Comparison Amount (+/-) % (+/-)			
1986												
1 Ho Ming	January	469	1513.198	83296	22.00	Tzeng Yih Taiwan	Tzeng Yih Taiwan	44120	39106	+88.63%	6355	31626
		359	1454.929	61107	22.00	Sheng Hong Taiwan	Sheng Hong Taiwan	46328	14779	+31.90%	6111	23221
		597	2626.221	14442	22.00	Tzeng Yih Taiwan	Tzeng Yih Taiwan	99900	144542	+44.58%	11030	54888
		Total:	1425	5594.348	288725			190348	198427	+51.70%		
2 Isilon Queen	January	1309	6541.309	37255	-	C. Itch Hong Kong	C. Itch Japan	314536	58318	+18.52%	27473	141685
3 Midori	February	819	4499.811	28578	-	C. Itch Hong Kong	C. Itch Japan	211396	74342	+35.16%	18598	106580
4 Kyowa Ocean	April	312	998.361	62897	34.00	Korea Trading Korea	Accountee	31954	30943	+96.85%	4193	23901
		204	964.135	31816	29.00	Miwon Trading Korea	Accountee	42509	10692	+25.15%	4049	12090
		223	994.924	54721	22.00	Samsung Korea	Samsung Korea	47261	17460	+15.78%	4179	20794
		Total:	739	2957.42	149434			121724	27711	+22.76%		
5 Extracol	April	768	4253.086	236046	-	C. Itch Hong Kong	C. Itch Japan	203237	32809	+12.20%	17863	89698
6 Maria Pilar	May	979	5477.414	295780	-	C. Itch Hong Kong	C. Itch Japan	280552	15229	+5.15%	23005	112397
7 Tropical Daseel	June	606	2543.698	139903	-	Sumitomo Japan	Sumitomo Japan	113493	26411	+18.88%	10684	53163
8 Jindalle	June	24	99.256	8635	23.00	Samsung Korea	Accountee	7108	1527	+17.58%	417	3281
		126	699.926	43395	23.00	Samsung Korea	Accountee	38740	4655	+16.73%	2940	16490
		210	999.182	30475	31.50	Samsung Korea	Accountee	50384	19909	+39.5%	4197	11581
		337	1990.574	105500	27.00	Miwon Korea	Accountee	103045	2455	+2.33%	8360	40090
Total:	697	3788.938	198005			199277	11272	+5.65%				
9 Tropical Moon	June	328	1435.414	43780	20.00	Sumitomo Japan	Applicant	74021	30241	+40.6%	6029	16638
10 Tropical Daseel	July	1047	5263.417	294630	-	Sumitomo Japan	Sumitomo Japan	266570	28060	+9.52%	22106	111959
11 Tropical Moon	September	136	499.707	29982	-	Samsung Korea	Samsung Korea	17926	12056	+40.21%	2099	11393
		78	403.318	15326	-	Sam Won Korea	Sam Won Korea	24223	8897	+58.05%	1694	5824
		270	994.896	30344	-	Sam Won Korea	Sam Won Korea	51595	21250	+70.03%	4179	11531
		348	1398.214	45670	20.00			75817	30147	+66.01%	5872	17355
Rejects sub-total		652	3615.1	165210	25.55	Samsung Korea	Samsung Korea	173760	8550	+5.18%	15183	62780
12 Eternal Moon	September	1278	5749.191	339202	-	Sanno Japan	Sanno Japan	307379	31823	+9.38%	24147	128897
13 Sita Midah	October	372	1620.829	99293	-	FIC PNG	Centaur India	76885	22408	+22.57%	6807	37731
	November	255	1233.411	74005	-	FIC PNG	Indian Bank India	69128	4677	+6.59%	5180	28122
14 Cape Comorin	November				-							
15 Tropical Daseel	November		6000	354000	-	Sumitomo Japan	Sumitomo Japan					
	Total:	1684	7598.225	451492				434420	17072	+3.78%	31913	171567
1987 TOTAL				63869.52								

- (c) Is any person or company to which any such moneys are paid outside Papua New Guinea a person or company with which you have a corporate or similar relationship?  
~~Yes~~/No.  
If Yes, explain the relationship.

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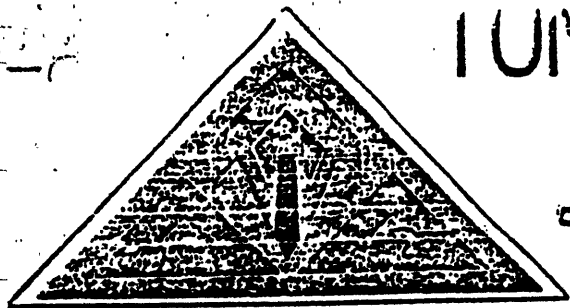
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- (d) Has the approval of the Bank of Papua New Guinea been obtained in respect of such non remittances? ~~Yes/No~~  
N/A

[illegible]



Schedule 6  
**TONOLEI DEVELOPMENT  
CORPORATION**

PO BOX 429  
KIETA  
PNG

FAX NO: 95 6205  
TEL: 95 6042 TELEX TONDECO NES5910

YOUR REF: KYOWA OCEAN

OUR REF: 3/66

09th April, 1986.

MIWON TDG AND SHIPPING CO LTD.,  
SEOUL, KOREA.

COMMERCIAL INVOICE

204 PIECES PAPUA NEW GUINEA FRESH CUT ROUND LOGS TALLING 964.135 M3  
AT USD62.00 PER M3 C & F INCHON KOREA TOTAL USD 59776.37.

DIAMETER: 40-49CM ABOUT 5 PCT  
50-59 CM ABOUT 20 PCT  
60 CM AND UP ABOUT 75 PCT.

LENGTH: ABOUT 6M AND UP.

USD29.00 FREIGHT PER M3 INCLUDED.

FROM KIETA, PAPUA NEW GUINEA TO INCHON PORT KOREA.  
DRAWN UNDER IRREVOCABLE DOCUMENTARY CREDIT NO: M1929604NUC0025.

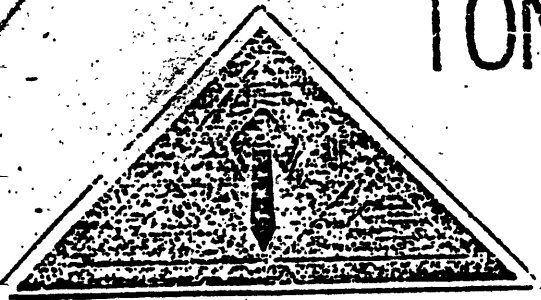
Yours faithfully,  
TONOLEI DEVELOPMENT CORPORATION

J. F. BIXON  
GENERAL MANAGER.

02-3-12A-

425

# TONOLEI DEVELOPMENT CORPORATION



PO BOX 429  
KIETA  
PNG

FAX NO: 95 6205  
TEL: 95 6042 TELEX: TONDECO NE95910

YOUR REF: KYOWA OCEAN

OUR REF: 3/86

09th April, 1986.

