



global witness

STAINED TRADE

HOW U.S. IMPORTS OF EXOTIC FLOORING
FROM CHINA RISK DRIVING THE THEFT OF
INDIGENOUS LAND AND DEFORESTATION
IN PAPUA NEW GUINEA

This is a low-resolution version and omits
some imagery from the original. The maps
that have been removed are available at
<https://www.globalwitness.org/PNGmaps>

We declare our fifth goal to be to achieve development primarily through the use of Papua New Guinean forms of social, political and economic organization.

WE ACCORDINGLY CALL FOR -

- 1) a fundamental re-orientation of our attitudes and the institutions of government, commerce, education and religion towards Papua New Guinean forms of participation, consultation, and consensus, and a continuous renewal of the responsiveness of these institutions to the needs and attitudes of the People; and*
- 2) particular emphasis in our economic development to be placed on small-scale artisan, service and business activity; and*
- 3) recognition that the cultural, commercial and ethnic diversity of our people is a positive strength, and for the fostering of a respect for, and appreciation of, traditional ways of life and culture, including language, in all their richness and variety, as well as for a willingness to apply these ways dynamically and creatively for the tasks of development; and*
- 4) traditional villages and communities to remain as viable units of Papua New Guinea society, and for active steps to be taken to improve their cultural, social, economic and ethical quality.*

CONSTITUTION OF PAPUA NEW GUINEA

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EXECUTIVE SUMMARY AND RECOMMENDATIONS

EXECUTIVE SUMMARY

Exotic wood products sold in American stores may be driving the theft of indigenous people's land and deforestation in the South Pacific nation of Papua New Guinea (PNG). They may also violate U.S. law. This report reveals how companies along wood product supply chains leading through China are failing to screen out illegal timber, the risks this creates for U.S. companies, and the devastating impacts the trade is having on people in PNG.

Between 2014 and 2016, Global Witness traced a supply chain spanning some 14,000 kilometers from forests to retail shelves. The journey begins in PNG, home to the largest remaining tropical rainforest in the Asia-Pacific region, where people across the country are being illegally stripped of their land by their own government. Indigenous communities are seeing their livelihoods and environment destroyed as ancient rainforests are cut down by foreign-owned logging companies.

Most rainforest logs exported from PNG are shipped to manufacturing hubs in China, with much smaller amounts going to other countries including India, Japan, South Korea, and Vietnam. Finished commercial products made in China are sold domestically or exported around the world. The U.S. is the biggest buyer of wood products from China, among them flooring made out of wood from PNG. Our investigation found that certain American and Chinese companies were selling this flooring without taking the necessary steps to ensure it was legal, despite a U.S. ban on the trade in illegal timber under the Lacey Act.

A NATIONAL SCANDAL

PNG is a nation of landowners. Under its Constitution, people are guaranteed legal ownership over the land they have traditionally lived on and used, and the forests that grow on it. But by 2011, more than 12% of this land had been handed out by the government as large agricultural concessions known as Special Agriculture and Business Leases (SABLS). Under these leases, Malaysian-controlled companies began logging and clearing vast areas of rainforest and exporting the valuable timber.

A government inquiry concluded in 2013 found that most of the SABLS reviewed had violated laws meant to protect people's land rights, but the government failed to act on its recommendations. The leases have been associated with a range of human rights and environmental abuses. Police on the payroll of logging companies have harassed, arrested and beaten landowners who try to speak out.

In August 2016, the Supreme Court struck down an SABL that had accounted for roughly 10% of all logs exported under the leases. The Court found the SABL had been issued without the consent of indigenous landowners, in violation of PNG law, and declared all operations under it illegal. Yet in the months following the decision, at least six more ships carrying millions of dollars of illegal timber cut under the lease set sail for China.

The PNG government has since made a series of public statements, reported by major national and international media outlets, declaring SABLS illegal and announcing their cancellation. While this raises serious questions about the legal status of the leases, at the time of writing the government did not appear to have taken any subsequent actions to cancel leases or halt operations. Logs continue to be cut and exported under SABLS.

We asked companies operating under SABLS to comment. Rimbunan Hijau (PNG) Ltd., Bewani Oil Palm Plantations Ltd. and KK Connections

Below Drone footage of rainforests in West Sepik Province on the frontier of clearance for oil palm, April 2016. PNG is home to the world's third largest tropical rainforest, but this forest is under severe threat from large-scale logging and agriculture.



Ltd. challenged the validity and applicability of the PNG government's statements and maintained that all their operations are legal. Details of their responses are included in this report. The PNG government did not respond to a request for comment.

Taken together, the evidence regarding SABLs shows how the PNG government is failing to follow and enforce its own laws, to the detriment of its people and benefit of foreign logging interests.

MURKY SUPPLY CHAINS

To date, timber worth well over US\$1 billion on overseas markets has been cut and exported under SABLs in PNG. The bulk of this has gone to China, the world's largest timber importer. Roughly one out of every ten tropical logs entering the Chinese market in recent years came from an SABL. Unlike the U.S. and Europe, China does not have a law banning the import of illegal timber, making it a conduit for wood from high risk countries like PNG.

Researchers commissioned by Global Witness traced the path of one of PNG's most commercially valuable species, *taun*, from its arrival in China at huge timber ports on the Yangtze River, to the sawmills and manufacturers of Nanxun, the country's largest solid wood flooring hub. Most *taun* flooring is sold domestically, but significant quantities are exported to the U.S.

Nearly all *taun* logs come from two countries where illegal logging is a serious risk – PNG and Solomon Islands. Yet we found that companies along the *taun* flooring supply chain are not taking the necessary steps to verify the legality of their wood. Timber from SABLs has flooded the market in recent years, by our estimate accounting for roughly 15-20% of the *taun* on Chinese markets. Logs from SABLs were commonly observed at flooring manufacturing facilities in Nanxun.

Major Chinese importers and buyers of logs from PNG are often intimately familiar with where the wood comes from. Most bought logs from SABLs. Two of the largest importers even invested directly in SABL logging operations. But once logs are bought and processed by manufacturers, information about their origins becomes scarce. With few exceptions, flooring manufacturers using *taun* – including those exporting to the U.S. – indicated they do not typically keep track of the country where the wood came from, let alone verify that it came from a legal source. None appeared to take steps to avoid wood from SABLs.

A RISKY TRADE

The failure by *taun* flooring manufacturers in China to carry out due diligence on their supply chains means their U.S. customers often have little or no information about the circumstances under which the wood was logged. This creates serious legal risks under the U.S. Lacey Act, which bans the trade in illegal wood and requires importers to disclose the country of origin of wood used in products like flooring.

Several Chinese exporters said major U.S. buyers had increased scrutiny of and even dropped *taun* flooring at least in part out of concern over its legality after a large flooring importer, Lumber Liquidators, was found criminally liable for violations of the Lacey Act. But they believed smaller U.S. importers could fly below the radar of U.S. enforcement.

We found *taun* flooring being sold by a number of U.S. companies ranging from small flooring importers and distributors to giant retailers including The Home Depot, Inc. – the largest home improvement retailer in the U.S. – and a U.S. subsidiary of Nature Home, which claims to be China's largest flooring brand. We wrote to 10 companies selling *taun* flooring alerting them to the potential legal and ethical

Below Outrigger canoe on the shores of New Hanover island, New Ireland Province. For most people in PNG, land, forests and waterways are central to traditional cultures and livelihoods.



risks of sourcing from PNG and Solomon Islands, and in particular from SABLs, and inquiring about their due diligence policies and practices. Company responses are detailed in this report.

The Home Depot and its supplier Home Legend, LLC said their procedures are in compliance with the Lacey Act. After being presented with the findings of Global Witness's investigations, Home Legend discontinued sales of taun flooring and committed to reviewing its sourcing practices. The Home Depot said it had discontinued the flooring in 2016 and had been selling out its remaining inventory in 2017, but that the product was no longer available. In tandem with our investigation, The Home Depot asked to collaborate with Global Witness and other civil society groups to expand its wood purchasing policy to reflect advancements in tracking complex wood supply chains in China and Southeast Asia. The company stated that it seeks to improve processes that identify any wood that may have a risk of coming from illegal or unsustainable sources, and to revise its due diligence policies and practices where necessary to mitigate these risks. It agreed to make any revisions to its wood sourcing process public.

Home Legend said it would stop purchasing flooring made with wood from PNG and Solomon Islands due to the risks associated with sourcing from these countries. The company committed to strengthening its due diligence procedures, including third-party advice on possible improvements to its Lacey Act compliance program and additional third-party audits of its suppliers, and to publishing its revised policy.

Nature Flooring Industries, Inc., a U.S. subsidiary of Nature Home, said it would pause all new procurement of flooring using wood from PNG and Solomon Islands for sales in the U.S. while it reviewed its sourcing policies and procedures. The company did not respond to questions about whether it would continue selling existing *taun*

flooring stocks in the U.S. or whether its parent company Nature Home would halt *taun* procurement for flooring production in China, which accounts for the majority of the company's use of *taun*. The company said it was considering implementing a number of programs aimed at supporting and improving the livelihoods of indigenous peoples in PNG.

Two companies, Floor and Décor and Elegance Exotic Wood Flooring, said their flooring was made from Indonesian *taun*. The remainder of the companies did not respond to our inquiries. Two of these, Hawa Bamboo Flooring Trading Corp. and Ark Floors International, sourced *taun* flooring from Chinese suppliers that told Global Witness researchers they use *taun* from PNG and Solomon Islands but typically could not track the origin or verify the legality of the wood. Country Wood Flooring stopped listing *taun* flooring for sale on its website following our inquiries, while Brianmel Corp. and Menards Inc. continue to list it on their websites.

Our findings show how companies along China's *taun* flooring supply chains are not taking adequate steps to verify the legality of their wood despite the significant risks of illegal logging and associated land rights violations and deforestation in PNG. Other timber species from PNG, which is the source of roughly one out of every three rainforest logs imported by China, are commonly used to make products like furniture and plywood that are exported to the U.S., Europe, Japan, and other major markets. The risks in the flooring sector exposed by our investigation highlight why importers need to be particularly vigilant in confirming the origins and legality of wood used in complex supply chains like those in China.

Below PNG's indigenous communities own their customary land according to the country's constitution, but in the absence of support from their own government or the international community this hasn't protected them from exploitation by multi-national logging and agribusiness interests.



KEY FINDINGS

- Since 2009, more than 6.3 million m³ of rainforest logs worth over US\$1 billion have been exported from PNG under land leases called Special Agriculture and Business Leases (SABLS). PNG's Prime Minister and Lands Minister have recently stated that all SABLS are illegal and have been cancelled. While this raises serious questions about the legal status of leases, the government does not appear to have followed through on these statements and logs continue to be cut and exported under SABLS. About 85-90% of the logs cut under SABLS have gone to China, with the remainder going to other Asian countries including India, Japan, South Korea, and Vietnam.
- In August 2016, a landmark Supreme Court decision found a major log-exporting SABL to be illegal because it violated the customary land rights of indigenous landowners. At least six shipments of logs cut under this SABL were exported to China after the decision, highlighting the failure of the PNG government to enforce its own laws. In total, more than 660,000 cubic meters of logs worth US\$65 million have been exported from this illegal operation since 2010, with 95% going to China.
- Global Witness investigations into six SABLS between 2014 and 2016 found that many landowners say they did not consent to their land being included in the lease area. This is consistent with the 2013 conclusions of an official government inquiry that found systemic violations of laws intended to protect land rights and recommended revoking most of the SABLS it reviewed.
- SABLS involve the clearance of tropical rainforest – much of it intact – that is of critical importance to the livelihoods and cultures of indigenous communities and to global efforts to preserve biodiversity. Villagers interviewed by Global Witness said the loss of land and forests due to SABL operations is having serious negative impacts, including reduced access to food and clean water.
- Roughly one in ten tropical logs imported by China in recent years came from SABLS. Most of the largest Chinese importers of logs from PNG bought logs cut under SABLS. The two largest buyers, Ningbo ND Import Co. Ltd. and Export and Ningbo Yongli Lumber Co. Ltd. bought at least 20% of all logs cut under SABLS and invested directly in logging operations.
- PNG's most commonly exported species, *taun*, is mainly used by the Chinese flooring industry. The majority of *taun* flooring is sold domestically in China, but significant quantities are exported to the U.S. An estimated 20% of the *taun* on Chinese markets came from SABLS. Logs from SABLS were commonly observed at facilities in the flooring manufacturing hub of Nanxun in Zhejiang Province.
- Interviews with flooring manufacturers along the supply chain indicated serious deficiencies in due diligence on *taun* despite the high risk of illegal logging in PNG. Some manufacturers exporting *taun* flooring to the U.S. said they typically could not confirm the origin or verify the legality of the wood. Other manufacturers said it was possible to provide documentation confirming the origin and legality of their *taun*, such as certificates of origin, logging permits, and bills of lading. However, these documents may not be sufficient to verify legality in high-risk countries like PNG, where the government may issue permits such as SABLS in violation of its own laws.
- The perception among flooring exporters in Nanxun was that while larger U.S. companies had increased scrutiny of their supply chains after flooring importer Lumber Liquidators was found criminally liable for violations of the Lacey Act, smaller U.S. importers did not need to worry about the Lacey Act and could fly below the radar of U.S. enforcement.
- Global Witness wrote to ten companies selling *taun* flooring in the U.S. presenting the findings of our investigations and asking where

Below Drone footage of intact rainforests being cleared for oil palm in the Pomio District of East New Britain Province, October 2016.



their *taun* flooring came from and what steps they took to ensure it was sourced legally and ethically.

- > Three major flooring sellers – The Home Depot, its supplier Home Legend, and Nature Flooring Industries, Inc., a U.S. subsidiary of Nature Home – confirmed they had been selling flooring made from PNG *taun* but said that they took steps to confirm it was legal. Home Legend and Nature Flooring Industries made commitments to halt procurement and/or sales of *taun* flooring and review their sourcing policies and practices.
- > Floor and Décor and Elegance Exotic Wood Flooring stated that the *taun* used in their flooring came from Indonesia.
- > Two U.S. sellers of *taun* flooring that did not respond, Hawa Bamboo Flooring Trading Corp. and Ark Floors International, bought *taun* flooring from Chinese suppliers that told researchers they typically could not track the origin or verify the legality of their *taun*.
- > Country Wood Flooring did not respond but appeared to remove *taun* flooring from its website following our inquiries.
- > Menards Inc and Brianmel Corp. did not respond and continue to list *taun* flooring for sale on their websites.

RECOMMENDATIONS

U.S.

- U.S. wood flooring importers and sellers must carry out due diligence to ensure the timber they use is legal and does not involve unsustainable logging operations, clear-cutting of natural forest, land rights violations against indigenous communities, or intimidation or violence against community members or activists. Due diligence policies and procedures should be made public.
- The U.S. government should increase its scrutiny of wood products involving complex manufacturing supply chains, such as those in China, to ensure compliance with the requirements of the Lacey Act.

CHINA

- The Chinese government should put in place mandatory measures requiring all timber importers to carry out due diligence to ensure

the wood they import is produced in compliance with all applicable laws in source countries, including those related to land rights and the permitting, harvesting, transport, processing and export of timber. The due diligence obligation should require an assessment of the risk that applicable source country laws are not being followed and appropriate steps to mitigate any risks, and be accompanied by dissuasive penalties for failing to carry out effective due diligence.

- Chinese companies along wood product supply chains must carry out due diligence to ensure the timber they use is legal and does not involve unsustainable logging operations, clear-cutting of natural forest, land rights violations against indigenous communities, or intimidation or violence against community members or activists. Due diligence policies and procedures should be made public.

PNG

- The PNG government must immediately follow through on its announcement that SABLs have been canceled by ensuring that all logging and exports under these leases are halted and that the control of the land reverts to customary landowners.
- The government must review the effectiveness of the country's policy and legal framework in safeguarding customary land rights, and support landowners in pursuing sustainable development pathways that protect their rights, livelihoods, cultures and environment.
- The government must issue an immediate moratorium on the issuance of land titles, leases, or other permits, and any ongoing forest clearance operations, related to large-scale agricultural projects, until it has completed the above review and can ensure the free, prior and informed consent of all landowners before the commencement of any such activities on customary land.
- The government must ensure that customary landowners are compensated for any loss or damages from illegal SABL operations on their land.
- Government officials, companies, and other parties found to have violated PNG laws in the issuance of SABLs must be held to account and prosecuted accordingly.

ACRONYM LIST

COI:	Commission of Inquiry into Special Agriculture and Business Leases
FCA:	Forest Clearance Authority
GFTN:	Global Forest and Trade Network
ILG:	Incorporated Land Group
NEC:	National Executive Council
PNG:	Papua New Guinea
PNGFA:	Papua New Guinea Forestry Authority
SABL:	Special Agriculture and Business Lease

INTRODUCTION

Americans in the market for home improvements are spoiled for choice. Under the fluorescent lights of giant retail stores, along aisles hung with signs reading “Sale Now” and “Low Prices,” can be found a dizzying array of wood products – deck furniture, doors, moulding, lumber. Among these, one is likely to encounter pallets laden with exotic hardwood flooring, advertising its durability, texture, dimensions, warranty length, and cost per square foot. But the discerning shopper may notice something missing.

Often there is little information about where the wood came from and how it was cut. Even the type of wood can be difficult to figure out. It may be a familiar one, like red oak, or something more exotic like Pacific mahogany – which isn’t mahogany at all but a trade name used for a species called *Pometia pinnata*, also known as *taun*.

Much of the world’s *taun* grows in Papua New Guinea (PNG), a South Pacific nation home to the third largest tropical rainforest on the planet. *Taun* is the country’s most heavily harvested timber species. But as this report shows, much of the wood from PNG comes from illegal logging operations that are violating the land rights of indigenous communities and destroying ancient rainforests that belong to them.

Over the course of two years, Global Witness documented the 14,000-kilometer journey of *taun* from PNG’s rainforests through China’s vast manufacturing sector to the shelves of U.S. flooring sellers. The investigation exposes the links between the devastating impacts of illegal logging in PNG and the seemingly mundane purchasing decisions of American consumers.

Products like hardwood flooring are part of the enormous global timber trade, a US\$300 billion industry¹ that connects the forests of producer countries, such as PNG, to homes and buildings in major consumer markets like the United States, Europe, Japan and China. A significant portion of that timber is cut illegally: it is estimated that forestry crimes, including illegal logging, cost the world US\$51-152 billion per year.² An enormous tonnage of timber, both legal and illegal, flows through China.

Taun (Pometia pinnata)

More than a dozen high-value commercial timber species grow in PNG.³ Of these, *taun* is the most commonly logged and makes up, on average, nearly 20% of timber exports by volume. In 2016, about 620,000 m³ *taun* logs were exported, and roughly 90% of PNG’s log exports went to China.⁴

Taun can thrive in a range of environmental conditions and has a range extending from the South Pacific to Sri Lanka.⁵ As a result of Indonesia’s ban on log exports and the well-developed domestic wood processing industry in Malaysia, nearly all *taun* logs on international markets come from PNG and neighboring Solomon Islands.⁶ Most end up in China’s manufacturing supply chains where *taun* is popular in the solid wood flooring industry. *Taun* flooring is marketed in the U.S. as an inexpensive exotic hardwood, and is often sold under trade names like Samoan mahogany, Malaccan cherry, or Pacific mahogany.

China’s growing economy has made it the world’s largest buyer and consumer of timber. It is also the largest manufacturer of wood products globally⁷ – and the U.S. is its biggest customer. In 2015 alone, the U.S. imported some US\$15 billion worth of Chinese-manufactured wood products, including millions of square feet of wood flooring.⁸

The U.S. Lacey Act bans the import of products made with illegal wood, but China has yet to pass such legislation. China’s vast appetite for raw materials and lack of regulation of the timber trade means that it imports more illegal timber than any other country.⁹ Our research shows that Chinese companies along the flooring supply chain are not taking meaningful steps to ensure the wood they use is legal, leaving their U.S. customers vulnerable to violating the law.