송품장 목록

KOREA TRADING INTERNATIONAL INC.,  
C.P.O. BOX 3667,  
SEOUL, KOREA

## COMMERCIAL INVOICE

312 PIECES PAPUA NEW GUINEA ROUND LOGS (VITEX) AT USD 97 PER M3  
TOTTALLING 998.361 M3 C & F INCHON KOREA TOTAL USD96841.01

DIAMETER: 40-49CM ABOUT 10 PCT  
50-59CM ABOUT 20 PCT  
60CM AND UP ABOUT 70 PCT  
LENGTH: 4M AND UP

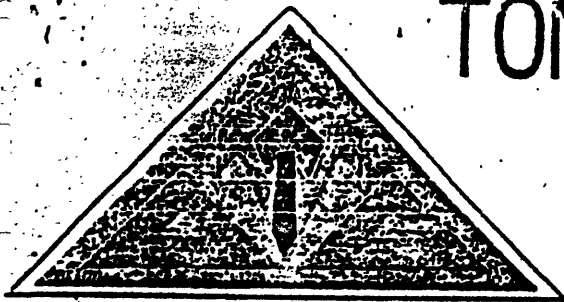
USD 34.00 FREIGHT PER M3 INCLUDED.

COUNTRY OF ORIGIN PAPUA NEW GUINEA  
FROM KIETA, PAPUA NEW GUINEA TO INCHON KOREA.  
DRAWN UNDER IRREVOCABLE DOCUMENTARY CREDIT: M0305-604-NUC0025

YOURS FAITHFULLY,  
TONOLEI DEVELOPMENT CORPORATION

J.F. DIXON,  
GENERAL MANAGER.

020-35-12A-1065



# TONOLEI DEVELOPMENT CORPORATION

PO BOX 429  
KIETA  
PNG

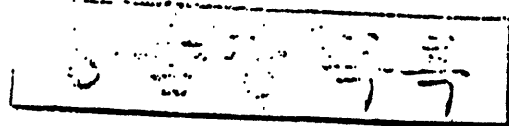
✓ FAX NO: 95 6205  
TEL: 95 6042 TELEX: TONDECO NE95910

YOUR REF: KYOWA OCEAN

OUR REF: 3/86

09th April, 1986.

SAMSUNG CO LTD.,  
C P O BOX 1144,  
SEOUL,  
KOREA. ✓



## COMMERCIAL INVOICE

223 PIECES PAPUA NEW GUINEA ROUND LOGS PEELING GRADE FRESH CUT, POMTIA  
50 PCT AND UP UNIT PRICE AT USD77/CBM TOTALLING 994.921 M3 ✓  
C & F KOREA TOTAL USD 76608.91. ✓


DIAMETER: 50-59 CM ABOUT 10 PCT ✓  
60 CM AND UP ABOUT 90 PCT ✓

LENGTH: ABOUT 6M AND UP ✓  
AVERAGE VOL: 3.8 CBM AND UP ✓

USD 22.00 FREIGHT PER M3 INCLUDED.

COUNTRY OF ORIGIN PAPUA NEW GUINEA ✓  
FROM PAPUA NEW GUINEA PORT(S) TO INCHON. ✓  
DRAWN UNDER IRREVOCABLE DOCUMENTARY NO..M5001604NU00089 ✓

YOURS FAITHFULLY,  
TONOLEI DEVELOPMENT CORPORATION

  
J.F. DIXON,  
GENERAL MANAGER. ✓

020-35-12A-7A



# TONOLEI DEVELOPMENT CORPORATION

PO BOX 429  
KIETA  
PNG

FAX NO: 95  
TEL: 95 6042

YOUR REF: JIN DALLE

OUR REF: 7

SAMSUNG CO LTD 250 2 KA TAEPYUNG RO  
CHUNG KU, SEOUL  
KOREA

## COMMERCIAL INVOICE

...210..... PIECES PAPUA NEW GUINEA ROUND LOGS  
FRESH CUT SAW LOGS TOTALLING 999.182...M3  
AT USD 62 PER M3 INCLUDING USD 31.50 PER M3 C

TOTAL C & F INVOICE VALUE USD 61949.28...X...

PAPUA NEW GUINEA ORIGIN X  
C & F INCHON

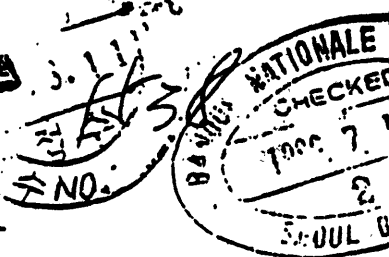
DRAWN UNDER DOCUMENTARY CREDIT NO M-6201-605-  
OF BANQUE NATIONALE DE PARIS SEOUL

YOURS FAITHFULLY,  
TONOLEI DEVELOPMENT CORPORATION LTD

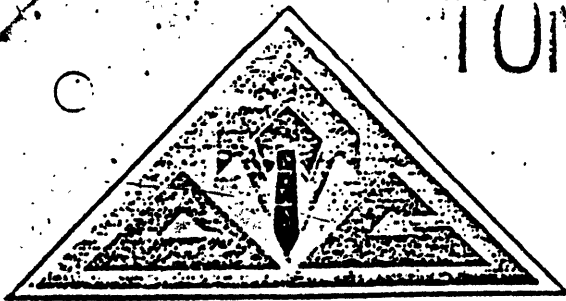
J.F. DIXON,  
GENERAL MANAGER.

020-35-12A-

200-114







# TONOLEI DEVELOPMENT CORPORATION

P O BOX 429  
KIETA  
PNG

FAX NO: 95 6205  
TEL: 95 8042 TELEX: TONDECO NE959

YOUR REF: JIN DALLE

OUR REF: 7/86

MIWON TRADING AND SHIPPING CO LIMITED  
43 YUIDO-DONG  
YOUNGDEUNGPO-KU  
SEOUL, KOREA.