Yet despite the risks, we found that *taun* flooring is widely sold in America by companies ranging from small importers and distributors across the country to major retailers. Our findings highlight how, by failing to thoroughly examine their supply chains, U.S. companies selling exotic wood flooring – and likely other wood products made in China – risk violating the Lacey Act and driving illegal logging that is causing the destruction of rainforests belonging to indigenous communities in PNG.

CHAPTER 1: CUT IN PNG

FOREST HOME

People have lived on the island of New Guinea for close to fifty thousand years.¹⁰ The western half of the island is part of Indonesia; the eastern half, and its satellite islands, form PNG, a country larger than California with a population of over 7 million.¹¹

PNG's Pomio District lies on the southern edge of the island of New Britain, facing the Solomon Sea, in the province of East New Britain. Small villages dot the coastline among stands of coconut palms and, until recently, old-growth rainforests of exceptional biodiversity extending from the coastline to the steep upper reaches of the Nakanai mountain range.¹² Some of the world's largest underground rivers run through Pomio's unique karst landscape, which the PNG government included in a submission to the UNESCO World Heritage Tentative Lists.¹³



Pomio is home to Paul Pavol (above), a local villager turned activist, who last year was presented the Alexander Soros Foundation Award for Environmental and Human Rights Activism for his struggle to protect his community's forests against a giant multinational logging company.¹⁴

Pavol, 44, and his Mengen people have farmed, hunted and fished in Pomio for generations. Their lives are intimately connected with the environment around them. "Forest is our wholesale, forest is our timber yard, forest is our freezer, forest is our supplier. It was all free for us," said Pavol.

Things changed for the worse for Pavol's community in 2010. "A big barge brought in the [logging] machines," said Pavol. "There were policemen on the barge... We were the first people to go up there and tell them, 'No, stop this!' When I see ships taking my logs away, I honestly cry."

Rimbunan Hijau, the world's biggest tropical logging company, had moved in. Under a lease issued by the government that many villagers allege violates their customary land rights, the company began to cut down the surrounding forest. Since 2011 it has clear-felled an area more than three times the size of Manhattan, exporting US\$120 million of timber and planting rows of oil palms where the ancient forest once stood (see Clearing Pomio's Forests, page 14).

Villager's lives have been turned upside down and their environment ravaged. People have lost crop land and access to the forest, the wildlife it supported, and other vital resources on which their livelihoods depend. "Our land provided us food and water, protein, building materials, medicines, beauty, warmth, and everything else," said Pavol.¹⁵

His community and others in the area mobilized. Letters they sent to the government and company expressing their concerns were waved aside. They set up peaceful blockades in a bid to prevent their forests from being logged, only to be harassed and physically assaulted by police on the payroll of the company.¹⁶

Pavol and others were later slapped with restraining orders, based on accusations they say are false, limiting their ability to move freely around the area they grew up in. Undeterred, they have challenged the lease over their land in court, claiming it was fraudulently issued (for more details and the company responses, see Case Study, page 30).¹⁷

What people in Pomio were experiencing was not an isolated development. It was taking place across PNG, due to the widespread abuse of a land-leasing scheme known as Special Agriculture and Business Leases (SABLs) that removed land from the control of indigenous communities and handed it over to foreign-backed logging companies for many generations.

LAND IS LIFE

Between 2014 and 2016, Global Witness visited communities in four provinces across PNG and documented the circumstances under which their land was taken, and the impacts its loss and the clear-felling of their forests are having on their lives.

Papua New Guinea has a rich cultural heritage. Over the millennia, its people have developed hundreds of distinct cultures, driven in part by the wildly rugged and varied topography, ranging from snow-capped Mount Wilhelm to the atolls of the Trobriand Islands. Although over 800 distinct languages are spoken in PNG – more than 10% of all languages in existence today¹⁸ – the communities we spoke with about SABLs told a similar story.

"When the company comes, we see everything is spoiled," said Thomas, a schoolteacher from West Sepik Province, the most north-western province of the country where community-owned forests are rapidly being converted to oil palm plantations under an SABL covering 1400 km² (see Case Study page 32).¹⁹ "No wildlife there."²⁰ Another villager in West Sepik, Morris, said: "I cannot hunt, I cannot fish, I cannot get medicine to help my family."²¹

The future looks bleak for many. "We talk about poverty – what's poverty?" Pomio villager Anna said. "In my opinion, we don't experience poverty here... There is justice, there is quality, here in the village. But today with the land gone, I think we're going to see real poverty."²²

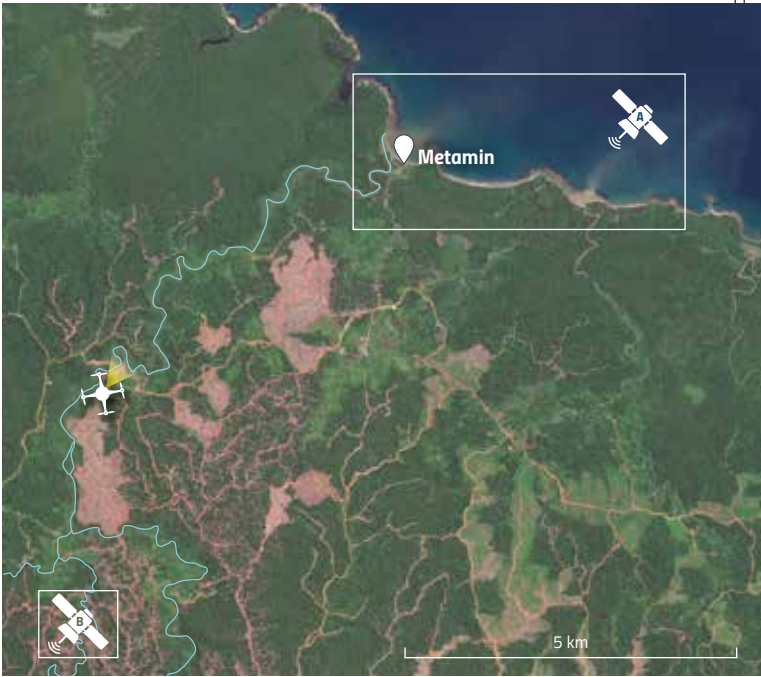
Land for cultivating food is critical for the livelihoods of rural communities in PNG, while healthy tropical forests play a critical role in regulating freshwater flows, modulating local and regional climate, and providing essential habitat.²³ When forests are cleared, they are utterly destroyed, leaving no remnant of a functioning ecosystem. The plants, wildlife and clean water that communities depend on are wiped out as well – with devastating effects on people's livelihoods.

On the island of New Hanover, in New Ireland Province, Johannes explained how logging upstream from his village of Metamin had polluted the Min River – their only reliable source of fresh water (see Case Study, page 34).²⁴ Villagers say logging is causing the river to fill with sediment, killing the fish they used to catch and the coral reefs at the river's mouth. Global Witness observed logs and soil from unpaved logging roads washing into the Min. High-resolution satellite images show rivers running brown with sediment and large plumes of muddy water extending far out to sea (see Destroying the Min River, page 11). Upstream, intensive logging and forest clearance is occurring along the banks of the Min and its tributaries, making run off into the rivers during heavy rain inevitable.

DESTROYING THE MIN RIVER

Logging and forest clearance are polluting an important source of clean water and food for indigenous communities of New Hanover island

Right High-resolution satellite image showing logging and forest clearance along the Min River and major tributaries (blue lines). White boxes show areas of enlargement. **Middle** Satellite image showing muddy runoff polluting the rivers and bay where communities like Metamin fish. **Bottom** Satellite images showing intact rainforest along a tributary of the Min River (blue line) before and after intensive logging. **Below** Drone image shows the main logging camp along the river. Satellite images: DigitalGlobe ©2017



In Pomio, Pavol claims that logging operations have also destroyed community cemeteries and old village sites, which are an important part of the people's cultural landscape and their way of life, accusations Rimbunan Hijau denies.²⁵ Other problems have appeared as the social fabric in some communities has begun to fray. Pavol said he has witnessed an increase in alcohol and marijuana consumption that has accompanied the arrival of logging.

Conflicts have also increased in Pomio, a region previously considered peaceful by villagers and visitors familiar with the local culture. "In the past, before the SABL came...the relationship between all the communities, from the mountains to the coast, was good," Catherine, from the village of Lau, told us. "When the SABL started, it caused problems. Those relationships broke down and we were unable to move freely as we could before."²⁶

ILLEGAL HARVESTS

PNG's rainforests are rapidly vanishing. By 2014, nearly a third of PNG's commercially viable forests had been logged. On the island of New Britain, where Pomio District is located, the number is double that.²⁷

The bulk of logging operations in PNG violate the law in some way. A study in 2012 concluded that 70% of the country's total timber production was likely to be illegal.²⁸ The industry has long been under scrutiny for illegal operations and unsustainably high rates of logging. In 1987, the Barnett Inquiry, a government-commissioned examination of corruption in the sector, described logging companies as "roaming the country with the assurance of robber barons."²⁹

Legal and regulatory reforms followed that inquiry, but it appears little has changed. Subsequent reviews carried out with World Bank support more than a decade later still found the majority of logging operations surveyed were breaking the law. They highlighted the widespread failure to secure the approval of customary landowners, and found examples of violence and intimidation against villagers committed by police on logging company payrolls.³⁰

Most logging operations in PNG are controlled by companies or individuals from the Malaysian states of Sarawak and Sabah, on the island of Borneo, where the logging industry is riddled with corruption and illegality.³¹

FEW RETURNS

PNG is a resource-rich nation. Along with its forests, it is flush with minerals, oil and gas deposits, and abundant fisheries. But poor national governance, including rampant corruption, has ensured that the extraction of these resources has not translated into economic development, at least for the average person. PNG was ranked 154th in the 2016 United Nations Development Programme Human Development Index report, placing it in the "low human development" category and ranking lower than any other assessed state in the Asia-Pacific region with the exception of neighboring Solomon Islands.³²

The World Bank's Worldwide Governance Indicators place PNG in the bottom quarter of nations on "rule of law" and "control of corruption" indicators, and its rankings have slid in recent years.³³ It was ranked in the bottom third of the 2016 Corruption Perceptions Index compiled by Transparency International, ranking above only North Korea and Cambodia in the East Asia / Pacific region.³⁴

With an estimated 40% of the population still living on less than a dollar per day, land and a healthy environment are critically important for most people in PNG.³⁵ The country's indigenous communities have been caretakers of these assets for generations, and should be supported in managing them sustainably and for the benefit of future generations. The PNG government's decision to instead surrender vast areas of land and forests to industrial-scale logging and agribusiness is just one example of how it has impoverished its own people to benefit foreign corporations.

USURPING LAND RIGHTS

Under PNG's Constitution, its citizens are granted legal ownership of the lands they have traditionally lived on and used.³⁶ These customary land rights are vital to the well-being of the country's rural communities, which include some 85% of the population.³⁷

But in recent years the PNG government has systematically disregarded these rights and turned over huge swaths of land and forests to foreign-owned logging and agribusiness companies. The abuse of a single type of land lease – Special Agriculture and Business Leases, or SABLs – has resulted in about 12% of PNG's total land area being removed from control of the customary landowners.

Special Agriculture and Business Leases: A brief history

The issuance of Special Agriculture and Business Leases (SABLs) covering 12% of PNG's land area sparked years of public controversy including vocal objections from affected communities and local and international civil society groups, legal challenges, an official inquiry, and a series of public commitments by the PNG government. Below is a timeline of some key events. While the Prime Minister and Land Minister have recently stated that SABLs are illegal and have been cancelled, at the time of writing the government had not issued any subsequent directives to cancel leases or halt operations under them. Logs continue to be cut and exported under SABLs. When we asked companies operating under SABLs to comment, Rimbunan Hijau, Bewani Oil Palm Plantations Ltd. and KK Connections Ltd. challenged the validity and applicability of the PNG government's statements reported by the media and maintained that all their operations are legal. See Appendix D for additional details of company responses.

- 1996: Land Act amendments introduce SABL mechanism. It goes largely ignored for years.
- 2003 – 2011: The Government quietly hands out SABLs covering 55,000 km² of land to mostly foreign-controlled companies.
- March 2011: Following a complaint by civil society groups, the UN Committee on the Elimination of Racial Discrimination sends a public letter to PNG's Ambassador to the UN, stating its concern that SABLs had been granted "without...the consent of indigenous landowners."³⁸
- March 2011: A group of academics and civil society groups sign the Cairns Declaration calling for a moratorium on SABLs and an independent review of their legality and constitutionality.³⁹
- July 2011: The Government declares a moratorium on new SABLs and launches an official Commission of Inquiry (COI) into 77 of the leases.⁴⁰
- August 2012: Greenpeace publishes major exposé of SABLs.⁴¹
- June 2013: The COI publishes report assessing 42 SABLs, documenting numerous legal violations and recommending that nearly all leases be revoked or suspended, but fails to publish findings for the remaining SABLs.
- June 2014: The National Executive Council (NEC) and Prime Minister Peter O'Neill announce decision to revoke SABLs where recommended by the COI, repeal the SABL mechanism, and review the legality of SABLs the COI failed to publish recommendations for.
- July 2014: An SABL in the Turubu area of East Sepik Province is ruled to be illegal by the National Court. The decision is appealed to the Supreme Court a week later and a stay on the lower court decision allows logging to continue (see Case Study, page 36, and Box, page 16).
- July 2014: Department of Lands and Physical Planning publishes a list of 29 SABLs to be revoked based on the COI's recommendations. The list omits all but one of the SABLs where logging was occurring, even where the COI recommended they be revoked.
- August 2015: Leaseholders of the Turubu SABL win Judicial Review case challenging the COI report and resulting NEC cancellations. The Court does not question the COI's findings but quashes the report on procedural grounds.
- August 2016: Supreme Court upholds 2014 National Court ruling that the Turubu SABL is illegal.
- November 2016: PM O'Neill tells Parliament and the news media that the SABLs are being cancelled.⁴²
- March 2017: PM O'Neill states in a press conference that "...we have cancelled all the licenses. All the SABL licenses are illegal in this country."⁴³
- April 2017: Lands Minister Benny Allan states that SABLs are illegal and calls on leaseholders to surrender land titles.⁴⁴

Most SABLs last for 99 years, effectively permanently stripping local communities of their land. "It's three generations," said Pavol. "By that time we will lose everything."

Unlike forestry permits used to authorize selective logging, SABLs were intended for agricultural projects. Leaseholders can apply for permits allowing them to clear-cut entire areas of forest and export the timber. In practice, this offers a way to sidestep logging regulations intended to reduce environmental damage and improve sustainability, providing easier access to the country's diverse and valuable commercial timber species.

EXPROPRIATING POMIO'S FORESTS

Three SABLs covering Pomio community land were signed in 2008. Gilford Ltd., a subsidiary of Rimbunan Hijau – whose business interests in PNG include one of the two national newspapers, *The National*, and Melanesia's largest shopping mall – obtained clearance permits for the demarcated areas two years later. Rimbunan Hijau is the largest logging company in PNG, accounting for a quarter of PNG's log exports

in 2016 valued at nearly US\$80 million. In Pomio, its biggest operation in recent years, it has cut enough trees to fill 500 Olympic-sized swimming pools.⁴⁵

PNG law has numerous provisions requiring the government to ensure that people signing away land are actually the ones who own it. But in the case of the Pomio SABLs, and others visited by Global Witness, villagers told us the law wasn't followed. Many landowners discovered that their land had been handed over to foreign loggers without their knowledge or consent.

"On the document there are names of people who are dead," said Pavol, describing some of the paperwork required for the leases in Pomio. Some communities allege that key documents, purporting to bear the signatures of landowners consenting to the SABLs, were fraudulently signed with the names of young children and even the deceased.

Both the landowner companies and Rimbunan Hijau have denied that fraud and forgery were involved in the issuing of the leases, and claim the majority of the local people back the project. Rimbunan Hijau has repeatedly denied breaking any PNG laws.

CLEARING POMIO'S FORESTS

Malaysian logger Rimbunan Hijau has cleared more than 200 km² of tropical rainforest on customary land and exported US\$120 million worth of timber.

This map has been removed in the low-resolution version of the report and is available as a separate file at <https://www.globalwitness.org/PNGmaps>



This page: Satellite imagery shows that from 2011 to February 2017, approximately 219 km² of mostly intact rainforest was cleared under three SABLs (green boundaries) in the Pomio District of Papua New Guinea's East New Britain Province. The deforested area is shown in red. The locations of villages named in this report are indicated. See Appendix E for methodology.

Opposite page: High-resolution satellite imagery of the area indicated by the white box on the map above shows intact forest (top image) cleared for planting oil palm (lower image). An image taken by drone from the location and direction indicated on the lower image is shown above.

Background image: Google, Landsat / Copernicus. **Drone image:** ©Alessio Bariviera

Satellite, October 2013



Satellite images: DigitalGlobe ©2017



Satellite, January 2017



Turubu's Landmark Ruling

One of the leases found by the COI to have failed to gain the approval of local communities was an SABL covering 1,164 km² in East Sepik Province, covering extensive savannah forest north of the Sepik River. Here a local lawyer, whose land was included in the lease area, represented other villagers in challenging the lease in court.

The leaseholder was Sepik Oil Palm Plantation Ltd., majority-controlled by Malaysian nationals with close ties to the logging industry. The landowners filed their case in 2011 alleging that they had never agreed to the lease and citing violations of their constitutional rights to the land, as well as numerous laws including the Land Act, the Environment Act, the Forest Act, and the Land Groups Incorporation Act.⁴⁶

Three years later the National Court ruled in their favor, finding that landowners' rights under the Constitution and Lands Act had been violated and declaring the SABL null and void and any activities under it, including logging and oil palm development, illegal.⁴⁷ But victory proved short-lived. In less than a week, Sepik Oil Palm Plantation Ltd. appealed the decision to the Supreme Court and was granted a stay order allowing logging to continue.⁴⁸

In August 2016, after more than two years of delays orchestrated by the SABL holders, the Supreme Court upheld the previous ruling, writing in its decision:

"The terms of the Lease and of the consent/undertaking allegedly given on behalf of the landowners are so oppressive that it calls into question whether the customary owners could have understood the arrangement they were being asked to agree to, if indeed they were asked."⁴⁹

By the time of the Supreme Court decision, timber with an export value of US\$65 million had been illegally cut and exported under the lease, mostly to China. More was to follow.

To date, four other SABLs have been successfully challenged and struck down by the courts based mainly on failures to obtain informed consent from landowners – though no logging had yet taken place under these SABLs.⁵⁰

SUPPRESSING OPPOSITION

Despite orders issued by consecutive police commissioners banning the practice, logging companies routinely hire police as de facto private security forces.⁵¹ Local people speak of intimidation, beatings and arrests. In interviews recorded between 2014 and 2016, communities in five SABLs across the country attested to the role police played in suppressing their ability to stand up for their legal rights to their land and forests.⁵²

A former police commander who worked in logging camps for many years, including in the Turubu SABL in East Sepik Province (see Case Study, page 36), speaking on condition of anonymity, told Global Witness that police were there "to protect the interest of the company" from objecting landowners and were well compensated by logging companies. "Every payday they pay us. If you want something extra, all we have to do is ask and we get it. If we need some money to go and drink, all we need to do is ask..." he said.⁵³

On New Hanover, landowners in the SABL area told the COI that when they attempted to block operations on their land by the logging company, Tutuman Development Ltd., they were harassed by police, resulting in the shooting and subsequent hospitalization of a youth community member. The COI described this attack as carried out "on the orders of the owners of Tutuman."⁵⁴

An independent fact-finding mission conducted by government and civil society representatives found that police in Pomio, hired by Rimbunan Hijau, had grossly abused their powers and violently assaulted villagers opposing logging operations soon after they began in 2011. Villagers testified that they were beaten with tree branches and fan belts, arrested without charges, and locked in shipping containers for up to three days without food or water. The mission



Above Police on the payroll of logging companies have harassed, arrested and beaten landowners trying to stand up for their rights after their land was included in SABLs without their consent.

concluded that these were “acts of assault” that amounted to “serious indictable criminal offences.”⁵⁵ No one was ever prosecuted.