## COMMERCIAL INVOICE

337 PIECES PAPUA NEW GUINEA FRESH CUT ROUND LOGS REGULAR (60cm AND UP)  
AVERAGE VOLUME 4 M3 AND UP TOTALLING 1990.574 M3 AT USD 80.00 PER CUBIC METER  
INCLUDING USD 27.00 PER M3 OCEAN FREIGHT

TOTAL C & F INVOICE VALUE USD 159,245.92

송품장 목록

PAPUA NEW GUINEA ORIGIN  
C & F INCHEON KOREA

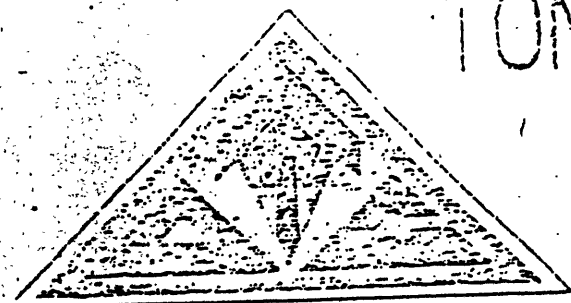
DRAWN UNDER LETTER OF CREDIT NO. M3711605NU00185  
DATED 29th MAY 1985 OF THE JEONBUK BANK LIMITED

YOURS FAITHFULLY,  
TONOLEI DEVELOPMENT CORPORATION

*James Koibo*  
.....  
JAMES KOIBO - MBE,  
COMPANY SECRETARY.

000-85-12A-208P5

# TONOLEI DEVELOPMENT CORPORATION



PO BOX 429  
KIETA  
PNG

FAX NO: 95 5205  
TEL: 95 5042 TELEX: TONDECC W29

YOUR REF:

JIN DALLE

OUR REF:

7/86

## 송품장 목록

SAMSUNG CO LTD  
CPO BOX 1144  
SEOUL KOREA

### COMMERCIAL INVOICE

..... 24 ..... PIECES PENCIL CEDAR TOTALLING ..... 24 .....  
AT USD 110.00 PER M3 = USD = 2640.00

..... 108 ..... PIECES BURNELLA TOTALLING ..... 108 .....  
AT USD 85.00 PER M3 = USD = 9180.00

TOTAL PIECES ..... 132 ..... TOTAL VOLUME 780.00 M3

TOTAL INVOICE VALUE FOR PAPUA NEW GUINEA BOUND LOGS  
OUT INCLUDING USD 23.00 PER M3 FREIGHT = USD 18144.00

C & F INCHON, PORT KOREA

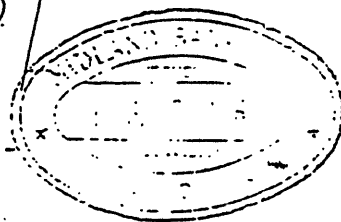
"DRAWN UNDER MIDLAND BANK PLC, SEOUL, KOREA,  
IRREVOCABLE DOCUMENTARY CREDIT NO. 88201-885000000  
DATED 27 MAY 1986."

본  
대  
조  
필

YOURS FAITHFULLY,  
TONOLEI DEVELOPMENT CORPORATION LTD

J. J. DEKON,  
GENERAL MANAGER

020-35312A-1863



MAIL R UN NOMORE

To: BEB001 (52:BEB001)  
 From: TELEX-RECEIVER Posted: Tue 15-July-86 0:46 Sys 63 (45)  
 Subject: The following telex has been received by XMAIL.

22027 CHADWOOD

15/7/86 CW206

ATTN :BEE BONG MR Y J LEE

THE FLWG SHPT EX TONOLEI DEVELOPMENT CO LTD PNG BEFORE 30.7.86

AA	R	S	SS	CNF	FREIGHT/M3
TERM BRASSI 1000M3	95	5	-	USD78	USD22
TAJUN 1000M3	85	10	5	78	21
ERIMA 1000M3	100	-	-	67	29(BUT 25 PCT OVER 150CM)
M/SPECIES 1000M3	80	15	5	67	27
VITEX 1000M3	RUN OF BUSH		97		34

BB WHEN OPEN L/C PLS T/T FRT TO MITSUI TRUST N BANKING CO., LTD

--More--

YAESUGUCHI BRANCH A/C NBR 9223043012 S-00001 IN FAVOR OF SHINSEI

KORYO CO., LTD TOKYO .

SPECIFICATION HAD BETTER DELETE IF BUYER INSISTS PLS ADD ABOUT  
 BEFORE SPECIFICATION, Q'TY N PERCENTAGE OTHERWISE SHIPPER  
 CAN'T ACEPT CONDITION

CC HOPE RCVE YR L/C COPY ON FRIDAY AS SOON AS I RCVE I WL ADV

U VSL STATUS I AM FIXING ONE VSL ETA KIETA 8/3

DD PLS CONFIRM ASAP

RGDS CHARY CHEN  
 22027 CHADWOOD

NNNN

Disposition: D

## Schedule 9

AGREEMENT

The agreement has been made between Wooil (Buyer) and Chao Tung Logimax (Seller) on the terms and conditioned below for the undermentioned items as follows:

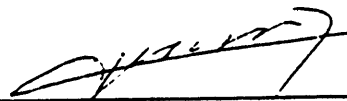
Item: Papua New Guinea Round Logs

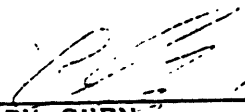
Q'ty.	Specification	Price/M <sup>3</sup>	CNF Busan	66
1,000 M <sup>3</sup>	Sawlogs	US\$62.00	22	30.50 (K\$)
200 M <sup>3</sup>	Burkella (regular)	85.00	63	55
40 M <sup>3</sup>	Planchonella (regular)	85.00	63	65
160 M <sup>3</sup>	Pencil Cedar (regular)	100.00	78	70
1,400 M <sup>3</sup>		US\$98,400.00	CNF Busan	

- 1) L/C will be opened at the amount of deduction US\$16,332 for Kwang Yang shortage claims from the total amount US\$98,400 which will be total US\$82,068 and will make the unit price US\$58.00/M<sup>3</sup>
- 2) L/C will be opened at latest until 15th of August.
- 3) Sawlogs 1,000 M<sup>3</sup> can be changed to other similar logs (mixed red, mixed white or other logs at same value), if inspector want to.
- 4) Vitex - abt 500 M<sup>3</sup>.  
Will be opened L/C at US\$60/M<sup>3</sup> at F.O.B. Base and Ocean Freight will be paid within a month after discharging but Freight Invoice or Bill of Lading made out for Remittance must be described at US\$22/M<sup>3</sup>. Extra money will be settled with other way at same time.
- 5) Wooil must pay US\$85/M<sup>3</sup> for extra loadings within 3 months after sealing to be dispatched from Taiwan if any extra loadings for this shipment.
- 6) Two port discharging will be acceptable at same price to Busan and Inchon, but Buyer must advise it one week ago before arrival to Korea.
- 7) Other conditions will be same with the telex offer Seller sent to Buyer by telex, August 7, 1986.

WOOIL COMMERCIAL CO., LTD.

CHAO TUNG LOGIMAX INC.

  
SEOUNG KYUN YU  
President

  
CHARY CHEN  
President

1986, August 7

# TONOLEI DEVELOPMENT CORPORATION



PO BOX 429  
KIETA  
PNG

FAX NO: 95 6205  
TEL: 95 6042 TELEX: TONDECO NE95910

YOUR REF: TROPICAL MOON ✓

OUR REF: 10/86

SAM SUNG CO., LTD  
P.O. BOX 16 BUSAN KOREA ✓

## COMMERCIAL INVOICE ✓

..216.. PIECES TAUN TOTALLING 1000.010 M3 ✓  
AT USD .71.25 PER M3 = USD .71,250.71 ✓

...146... PIECES TERMINALIA TOTALLING .999.428... M3 ✓  
AT USD .71.25 PER M3 = USD .71,209.25 ✓

...110... PIECES ERIMA TOTALLING .998.727... M3 ✓  
AT USD .71.25 PER M3 = USD .71,159.30 ✓

...180... PIECES MIXED SPECIES TOTALLING .616.935... M3 ✓  
AT USD .71.25 PER M3 = USD .43,956.62 ✓

TOTAL PIECES .....652..... TOTAL VOLUME 3,615.100... M3 ✓

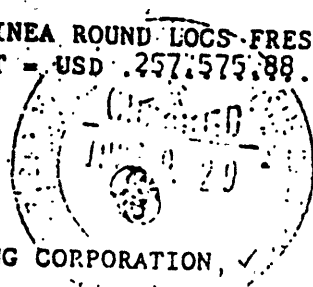
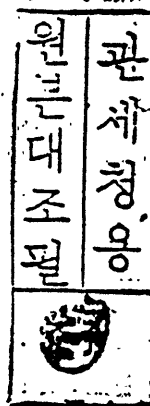
TOTAL INVOICE VALUE FOR PAPUA NEW GUINEA ROUND LOGS FRESH  
CUT INCLUDING USD 25.55 PER M3 FREIGHT = USD .257,575.88 ✓

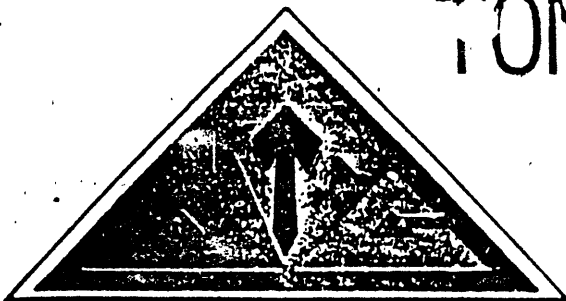
C & F BUSAN PORT, KOREA ✓

"DRAWN UNDER HONGKONG & SHANGHAI BANKING CORPORATION, ✓  
P.O. BOX 722, BUSAN, KOREA ✓  
IRREVOCABLE DOCUMENTARY CREDIT NO. DC BSN 866020  
DATED 02 AUGUST 1986." ✓

YOURS FAITHFULLY,  
TONOLEI DEVELOPMENT CORPORATION LTD

.....  
GORDON E MCNEIL, ✓  
GENERAL MANAGER.





# TONOLEI DEVELOPMENT CORPORATION

PO BOX 429

KIETA

PNG

FAX NO: 95 6205

TEL: 95 6042 TELEX: TONDECO NE95910

YOUR REF: TROPICAL MOON

OUR REF: 10/86

SAM WON ENTERPRISES CO. LTD.,

(ROOM NO. 1309)

TONGWON BELG.,

1211-1 ECHORYANG-DONG

DONG-KU, PUSAN KOREA

## COMMERCIAL INVOICE

49 PIECES BURCHELLA TOTALLING 272.790M3

AT US\$58.00 PER M3 = US\$ 15,821.82

10 PIECES AMOORA TOTALLING 41.865M3

AT US\$ 58.00 PER M3 = US\$5,428.17

19 PIECES PENCIL CEDAR TOTALLING 88.663 M3

AT US\$ 58.00 PER M3 = US\$ 5,142.45

270 PIECES REJECT SPECIES (SS4) TOTALLING 994,896 M3

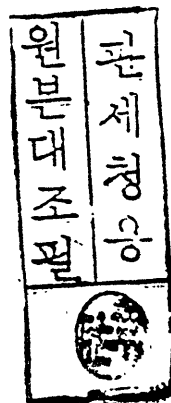
AT US\$ 58.00 PER M3 = US\$ 57,703.97

Total pieces 348 total volume 1398.214 M3

Total invoice value for Papua New Guinea round logs including US\$20.00 per M3 freight = US\$ 81,096.41 C&F Pusan Port Korea.

Drawn under THE BANK OF PUSAN, MASAN BRANCH KOREA

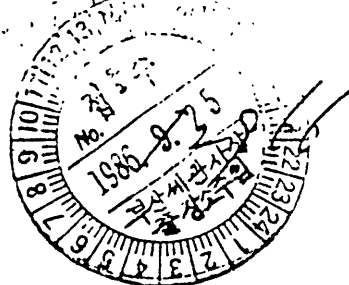
Irrevocable Documentary credit No. M 3212-608 NU 00057 dated 20th August 1986. (EKEN)



Yours faithfully,  
Tonolei Development Corporation Ltd.,

GORDON E. McNEIL  
GENERAL MANAGER.

F0838



Schedule 11



DEPARTMENT OF FINANCE AND PLANNING  
POST OFFICE WARDS STRIP, WAIGANI, N.C.D.  
PAPUA NEW GUINEA

FACSIMILE HEADER FORM

DATE: 25/10/88

FROM: FAX (675) 213826

NAME: MR JOHN S REEVE

TITLE: COUNSEL ASSISTING THE COMMISSION

TO: FAX \_\_\_\_\_

NAME: AMBASSADOR NOMBRI

TITLE: KUNDU - TOKYO .

PAGE 1 OF 4.

\*\*\*\*\*

NOTES OR COMMENTS:

KUNDU TOKYO (AMBASSADOR NOMBRI)

I request your further assistance in relation to log exports by Tondrei Development Corporation (TDC) from North Solomons Province. At relevant times TDC engaged Guin Earthmoving Pty Limited (BEL) as it's contractor. BEL's principal appears to be one H.S.WILKIE who operates through a business or company AMINEX in Sydney Australia. BEL or WILKIE also seems to be involved with a company ALLARDYCE in the Solomon Islands. Documents suggest that part shipments were arranged from both TDC in PNG and Allardyce in the Solomons on the same vessel. Negotiations for sale seem to involve as an agent an organisation known as LOGIMEX of TAIPEI (Chary Chen and Nily Chen). Sales commissions (usually at 2% of FOB price) were paid however to a company FRAMPTON INVESTMENTS LIMITED in Hong Kong. Attention has been focussed on three shipments detailed in the attachment where diverse freight rates were paid for shipment from the same PNG port to the same destination country and port (in Korea). Freight seems to have been paid as follows:-

(a). KYOWA OCEAN & JINDALLE to

KYOWA SHIPPING CO LTD  
KYOWA BANK  
SHIBA BRANCH TOKYO  
A/C NO:0101569

(b). TROPICAL MOON to

PERSEUS SHIPPING CO LTD  
TAIYO KOBE BANK LTD  
HAMANSTAN CHO BRANCH TOKYO  
A/C NO:8106934

The Tropical Moon was previously engaged through SHINSEI KOGYO CO LTD of Tokyo who appear to be that ship's operators.