Rimbunan Hijau does not deny paying the police, but stated to Global Witness that such arrangements are not unusual for “resource companies” and that it “is prepared to help meet the costs of policing in remote operational areas, so that PNG tax-payers do not have to meet these expenses.”⁵⁶ See Appendix D for further details of the company’s response.

INTERNATIONAL CONDEMNATION

As the situation in Pomio drew international attention, pressure over SABLs quickly mounted at home and abroad (see Box, page 13, for a timeline of key events). The government was forced into action. It placed a moratorium on the issuance of SABLs that year and set up a parliamentary Commission of Inquiry (COI) into 77 SABLs, including those in Pomio.⁵⁷ The COI documented widespread instances of government officials’ failure to take critical steps to safeguard community land rights in the issuance of leases, describing “massive procedural abuses” and “greed and corruption at all levels.”⁵⁸ The COI concluded that multiple laws had been breached in the issuance of nearly all the SABLs it reviewed and recommended these be revoked or suspended.

One of the Commission’s three lead authors, tasked with reviewing the Pomio SABLs, among others, failed to submit his findings for publication – denying a voice to a number of Pomio villagers who had made the long journey to the provincial court to testify against the SABL on behalf of their people.⁵⁹ As a result, the COI’s final report did not assess the legality of some of the largest timber-exporting SABLs.

In June 2014, Prime Minister Peter O’Neill announced that the Government would act on the COI findings to revoke illegal SABLs and do away with the SABL mechanism, stating, “We are taking these steps to reclaim our customary land illegally lost to foreigners with the help of corrupt public servants and leaders.”⁶⁰

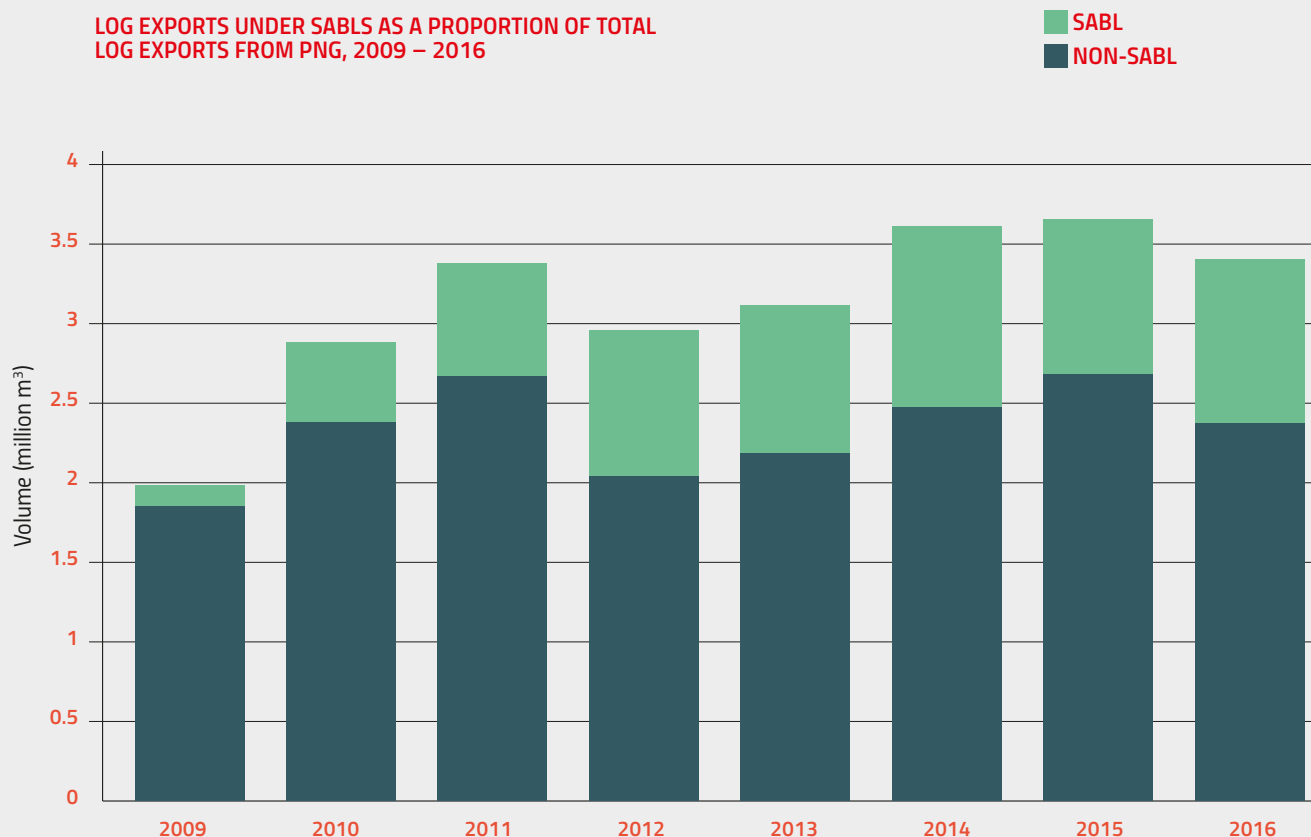
CLEAR-CUTTING CONTINUES

But the political will to act on illegal SABLs has been largely absent, and logging under SABLs has continued apace. By 2012, logs cut under SABLs accounted for about one-third of PNG’s exports of rainforest logs each year (see Figure, below). In total, about 6.3 million cubic meters worth of timber from SABLs had been exported by the end of 2016.⁶¹ The logs placed end to end would stretch from New York City to Los Angeles and back again.⁶²

Since late 2016, with five-year local and parliamentary elections scheduled for the summer of 2017, the PNG government has made a series of public statements reported in the national and international press declaring all SABLs illegal and announcing their cancellation, statements some companies disputed when asked by Global Witness to comment (see Box, page 13).⁶³ At the time of writing, the government had not responded to our requests for confirmation that leases had been cancelled, and logging under SABLs was continuing.

Tropical logs worth over a billion dollars on export markets have been cut under SABLs.⁶⁴ Approximately 85-90% were shipped to China,⁶⁵ where the wood is used to make a range of commercial products that are exported around the world.

LOG EXPORTS UNDER SABLs AS A PROPORTION OF TOTAL LOG EXPORTS FROM PNG, 2009 – 2016



Non-plantation log exports based on official export data published by SGS. See Appendix A for exports under individual SABLs and further explanation.

CHAPTER 2: MADE IN CHINA

FROM RAINFOREST TO FACTORY FLOOR

Trees felled in PNG forests are transported to the coast and then loaded onto waiting bulk carriers. Villagers can see these ships for weeks at a time as up to 30,000 tons of timber is loaded below deck or secured on board with huge stanchions.

The voyage to China can take as long as a fortnight, depending on the vessel's speed. Eventually most ships like the arrive at the mouth of the Yangtze River, outside Shanghai, one of the world's busiest ports.

Further upstream lie two of the country's largest timber ports – Zhangjiagang and, across the river, its newer sister port Jingjiang. Satellite images show cargo vessels clustered along the docks, and beside them, piles of logs stacked high along the water's edge. This is where the majority of PNG's logs, which account for one out of every three rainforest logs arriving in China, are delivered.⁶⁶ Common among them are logs from SABLs.⁶⁷

Our research focused on PNG's most commonly exported species, *taun*, but PNG exports dozens of commercial timber species (see Figure, bottom right). Others arriving in Chinese ports in large volumes include *Intsia spp.* (known as *kwila* in PNG), *Hoemalium foetidum* (known as *malas* in PNG), *Terminalia spp.*, and *Calophyllum spp.*, which are used in the flooring, plywood, and furniture industries, among others.⁶⁸

TRACKING PNG LOGS

Illegal logging would not be profitable without a customer willing to look the other way when buying the wood. Global Witness set out to trace risky wood from SABLs, nearly 90% of which has been exported to China, to determine how the wood was being used and what the companies along the supply chain knew about its origins.

Chinese customs data shows that in 2016, 15 companies accounted for roughly 85% of China's imports of logs from PNG (see Appendix B).⁶⁹ Some function as importing agents on behalf of other companies, merely expediting logs through customs. Others are both importers and distributors like the state-owned Ningbo ND Import and Export Co. Ltd., which imports almost 10% of all logs into China and routinely advertises its latest offerings on the Chinese social media app Wechat.⁷⁰ A third type of timber trader doesn't appear on import records but is based at the ports where they handle and sell imported logs.⁷¹

Between 2015 and 2016, researchers hired by Global Witness interviewed staff from port facilities and eight companies that imported or bought logs from SABLs. Detailed export data made available by the PNG government revealed additional buyers of logs from SABLs. This data shows that at least 10 of the largest Chinese importers of logs from PNG bought from SABLs (see Appendices B and C). The state-owned enterprise China Light Resources Import and Export Corp. was the largest buyer of logs from Pomio.⁷²

AN INTIMATE KNOWLEDGE

At least some Chinese importers appear to know a lot about where their timber is sourced from. "71003 concession [shipment] has

arrived, Jinlong dock, new and old customers are welcome to choose and purchase," reads one Wechat post from Ningbo Jianfa Timbers, identifying a shipment of SABL logs by the number of the concession where it was cut. Shipping manifests posted by importers on the messaging service Wechat also identify batches of logs by their concession numbers.⁷³