The disparate freight rates are peculiar and at the extremes appear far higher than available rates thus suggesting transfer pricing through freight manipulations.

Could you please approach the ship operators and ascertain what the true arrangements were and seek to have them explain from their records what happened.



If something was contrived it may be:-

- (a). That freight payments from PNG subsidised or paid freight on part shipments from Allardyce.
- (b). That freight was refunded offshore by the ships operators.
- (c). That someone received another credit or benefit against freight overpayments.

Your early reply would be greatly appreciated with any other information you may have on the people involved.

Thanks.

*John S. Reeve*  
JOHN S. REEVE

Counsel Assisting the Commission

VESS EL AND OPERATOR	NO OF LOGS	VOL (M <sup>3</sup> )	BUYER	DESTINATION	FREIGHT REMITTANCE	UNIT RATE USD/M3	DEPARTED PNG
1. KYOWA OCEAN	312	998.361	KOREA TRADING CO.	INCHON	33,944.27	34.00	17.4.86
KYOWA SHIPPING	204	964.135	MIWON TRADING	INCHON	27,959.91	29.00	
LTD TOKYO	223	994.921	SAMSUNG CO	INCHON	21,888.26	22.00	
	<u>739</u>	<u>2957.42</u>			<u>83,792.44</u>		
2. JINDALLE	150	799.182	SAMSUNG CO	INCHON	18,381.19	23.00	20.6.86
KYOWA SHIIPPING CO	210	999.182	SAMSUNG CO	INCHON	31,474.23	31.50	
LTD TOKYO	337	1990.574	MIWON TRADING	INCHON	53,745.50	27.00	
	<u>697</u>	<u>3788.938</u>			<u>103,500.92</u>		
3. TROPICAL MOON	136	499.707	SAMSUNG CO	BUSAN	SOLD ON	AN FOB BASIS	2.9.86
	348	1398.214	SAMWON ENT.	BUSAN	27,964.28	20.00	
	652.	3615.100	SAMSUNG CO.	BUSAN	92,365.81*	25.55	
	<u>1136</u>	<u>5513.021</u>			<u>120,330.09</u>		

\* The payment is not correctly calculated and there was a claim for deadfreight



## C. ITOH &amp; CO., (H.K.) LTD.

## OSAKA OFFICE:

68, 4-CHOME,  
KITAKYUTARO-MACHI  
HIGASHI-KU, OSAKA,  
CABLE ADDRESS:  
"CITOH OSAKA"  
CENTRAL P. O. BOX 117  
OSAKA

28TH FLOOR, UNITED CENTRE,

95 QUEENSWAY,  
HONG KONG

TEL. 5-296011 (15 LINES)

G. P. O. BOX NO. 3454

CABLE ADDRESS "CITOH" TELEX 73212 ITOHC HX

## TOKYO OFFICE:

CENTRAL P. O. BOX 138

TOKYO

CABLE ADDRESS:

"CITOH TOKYO"

OTHER BRANCH

NAGOYA, KYUSHU

July 1, 1985

Messrs. Tonolei Development Corporation  
P.O. Box 429 Kieta  
N.S.P., PNG

OUTSTANDING BALANCE S/A

Gentlemen:

OSA-1Date

	<u>DR.</u>	<u>CR.</u>
Apr. 11 '85 Invoice difference of "PACIFIC SATU"		US\$17,607.35
June 10 '85 Invoice difference of "SUN <del>SEA</del> TIMOR"		US\$2,358.22
June 11 '85 Paid to you	US\$17,607.35	
July 1 '85 Balance creditable to you	US\$2,358.22	
	<u>US\$19,963.57</u> =====	<u>US\$19,963.57</u> =====

THE BALANCE IS CORRECT

Very truly yours,  
C. ITOH & CO. (H.K.) LTD.

*Y. Nakagawa*  
Y. NAKAGAWA  
Chief of Lumber Section

*Wait until next ship*

# ITO & CO., LTD.

1-1-1, Aoyama 2-CHOME, MINATO-KU, TOKYO, JAPAN

MAIL ADDRESS: C.P.O. BOX 136, TOKYO 100-91, JAPAN  
TELEX: J22295-7 ITOHCHU  
CABLE ADDRESS: CITO TOKYO  
TELEPHONE: TOKYO (03) 497-2121

YOUR REF.

OUR REF.  
PLEASE QUOTE

March 26, 1985

Mr. J.F. Dixon .  
General Manager  
Tonolei Development Corporation Ltd.  
P.O. Box 429, Kieta  
N.S.P., P.N.G.

Dear John :

I hope your business has been going well.  
We have a pleasure to report you the following remeasured volume of M.S.  
"PACIFIC SATU" V.54, and please refer to the enclosing certificate of remeasurement.

Ofunato lot	Taun	246pcs	1,153.925M3
	O/S	38pcs	199.086M3
Imari lot	O/S	741pcs	4,566.691M3
TOTAL		1,025pcs	5,919.702M3

Although 38pcs of O/S species logs were discharged at Ofunato, we would like to ask you to make the price of these O/S at @US\$30.00/M3 ( ), since log market is still remaining low and Yen is weak.

Please note our idea of settlement is :

Ofunato	TAUN	1,153.925M3	FOB	@US\$58.50/M3	US\$67,504.61
Imari	O/S	4,566.691M3	FOB	@US\$58.50/M3	US\$267,151.42
SUB TOTAL		5,720.616M3	US\$334,656.03		

Less your invoice amount of FOB ..... (-)US\$323,021.26

Ofunato	O/S	199.086M3	FOB	@US\$30.00/M3	US\$11,634.77 ... (A)
					US\$5,972.58 ... (B)
(A) + (B) = US\$17,607.35					..... Balance creditable to T.D.C.

If you confirm our idea, please let us know your confirmation and how much and what account we shall pay.  
After receiving your answer, we let our Hong Kong office make statement of account.

I am looking forward seeing you in Japan soon.

Truly yours,  
C. ITOH & CO., LTD.