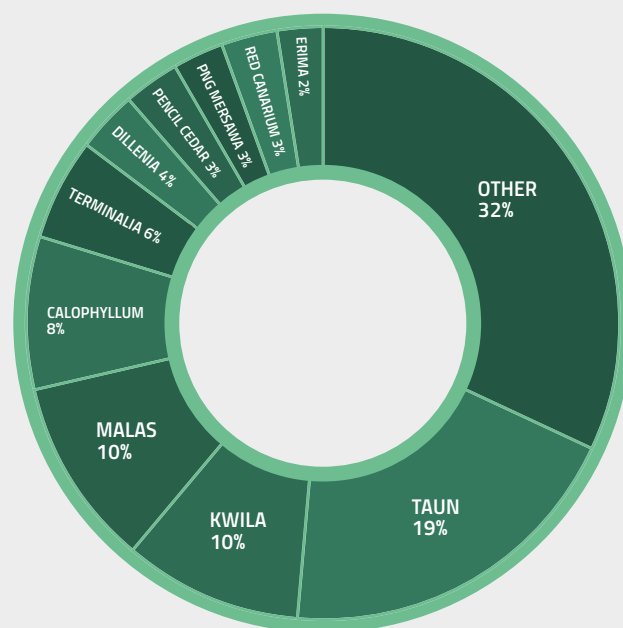
At least two major Chinese importers of logs from PNG have a direct stake in SABL operations. Ningbo ND Import and Export Co. Ltd., owns a PNG-registered company – PNG ND Resources Investment Co. Ltd. – which is a 20% shareholder of logging company Tian Suyn (PNG) Ltd.⁷⁴ Tian Suyn exports logs from an SABL in East New Britain Province.⁷⁵

Another Ningbo-based importer, Ningbo Yongli Lumber Co. Ltd., was an original shareholder of a logging company called KK Connections Ltd., which is logging under a nearby SABL in East New Britain. Ningbo ND and Ningbo Yongli have each invested millions of dollars into logging operations carried out under SABLs through these companies.⁷⁶ They appear to be the two largest buyers of logs from SABLs overall, accounting for roughly 20% of the total (see Appendix C).

While most major importers appeared to have no qualms about buying logs from SABLs, at least one importer claimed to be aware of the risks. When Global Witness asked the importers listed in this report to comment, Jiangsu Happy Group said it chose not to import timber from SABLs because of the risk it was illegal.

Each log from PNG carries with it detailed information about its origin. Concession identification numbers are found on tags stapled to the ends of each log before they are exported from PNG, courtesy of a system used to monitor timber production and exports overseen by the Swiss multi-national company SGS S.A. (see Box, page 20). Logging companies also spray-paint species codes, for example "TAU" for *taun*, directly onto logs.

10 MOST COMMONLY EXPORTED SPECIES FROM PNG IN 2016



Proportion of non-plantation logs exported in 2016 (all log grades, total volume 3,406,104 m³)



Left Some Chinese importers announce the arrival of logs from PNG using the social media platform WeChat. Here logs from an SABL in West Sepik Province (see Case Study, page 32) are advertised by importer Jianfa Timbers.

Above Most tropical logs from PNG end up at China's massive timber ports.

Top Vast log yards at the ports of Jingjiang (pictured) and Zhangjiagang receive timber from PNG and around the world.

SGS log tags: No proof of legality

SGS (PNG) Ltd. has since 1994 been contracted by the PNG government to monitor PNG's timber exports to help ensure quotas are followed and duties and export taxes are accurately assessed and paid. All logs produced cut for commercial purposes and export must be affixed with barcoded tags provided to companies by SGS.⁷⁷ Logging companies are responsible for applying tags, identifying timber species and volumes, and marking each log with this information. The tags identify the type of logging permit, province, and permit number, and assign individual numbers to each log cut under a given permit.

Before export, SGS agents verify the reported species for every log and check the volume of a 10% sample of each shipment. SGS produces regular reports summarizing export information, including export value and volume by individual logging permit.

As long as the Papua New Guinea Forest Authority (PNGFA) declares a permit is valid, it is not within SGS's remit to verify whether permits or the underlying rights to the land were granted in accordance with PNG laws. Relevant government ministries are responsible for ensuring, for example, that logging operations have the permission of customary landowners (Lands Ministry), occur within the correct permit area and follow forestry laws and regulations (PNGFA), and comply with environmental regulations (Conservation and Environment Protection Authority).

The PNGFA monitors logging operations in the field, but staffing and resourcing constraints mean that its efforts are seriously inadequate. A 2007 review found that PNGFA employed 130 field officers out of a total staff of 464 to monitor over 110,000 km² of forestry concessions. This meant each poorly equipped officer was responsible for an average of 850 km² of often rugged and inaccessible terrain.⁷⁸ The PNGFA's permanent staff roster, which includes its foresters, had decreased to around 400 in 2016, even as annual log exports have more than doubled.⁷⁹

FLAWED SUPPLY CHAIN

The next stop for many *taun* logs from PNG is the Nanxun area of Zhejiang Province, China's largest solid wood flooring manufacturing hub.⁸⁰ It is a two-hour drive from the twin ports, but timber can take two days to travel by canal to log yards in the neighboring town of Jiuguan. Barges carry up to 800 m³ logs stacked around the small cabin that serves as helm and living quarters for the operators, who often live aboard with their families.⁸¹

During visits to Jiuguan, researchers observed logs from seven SABLs, including those discussed in the case studies in this report, stockpiled at nine different wharves, serving as temporary storage areas for first-stage flooring manufacturers.⁸² In some cases, researchers were able to identify which manufacturers were the new owners of the logs.⁸³

First-stage manufacturers remove the damaged ends of the logs they buy, including the SGS tags, strip off the bark, saw logs into rough planks known as flooring 'blanks', and kiln-dry them. The blanks still need to be stained and sealed with a protective coating, which will be done by flooring finishers in the final step of the manufacturing process.



Some 130 of these blank manufacturers are based in the Nanxun area.⁸⁴ Depending on their size, these companies may process 1,000 - 4,000 m³ logs each per month.⁸⁵ Some specialize in making blanks from one type of wood, while others handle several species. Researchers found that *taun* was one of the most popular species and documented logs – mostly *taun* but also smaller amounts of *kwila* and *malas* – from a number of concessions in PNG including SABLs. Logs from Solomon Islands – the other major source of *taun* logs imported into China (see Box, page 22) – and several African countries were also observed.

Logs from Pomio were found in the facilities of blank manufacturers, including one called Lianfeng Flooring (“Lianfeng”). This company was familiar with the Pomio concession number on the tags. A staff person told a researcher the timber was high-quality, and accordingly expensive.⁸⁶

By analysing detailed export data from PNG, Global Witness estimates that since 2013 roughly 15-20% of all *taun* imported into China in 2016 was cut under SABLs.⁸⁷ This estimate was supported by field observations at blank manufacturers’ facilities in Jiuguan. In 2016, researchers visited a total of 42 blank manufacturers using *taun* and

documented logs from SABLs still bearing their tags at 16 of them.⁸⁸ All of the *taun* logs researchers documented at the storage wharves and factories of blank manufacturers such as Lianfeng came from either PNG or Solomon Islands.⁸⁹ When PNG logs arrive at blank factories, they still bear their SGS tags with concession numbers. But once logs have been processed into flooring blanks, this information connecting the wood to its origins is lost. Blank manufacturers typically segregate their blanks based on quality rather than by where the wood came from. A Lianfeng worker explained that once *taun* logs were processed into blanks, even they couldn’t tell what country the wood came from.

In general, the blank manufacturers visited showed no indication that their customers were asking information about the legality of the *taun* being used for blanks. It is therefore no surprise that these companies did not appear to be aware of legality issues surrounding wood from SABLs. Only one had a basic system for keeping track of whether wood was legal or sustainable.⁹⁰

Below left Barge carrying *taun* logs cut under an SABL to flooring manufacturing facilities in Nanxun. **Below** Dozens of sawmills in Nanxun turn logs into flooring blanks. **Bottom** *Taun* blanks like these are used by flooring factories to produce finished flooring.



Solomon Islands

Last year, Solomon Islands shipped nearly 1.7 million m³ of logs to China with an export value of US\$264 million, making it China's second largest source of rainforest logs behind PNG.⁹¹ The timber trade accounted for 70% of the country's export earnings.⁹² Although *taun* grows naturally in other countries, notably Malaysia and Indonesia, only PNG and Solomon Islands export *taun* in significant volumes.⁹³

Companies using timber from Solomon Islands risk exposure to illegal logging and human rights and environmental abuses. Like PNG, the country is plagued with systemic and serious problems in its timber industry, and it ranks in the bottom 30% of countries in the World Bank's Worldwide Governance "rule of law" indicators.⁹⁴ No recent, comprehensive assessments of the timber sector have been carried out, but numerous media and academic articles attest to the prevalence of illegal and unsustainable logging.⁹⁵ In one region, villagers attested to grave human rights abuses, including the sexual exploitation of children, associated with the logging industry.⁹⁶

READY FOR SALE

In the final stage of flooring manufacture, finishing companies take the blanks and apply the stains and brand names that make flooring ready for sale. There are several hundred of these finishers in the Nanxun area.⁹⁷ Together they produce approximately 60% of all solid wood flooring made in China.⁹⁸ The majority is sold domestically, but sales to the U.S. and elsewhere are an important source of revenue for many flooring companies. The *taun* flooring business is booming in Nanxun – one manufacturer estimated it to make up at least a fifth of the area's solid wood production.⁹⁹

Business relationships between blank manufacturers and finishers are complex and fluid, making it difficult to trace the origin of particular logs once they are processed into blanks. In some cases, however, direct links were identified. For instance, Lianfeng told researchers they sell *taun* blanks to a company called Nature, presumably a reference to Nature Home (China) Co. Ltd., which advertises itself as China's largest flooring producer.¹⁰⁰ In other cases, flooring blanks bearing the mark of a particular manufacturer were observed in finishing factories.

Our investigation identified 16 companies in the Nanxun area that made *taun* flooring, but there are likely to be many more. Seven of these companies had exported *taun* flooring to the U.S. in recent years, the largest of which was Nature Home.