*[Signature]*  
Y. KAMEOKA  
MANAGER, SECTION No.1  
SOUTH SEA LOG AND PRODUCT DEPARTMENT.  
YK/tk

*BH.*  
*20/4*  
*Wait until next ship*



# C. ITOH & CO., (H.K.) LTD.

28TH FLOOR, UNITED CENTRE,  
88 QUEENSWAY,  
HONG KONG

TEL: 5-296011 (15 LINES)

G. P. O. BOX NO. 2484

CABLE ADDRESS: "CITOM" TELEX: 73212 ITOHC HX

OSAKA OFFICE:  
88, 4-CHOME,  
KITARYUTARO-MACHI  
HIQASHI-KU, OSAKA,  
CABLE ADDRESS:  
"CITOM OSAKA"  
CENTRAL P. O. BOX 117  
OSAKA

TOKYO OFFICE:  
CENTRAL P. O. BOX 136  
TOKYO  
CABLE ADDRESS:  
"CITOM TOKYO"  
OTHER BRANCH  
NAGOYA, KYUSHU

Messrs. Tonolai Development Corporation Ltd.  
P.O. Box 429, Kiata  
N.S.P., P.N.G.

April 11, 1985

SA-01

Gentlemen;

## STATEMENT OF ACCOUNT

RE: M.S. "PACIFIC SATU" sailed on 26th February 1985

Loading port	: Toimanspu, Bougainville, P.N.G.
Discharging port	: Imari and Ofunato, Japan
Invoice quantity	: 1,000pcs 5,521.731M3
Invoice amount	: US\$323,021.26 FOB Toimanspu
Re-measurement	: Imari 741pcs 4,566.691M3
	Ofunato TADN 246pcs 1,153.925M3
	Ofunato O/S 30pcs 199.086M3
	1,025pcs 5,919.702M3

AA The price of other species of Ofunato is US\$30.00 per cubic meter FOB Toimanspu

BB Settlement:

Imari Lot	4,566.691 M3 x @US\$58.50/M3 = US\$267,151.42
Ofunato Tadm	1,153.925 M3 x @US\$58.50/M3 = US\$67,504.61
Ofunato O/S	199.086 M3 x @US\$30.00/M3 = US\$5,972.58

TOTAL 5,919.702M3 US\$340,628.61

Less invoice amount of FOB ..... (-) US\$323,021.26

Account creditable to you ..... US\$17,607.35

Truly yours,

C. ITOH & CO. (H.K.) LTD.

Chief of Liaison Section

With the Compliments of  
**C. ITOH & CO., LTD.**  
Central P. O. Box 136  
Tokyo Japan

DATE May 14 '45

) LTD.

S. TONOLEI DEV. CORP.

A/TN J. DIXON.

TOKYO OFFICE:  
CENTRAL P. O. BOX 136  
TOKYO  
CABLE ADDRESS:  
"CITOK TOKYO"  
OTHER BRANCH:  
NAGOYA, KYUSHU

ONG HX

Subject: \_\_\_\_\_

April 11, 1945

I am enclosing copy of contract  
of April shipment and S/A of  
"PACIFIC SATU" with <sup>confirmed</sup> signature.  
Our HKG office has remitted  
the amount of \$17,607.35 to  
your A/C 14/MAY.

as particulars and

Manapa, P.M.C.

Truly yours,

*[Signature]*

TKATC

our refer No. \_\_\_\_\_

98pet

2pet

80pet

20pet

80pet

20pet

up

in volume)

80pet

20pet

TOTAL \$,000.00

- E. Shipment : KKA Toimapa  
F. Destination : One or Two Japan port(s)  
G. Inspection : To be done by buyer before shipment under mutual consent  
H. Insurance : To be covered by buyer  
I. Dead Freight : If any, to be seller's account

.... to be continued ....

*[Handwritten marks]*

NP

JUN 04 1016 0  
COOPERS NE95870  
ITOHCHU J22297

TOKTICI

+++++  
TELEX: COOPERS NE95870  
+++++

ATTN J.DIXON, C/-O COOPERS + LYBRAND, ARAWA

RYTLX OF RGG/237/CG OF 3/6/85  
THE MONEY IS HELD BY C.ITOH SUSPENDING INSTRUCTION BY TONOLEI  
DEVELOPMENT CORP.  
REGARDS  
C.ITOH TOKTI SECTION

NNNN

9  
COOPERS NE95870

**APPENDIX 10**

**MADANG TIMBERS PTY LTD**



## APPENDIX 10

MADANG TIMBERS PTY LTD  
(formerly WEWAK TIMBERS PTY LTD)

INTRODUCTION & BACKGROUND

This company was originally owned by Mr. E.W. Fitzgerald and was sawing timber in its mill at Madang.

Mr. Fitzgerald disposed a large part of the equity in the company to the Investment Corporation of PNG and to business arms of the Madang and East Sepik Provincial Governments. During 1986 the Malaysian owned company Gasmata Resources took over 74% of the substantial share in the company owned by the Investment Corporation and its Chairman Chin Ah Eng effectively took over control of the company. The company was then granted rights over an area relinquished by Jant.

Some investigation of this company is reported in the Commission's Interim Report No.7.

The company was sent, and answered, the Commission's questionnaire in relation to the North Coast and Far North Coast TRP areas in Madang Province (Schedule 1). Though the Company was, during 1986, a small exporter of timber on its own account and on account of Ulingan Development Corporation (for which it was contractor) it did not supply any information on the latter operation or any material on 1986 log exports.

The contract with Ulingan Development was cancelled by that company for non performance by Madang Timbers.

Madang Timbers is now understood to be in a desperate financial position and facing the imminent prospect of its operations closing down. A number of Petitions for its winding up have been advertised in the press over the years.

Part of its activities in the past has involved processing good quality and valuable species logs harvested by Jant in its woodchipping operations in Madang Province.

#### MARKETING

Madang Timbers supplied Marketing Tables for its 1987 log exports and exports in January 1988 (Schedules 2 and 3 respectively).

Those Tables, although submitted well after they were requested, did not provide related MEP prices or price comparisons or other required details despite clear instructions given. They are thus of very limited use.

The omission of these details and of details of 1986 exports (which were requested) afford sufficient grounds to warrant further investigation but time has not permitted the Commission to undertake that investigation.

#### 1987

In 1987 Madang Timbers exported 62,749 m3 of logs in fourteen whole or part shipments.

Up until June 1987 all Madang Timbers' exports were made to three Taiwanese buyers in five shipments.

The unit prices obtained per m3 were very low being USD56.64, USD56.06, USD48.02, USD56.02 and USD53.69. Sales to Taiwan ceased and the other shipments for the rest of the year were made to Japanese, Korean and Hong Kong buyers.

There were two Japanese buyers - Kowa Lumber (the parent of Open Bay Timbers) and the trader C. Itoh and Co. each of which bought two shipments.

There were two Korean buyers - Samsung Co. which bought two shipments and Dong Yeung Moolson Co. which bought one shipment. It seems these buyers bought through the agent S.J. Park.

There was one Hong Kong buyer Kolon Sangsa which bought two shipments - it is quite possible these logs were not in fact sent to Hong Kong but to Japan or Korea.

With the change in buyer destination the unit prices obtained increased markedly and continuously throughout 1987 (with two exceptions).

Unit prices obtained were as follows :-

Shipment No. (Schedule2 )	Unit Price (USD per m3)
6	66
7	71
8	80
9	80
10	<u>46</u>
11	93
12	<u>54</u>
13	95
14	99

The dramatic price increases raise questions about the level of prices earlier obtained from the Taiwanese buyers and, as the company conducts a sawmill, the two low priced shipments require explanation.

#### 1988

Two shipments of an aggregate 5, 870 m3 were made in January 1988. One was to a Hong Kong buyer Yam Yick Trading at a unit price of USD 142.00 per m3. The other was to Kowa Lumber of Japan at a unit price of USD75.00 per m3.

The Hong Kong shipment consisted largely of Kwila and took advantage of the price levels for that species created by the marketing strategy of Vanimo Forest Products and its Hong Kong buyer. The price was well below the level established by Vanimo Forest Products and this opportunistic action jeopardised the market strategy which had been developed.

#### CONCLUSIONS

There are sufficient grounds arising from the information supplied (and requested but not supplied) to warrant investigation of the marketing of this company. Its financial problems and (unverified) information received by the Commission constitute further reasons to justify such investigation. Time and staff constraints have prevented the Commission undertaking that investigation.

**COMMISSION OF INQUIRY INTO FORESTRY****QUESTIONNAIRE**Name of Timber Area: NORTH COAST & FAR NORTH COAST TRP AREASName of Permit Holders: MADANG TIMBERS PTY. LIMITEDName of Contractor (if any): NIL**A. Compliance with Conditions of Timber and/or Project Agreement or Letter of Intent or other authorisation**

Please briefly summarise each condition or obligation in Column 1 and briefly indicate whether the Company has complied with the condition in Column 2. (Attach additional sheets of paper if necessary).

(1) Condition	(2) Degree of Compliance
<u>Road Construction</u>  Conditions (design, standard, gravelling, culverts, bridges etc.)  <u>NO SPECIFIC ROAD</u>	
<u>REQUIREMENTS</u>	

(1) Condition	(2) Degree of Compliance
<u>Road maintenance</u> Obligations imposed, etc. ROAD MAINTENANCE IS NOT A PENALTY	
<u>Special Bridge Construc- tion requirement</u>	
NIL	
<u>Local processing condition</u> (Construction of sawmill, etc.) NO SPECIFIC CONDITIONS OTHER THAN THOSE IN 1979 FOREST POLICY	

(1) Condition	(2) Degree of Compliance
<u>Reafforestation/Regeneration requirement</u>	
NIL	
<u>Follow up Land Use requirements</u> (eg: agriculture project)	
NIL	
<u>Other conditions imposed for public benefit</u>	
NIL	

**B. Marketing Table**

Please prepare and attach a Marketing Table covering all your log shipments in 1986 and 1987 in accordance with the attached instructions.

A specimen Marketing Table is supplied for producers.

A handwritten table is acceptable if typing would lead to delays. You will be expected to be able to produce documents substantiating the content of this table if summonsed by the Commission to do so.

**C. Log Sales Procedures**

Explain in short simple terms the procedure by which you negotiate sales of your logs.

First, we offer by telephones our logs volume and approximated shipping period with appropriate species and size of logs to three to four potential buyers giving them 2 to 3 days to submit their bid. The following day we would offer again the same parcels to another few buyers from different country with 2 to 3 day bidding option, by the end of sixth day, we would received about 3 to 4 different bid from different buyer, then we would compare with I Price, II Other Terms, III Shipment Period, IV Discharge Country and Port. Then we would contract with most favorite buyer. Then exchange by telex for confirmation, then exchange contract.

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**C. Fair Market Price**

By what means or method do you decide whether the price obtained is a fair market price for a shipment or part shipment?

Obtain price information from FIC, also compare with other exporters  
with similar species. Then follow the market trend.

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**D. Sale to End Users**

Do you sell direct to end users or consumers? Yes/No.\*  
If not why?

Most of the time sell to end users but sometimes logs trader, for  
speculative reasons may buy our logs at better prices we then would  
sell to trader.

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**E. Relationship with Purchasers**

Do you have a relationship with any person or company which was a purchaser of logs from you in 1986 or 1987? Yes/ No.  
If yes, supply full details of such relationship; eg:

- . Member of the same company group;
- . Purchaser or his company group supplies financial assistance (giving details)
- . Long term sales and purchase agreement.

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NO

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\* When answering Yes/No questions in this Questionnaire cross out whichever word is inapplicable.

**F. Agents**

(a) Do you sell through agents? Yes/No. If yes, why?

Yes, they could assist us to sort out differences in their home country  
with their direct language when the logs arrives at the discharging port.

(b) Supply the names and country of all agents used in 1986  
or 1987?

(1) FAR EAST TRADING	(2) DAI HWA TIMBER MARKETING COMPANY
Rm. 201 Palacion Hamamatsu-Cho	Room 707, Hatchon Building
1-2-19. Hamamatsu-Cho	831 Yeoksamdong, Kangnam-Ku
Minato-Ku, Tokyo, Japan	Seoul, Korea

(c) Are any of your agents based in preferred tax areas  
(eg: Singapore, Hong Kong)? Yes/No.  
If yes, give details.

NO

(d) What rate of commission is each of your agents paid and  
who pays such commission?

K1.00 PER M3

MADANG TIMBERS PTY. LIMITED

- (e) Do you or any person or company with which you have a relationship have any arrangement in the nature of commission sharing with any such agent? Yes/No.  
If 'Yes' give full details.

NO

G. Sale to middle man

- (a) Do you sell to any person or company which resells logs supplied by you? Yes/No.  
(b) If yes, why do you sell to such person or company?

NO

- (c) Does such person or company resell at a higher price than you obtain? Yes/No.  
(d) What is the range of additional or higher prices obtained in 1986 and 1987?

NO

- (e) Do you or any person or company with which you have a relationship have any arrangement whereby the higher price obtained is shared or participated in whether in whole or part. Yes/No. If yes, supply full details.

NO

**H. Shipping**

- (a) Who arranges shipping (i.e. becomes party to a Charter Party or Fixture Note) for logs sold by you?

MADANG TIMBERS PTY. LIMITED

SOMETIMES BUYER THEMSELVES

- (b) Do you independently ascertain the freight rates available for each shipment? Yes/No. If yes by what means do you do so?