NATURE HOME

Nature Home (“Nature”) reported 2016 revenues of over 2 billion yuan (~US\$300 million)¹⁰¹ and claims to be China’s largest seller of solid wood flooring.¹⁰² In addition to flooring, the company produces furniture and wooden doors.¹⁰³ Nature’s Chinese website states that *taun* flooring is a “star product” being promoted in its 4,000 retail stores across China.¹⁰⁴ Our findings show that Nature-branded flooring is highly likely to have used *taun* cut under SABLs.

The company states that all of its solid wood flooring is produced by authorized third-party manufacturers.¹⁰⁵ Global Witness researchers visited two of these manufacturers in the Nanxun area in 2016. They produce their own flooring blanks and finished flooring but also buy logs and blanks on the open market, in other words from independent log traders and blank manufacturers. Stacks of blanks branded with the names of the manufacturer were observed at finisher facilities. In all, researchers identified six blank companies, including Lianfeng, that used *taun* from SABLs and supply Nature manufacturers.¹⁰⁶

Since 2005, Nature Home has been a member of the Global Forest and Trade Network (GFTN), a World Wildlife Fund (WWF) initiative that aims to promote responsible timber supply chains.¹⁰⁷ Under the terms of participation, the company is required to eliminate “unwanted timber”—a category that includes timber from the conversion of

forests into plantations, timber associated with violations of human, civil or traditional rights, and illegal timber—within one year of becoming a GFTN member. Any timber sourced from SABLs would fall into one or more of these categories.¹⁰⁸ When asked to comment, WWF and Nature stated that the company was in compliance with GFTN’s participation rules. According to WWF, Nature licenses its brand for use by solid-wood flooring manufacturers, but these companies were not included in the scope of Nature’s GFTN participation. This means they were allowed to sell Nature-branded flooring and benefit from association with the WWF brand without following GFTN rules. After being informed of our findings, WWF told Global Witness that Nature-branded manufacturers will be required to accept GFTN rules and have agreed to carry out supply chain audits to this end.

Nature Flooring Industries, Inc., a U.S. subsidiary of Nature Home, informed us it had imported approximately 89,000 m² of *taun* flooring, which it brands as “Pacific Mahogany,” to the U.S. since 2015.¹⁰⁹ Once reaching U.S. soil, the wood is subject to U.S. regulations prohibiting the trade in illegal timber under the Lacey Act.

HOW HIGH-RISK TIMBER FROM PAPUA NEW GUINEA'S SPECIAL AGRICULTURE AND BUSINESS LEASES (SABLs) ENDS UP IN U.S. MARKETS

Logs cut under SABLs account for a third of PNG's timber exports. More than 6 million cubic meters of logs from SABLs have been exported since 2010, about 90% of which was shipped to China.



1

Most logs from SABLs arrive at the ports of Zhangjiagang and Jingjiang, accounting for 1/10 of the tropical logs imported by China. *Taun* logs are commonly sold to the Nanxun-area flooring industry.

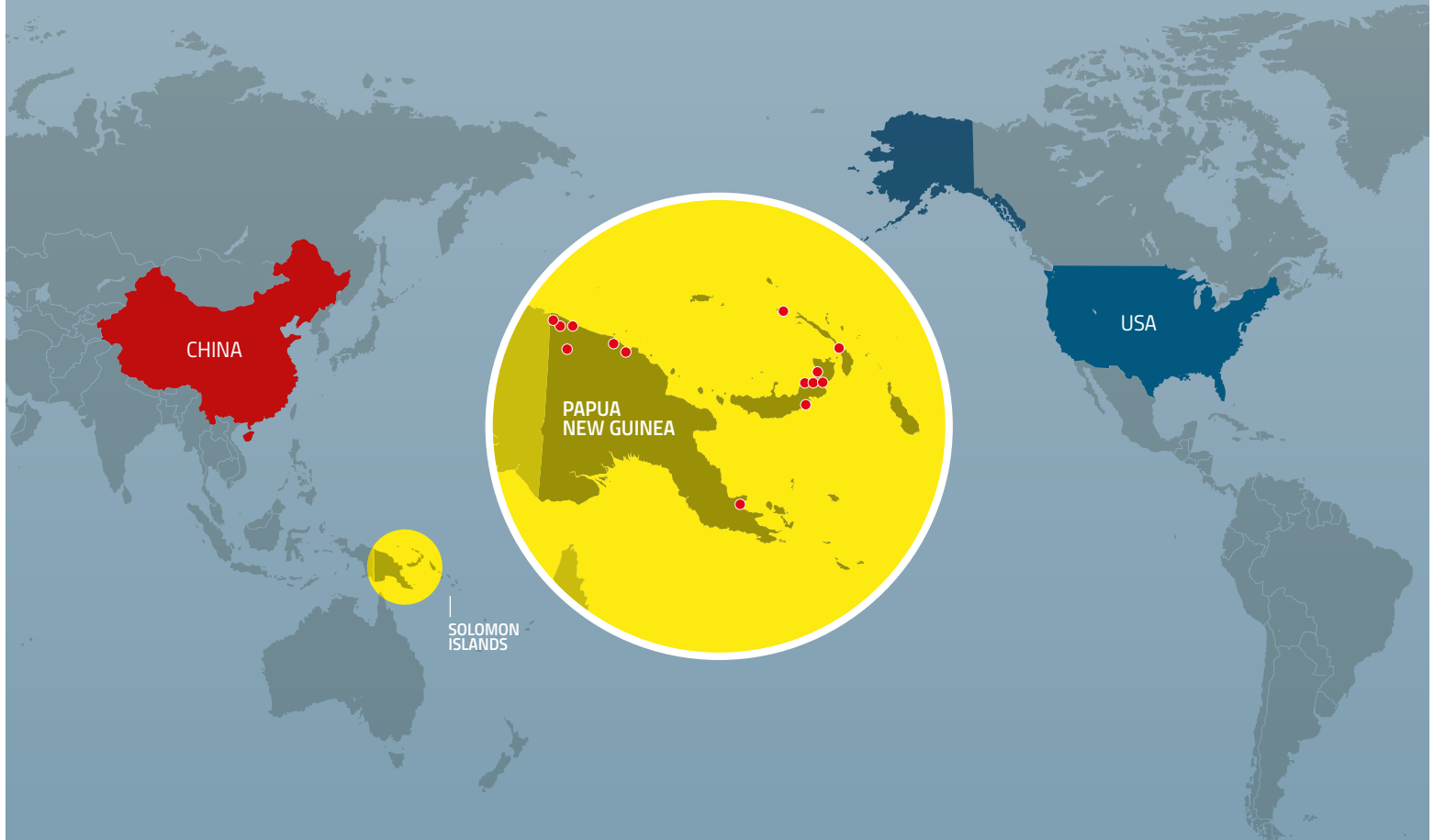


2

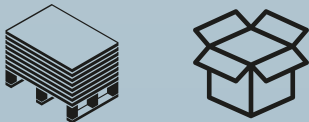
Once sold to flooring blank manufacturers, *taun* logs from SABLs are mixed with logs from other PNG concessions and from Solomon Islands. In recent years, 15-20% of the *taun* in Nanxun came from SABLs.



3



4



Flooring finishing companies buy blanks, or make their own, to create flooring products ready for sale. Most of these companies sell to distributors or retailers in China, but some *taun* is exported to the U.S.

5



Taun flooring is imported into the U.S. at major ports on both coasts, at which point it's subject to the U.S. Lacey Act. It is then distributed to retailers and wholesalers across the country.

6



The final consumers of *taun* flooring in the U.S. include businesses, such as construction companies or real estate developers, and individual buyers.

RISKY BUSINESS

Most wood flooring exporters in Nanxun are familiar with the Lacey Act and well aware of the risks it poses for U.S. buyers of *taun* flooring.¹¹⁰ A recent criminal case brought by the U.S. authorities against the U.S. flooring giant Lumber Liquidators for violating the Lacey Act loomed large for exporters in China. In 2016, the company was fined US\$13 million after pleading guilty to charges related to Chinese-made flooring linked to illegal logging in eastern Russia.¹¹¹ Several Chinese flooring companies told Global Witness that big U.S. buyers had since become stricter in requiring documents confirming the legality of wood from high-risk sources.¹¹²

But it appears exporters have a more cavalier attitude when it came to smaller clients, believing these can fly below the radar of U.S. authorities. Staff at Zhejiang Biyork Wood Co., Ltd. (“Biyork”), a regular exporter to the U.S., told researchers they believed large companies such as Lumber Liquidators were required by the U.S. government to have all documents to demonstrate legality. By contrast, for their smaller customers a single declaration form naming the species and country of origin, as required by the Lacey Act, was sufficient. Staff said their smaller customers did not ask for any supporting documentation.¹¹³

Biyork and several other exporters of *taun* flooring to the U.S. said they typically could not obtain documents to trace *taun* back to its origins and prove it was legal.¹¹⁴ Biyork’s solid wood flooring production and exports were carried out by an affiliated manufacturer, Huzhou Kecheng Beiyake Wood Co (“Kecheng”), according to staff at both companies. According to China’s publicly accessible National Enterprise Credit Information Publicity System, the President of Biyork is a shareholder in Kecheng. U.S. customs records show that Kecheng exported *taun* flooring to a U.S. company called Hawa Bamboo Trading Corp. in 2015 and 2016. When asked to comment for this report, Biyork denied importing illegal logs and stated it operates in accordance with the requirements of the Lacey Act. It stated that Kecheng was an independent company.

In addition to some companies’ apparent concerns over legality, changes in price and market preferences also appear to be an important factor in a reduction in *taun* exports to the U.S. in recent years. Despite this, we discovered that *taun* flooring is still sold by retailers across the country.