YES

THE BEST POSSIBLE RATES WE COULD GET

- (c) What is the range or freight rates paid for shipments by you;

(i) To Japan in 1986 US\$-

(ii) To Japan in 1987 US\$25.00

(iii) To South Korea in 1986 US\$-

- (iv) To South Korea in 1987 US\$24.00
- (v) To Taiwan in 1986 US\$-
- (vi) To Taiwan in 1987 US\$19.00, US\$21.00, US\$19.50
- (vii) To India in 1986 NIL
- (viii) To India in 1987 NIL

(d) Do you or does any person or company with which you have a relationship:

- (i) own or operate any vessel used by you to ship logs? Yes/No. NO
- (ii) share or participate in freight paid for shipment of logs by you? Yes/No. NO
- (iii) charter any vessel used by you to ship logs? Yes/No. NO
- (vi) share or participate in charterers fees paid for shipment of logs by you? Yes/No. NO
- (v) act as broker for any vessel used by you to ship logs? Yes/No. NO
- (vi) share or participate in brokerage paid for shipment of logs by you? Yes/No. NO

If "Yes" to any of the above supply full details on a separate sheet.

1. M.E.P.

- (a) Explain in short simple terms the relevance to you of MEP in relation to your log sales.

We consider M.E.P. as the lowest price which we can sell.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

(b) Did you, in 1986 or 1987 sell logs below the prevailing MEP? Yes/No.

If yes:

(i) did you obtain dispensation. Yes/No.

(ii) what were the reasons for not obtaining MEP price?

No, not that I know of any.

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#### J. Letters of Credit

Are letters of credit for your sale of logs to overseas buyers routinely established in the name of, and with the bankers of, the PNG producer company? Yes/No.  
If not, then why?

YES

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#### K. Offshore Payments

(a) Is any part of the FOB sale proceeds for sales of your logs not remitted to Papua New Guinea? Yes/No. NO

(b) If so, specify:

(i) The part payment left offshore and the manner in which it is calculated.

(ii) The country in which the part payment is left.

(iii) The person or company to which the offshore payment is made.

(iv) The purpose of leaving the payment offshore.

- (c) Is any person or company to which any such moneys are paid outside Papua New Guinea a person or company with which you have a corporate or similar relationship? Yes/No.

If Yes, explain the relationship.

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NO

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- (d) Has the approval of the Bank of Papua New Guinea been obtained in respect of such non remittances? Yes/No.

**Schedule 2**  
**SPECIMEN OF MARKETING TABLE**

SHIPMENT NO.	VESSEL	MONTH OF SHIPMENT	NO. OF LOGS	VOLUME OF LOGS	F.O.B. PRICE TO PRODUCERS (USD)	FREIGHT RATES(S)	NAME & COUNTRY OF PURCHASER	NOTIFY PARTY	M.E.P. PRICE (USD)	M.E.P. COMPARISON AMOUNT ABOVE/BELOW
<u>1987</u>		<u>1987</u>								
1	MV KENT ADVENTURE V-4	JANUARY	1120	3607.865	202,915.03	18.50	SAN YU LUMBER CORPORATION (TAIWAN)	SAN YU LUMBER CORP.	not available	no comparison
2	MV KENT ADVENTURE V-5	MARCH	1182	3787.263	212,268.00	18.50	SAN YU LUMBER CORPORATION (TAIWAN)	SAN YU LUMBER CORP.	"	"
3	MV SANSEI WHITE	APRIL	1128	4900.947	235,334.76	19.50	YUAN SHIN CO. LTD. (TAIWAN)	YUAN SHIN CO. LTD.	"	"
4	RUBY STAR V-09	JUNE	1677	6087.657	341,042.86	21.00	CYMASUN CO. LTD. (TAIWAN)	CYMASUN CO. LTD.	"	"
5	BONA STAR V-137	JUNE	1630	6060.967	325,400.00	19.00	CYMASUN CO. LTD. (TAIWAN)	CYMASUN	"	"
6	BONA STAR V-138	JULY	1478	5467.935	360,883.71	25.00	KOWA LUMBER CORP. (JAPAN)	KOWA LUMBER CORP.	"	"
7	MV KOREAN SAPPHIRE V-09	AUGUST	1727	5983.806	424,850.23	24.00	SAMSUNG CO. LIMITED (KOREA)	SAMSUNG CO. LIMITED	"	"



SPECIMEN OF MARKETING TABLE

SHIPMENT NO.	VESSEL	MONTH OF SHIPMENT	NO. OF LOGS	VOLUME OF LOGS	F.O.B. PRICE TO PRODUCERS (USD)	FREIGHT RATES(S)	NAME & COUNTRY OF PURCHASER	NOTIFY PARTY	M.E.P. PRICE (USD)	M.E.P COMPARISON
										AMOUNT ABOVE/BELOW
<u>1987</u>		<u>1987</u>								
8	MV SPECO ACE V-35	AUGUST	837	2880.124	230,409.92	BY BUYER	C. ITOH & CO. (H.K.) LTD. (HONG KONG)	C. ITOH & CO (H.K.) LTD	not available	no comparison
9	MV TREASURER V-18	SEPTEMBER	1377	5009.140	400,731.20	24.00	KOLON SANGSA (HK) LTD. (HONG KONG)	KOLON SANGSA (HK) LTD.	"	"
10	MV TREASURER V-18	SEPTEMBER	415	1328.892	61,129.03	24.00	KOLON SANGSA (HK) LTD. (HONG KONG)	KOLON SANGSA (HK) LTD.	"	"
11	MS JINDALLE V-06	OCTOBER	1202	4449.959	413,846.19	24.00	DONG YEUNG MOOLSAN CO. LTD (KOREA)	DONG YEUNG MOOLSAN CO. LTD.	"	"
12	MS JINDALLE V-06	OCTOBER	529	1360.729	73,479.37	24.00	SAMSUNG CO. LIMITED (KOREA)	SAMSUNG CO. LIMITED	"	"
13	MS KAPUAS V-01	NOVEMBER	1867	5999.666	569,968.27	25.75	C. ITOH & CO. (HK) LTD (HONG KONG)	C. ITOH & (HK) LTD.	"	"
14	ADITYA JYOTI V-01	DECEMBER	1687	5823.708	576,547.09	25.00	KOWA LUMBER CORP. (JAPAN)	KOWA LUMBER CORP.	"	"

SPECIMEN OF MARKETING TABLE

SHIPMENT NO.	VESSEL	MONTH OF SHIPMENT	NO. OF LOGS*	VOLUME OF LOGS	F.O.B. PRICE TO PRODUCERS (USD)	FREIGHT RATES(S)	NAME & COUNTRY OF PURCHASER	NOTIFY PARTY	M.E.P. PRICE (USD)	M.E.P. COMPARISON AMOUNT ABOVE/BELOW
<u>1988</u>		<u>1988</u>								
1	MV GOLDSTAR V-05	JANUARY	644	3000.000	426,000.00	25.00	KAM YICK TRADING (HONG KONG)	KAM YICK TRADING	not available	no comparison
2	MV GOLDSTAR V-05	JANUARY	1011	2869.795	215,234.62	25.00	KOWA LUMBER CORPORATION (JAPAN)	KOWA LUMBER CORP.	"	"