CHAPTER 3: SOLD IN THE USA

Hardwood flooring is a \$2 billion market in the U.S. It is dominated by red and white oak, but there is a sizeable appetite for more exotic woods as well.¹¹⁵ These hardwoods – a category that includes tropical species like merbau and tigerwood, as well as *taun* – account for approximately 5-10% of the market.¹¹⁶

Global Witness wrote to ten companies selling *taun* solid wood flooring in the U.S., alerting them to the potential legal and ethical risks of sourcing from PNG and Solomon Islands, and in particular from SABLs. Among them were Nature Home's U.S. subsidiary, Nature Flooring Industries, Inc.; Ark Floors International, which was accused in 2015 of selling formaldehyde-tainted laminate flooring;¹¹⁷ and The Home Depot, Inc. – the largest home improvement retailer in the U.S., and 28th-largest company on the 2015 Fortune 500 list.¹¹⁸ There are many small retailers and distributors selling *taun* flooring that weren't the focus of our research.

We asked the ten companies what measures they take to ensure the *taun* in their products is legal and did not involve deforestation or land rights violations against indigenous communities. Three major flooring sellers – The Home Depot, Home Legend, LLC, and Nature Flooring Industries, Inc. – confirmed they sold flooring using *taun* from PNG but said they take steps to track and confirm the legality of the wood. None denied having sold flooring made with *taun* from SABLs, although Home Legend stated that it had no information that would lead it to believe it had sold product containing wood from SABLs. After we contacted them, Home Legend and Nature Flooring Industries made commitments to halt procurement and/or sales of *taun* flooring and review their sourcing policies and practices.

The Home Depot said it had already decided to discontinue its *taun* product line in 2016 and had been selling what remained of its inventory in 2017, but that the product was no longer available.

The Home Depot has adopted a wood purchasing policy that committed not to source wood from regions of important biodiversity, as identified by WWF, unless the wood was independently certified as sustainable.¹¹⁹ One of these priority "ecoregions" encompasses Solomon Islands and a number of islands in PNG including New Britain and New Ireland where half of PNG's log exports came from in 2016, most of it cut under SABLs.

The company's sale of *taun* flooring, despite its risky origins, raises questions about other products in its vast catalog where complex supply chains in China may obscure links to high-risk wood. In tandem with our investigation, Home Depot asked to collaborate with Global Witness and other civil society groups to expand its wood purchasing policy to reflect advancements in tracking complex wood supply chains in China and Southeast Asia. The company stated that it seeks to improve processes that identify any wood that may have a risk of coming from illegal or unsustainable sources, and to revise its due diligence policies and practices where necessary to mitigate these risks. It agreed to make any revisions to its wood sourcing process public.

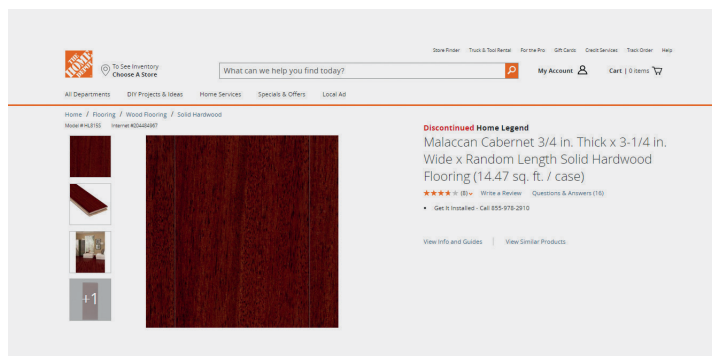
We wrote separately to The Home Depot's supplier, Home Legend, a major flooring distributor based in Georgia. The company responded saying that it had decided to discontinue its *taun* flooring products and that it had "received agreement from Home Depot to discontinue this sku [stock keeping unit] and pull all the samples from the stores starting next week." Shortly after this, the product was marked "discontinued" on Home Depot's website (see image, page 27). Home Legend said that it had "all the documentation required by the Lacey Act", but that the information provided by Global Witness "has brought the logging practices of Papua New Guinea and Solomon Islands into question." The company later informed us that it had decided to stop purchasing flooring made with wood from PNG and Solomon Islands due to the risks associated with sourcing from these countries. The company committed to strengthening its due diligence procedures, including third-party advice on possible improvements to its Lacey Act compliance program and additional third-party audits of its suppliers, and to publishing its revised policy. It stated its desire to avoid selling products that are detrimental to the "long-term health of the planet."

Nature Home's U.S. subsidiary, Nature Flooring Industries, said it would "pause any new procurement of *taun* timber or products from PNG and Solomon Islands" while it reviewed its sourcing policies and procedures. It did not respond to questions about whether it would continue selling existing *taun* flooring stocks in the U.S. or whether Nature Home would halt *taun* procurement for flooring production in China, which accounts for the majority of the company's use of *taun*. It stated that Nature Home was "considering implementing a number of programs aimed at supporting and improving the livelihoods of indigenous peoples in PNG".¹²⁰

Our research in China indicates that some manufacturers along Nature's supply chain did not appear to keep track of the origins or take the necessary steps to verify the legality of their *taun*, and were

Below Excerpt from a Nature Home brochure advertising *taun* flooring under the sales name Pacific Mahogany.¹²¹





Left Home Depot and Home Legend discontinued selling *taun* flooring in April 2017¹²⁶

U.S. TIMBER REGULATION

The Lacey Act is the country's only bulwark against imports of illegal timber and the unfair competition this presents to the legitimate wood trade. Originally designed to curtail the illegal wildlife trade, the law was amended with bipartisan support in 2008 to ban the import of certain products made with plants or plant products, including wood, harvested illegally. The legislation provides a framework for ensuring that wood products sold in the U.S. are made with legal timber, but U.S. companies can and should go beyond obeying the letter of the law to ensure that their supply chains don't contain timber linked to the violation of land rights and deforestation in countries like PNG.

The Lacey Act has two key requirements for importers. They are prohibited from trafficking in illegal wood and they must complete a declaration form that lists the species, quantity and country of harvest of wood products covered by the law. Illegal wood is defined as that which was "taken, possessed, transported, or sold" in violation of U.S. or foreign laws. Companies are expected to take reasonable steps or "due care" to ensure that wood they handle comes from a legal source. Penalties can be greater where it is found that such steps were not taken.

This means companies importing from a country where illegal logging is known to occur, or where corruption and rule of law are a problem, need to take extra precautions to know where and how their wood was sourced to ensure laws were followed.¹²⁷ Ignorance of harvesting conditions isn't a defence. Importers violating the Lacey Act can be subject to criminal charges and penalties ranging from fines to the forfeiture of the products. Senator Ron Wyden, a champion of the amendments, said when they were approved that the law would "go a long way towards not only levelling the playing field for American manufacturers, but to protecting jobs and addressing the illegal logging crisis."¹²⁸

While our research suggests the Lumber Liquidators case is deterring some large U.S. flooring importers from sourcing high-risk wood, we found that most Chinese importers and manufacturers are taking few, if any, meaningful steps to ensure the legality of wood from PNG and Solomon Islands, despite the well-documented risks of illegal logging in these countries. For the most part, Chinese importers were seemingly oblivious to the legality, environmental and human rights issues associated with SABLs, in some cases even investing directly in or advertising logs from SABL operations. Many *taun* flooring manufacturers don't even track what country the wood they use came from, let alone the specific logging concession or its legal status.

This puts U.S. importers of *taun* flooring at risk of violating the Lacey Act, either by misdeclaring the origins of the wood based on inaccurate information provided by their supplier and/or by importing illegal wood. The glut of logs from SABLs that have flooded Chinese markets in recent years, and the lack of due diligence by Chinese companies, shows why U.S. importers need to be particularly vigilant about wood products made in China. While our investigation looked closely at flooring, wood from PNG is used in a range of other products, from furniture to plywood to doors.

At least some larger U.S. companies, including Lumber Liquidators, appear to have stopped importing *taun* flooring into the U.S., an indication that they are taking the Lacey Act's "due care" requirements seriously. By contrast, Chinese exporters consistently told us they believed smaller U.S. importers didn't need to worry about Lacey Act legality requirements.

Timber cut under SABLs involves clear-cutting tropical rainforests, much of it old growth, on land belonging to indigenous communities

using *taun* from SABLs. Nature Flooring Industries disputed that this was the case for its suppliers. When asked how it verified the legality of its *taun* from PNG and Solomon Islands, the company stated that its suppliers were required to collect and keep records confirming the legality of their wood and provide harvest permits, certificates of origin, bills of lading and relevant documents regarding chain of custody."¹²²

However, the SABL example shows why such documents alone may not be sufficient to verify legality in high-risk countries like PNG, where the government does not follow its own laws when issuing land concessions or logging rights. As was the case for the SABL issued to Sepik Oil Palm Plantation Ltd. (see Box, page 16, and Case Study, page 36), logging permits may later be determined to be illegal by the courts and/or upon review by the government after logs have already been illegally cut and exported. Nature Flooring Industries disputed that the documents it requires suppliers to collect were insufficient to verify timber legality in high-risk countries.

Nature Flooring Industries acknowledged not having "complete and thorough understanding of the PNG government's enforcement of its laws and the impact of this on local people's rights", but stated that it "strives to pay attention to and comply with relevant laws and regulations" in countries where its wood comes from and believes logging "should not damage the environment or the indigenous people's rights."

OTHER U.S. COMPANIES

Two companies, Elegance Exotic Wood Flooring and Floor and Décor, responded to our inquiries stating that their *taun* products were made from Indonesian *taun*. Elegance said its flooring was manufactured in China. Flooring made with *taun* from Indonesia is likely to comprise a small portion of overall production in China, given Indonesia's long-standing ban on the export of logs and rough-sawn wood, and the limited volumes of processed wood Indonesia exports to China. Any *taun* from Indonesia must be processed in Indonesia before being exported to China.

The remaining companies we wrote to did not respond, but one company, Country Wood, appears to have removed *taun* flooring from its website following our inquiries.¹²³ Two others, Menards¹²⁴ and Brianmel,¹²⁵ still listed *taun* flooring for sale on their websites at the time of writing.

The two remaining companies, Hawa Bamboo Flooring Trading Corp. and Ark Floors International, both imported *taun* flooring from China in 2015 and 2016 according to U.S. Customs records. These purchases were made from Chinese manufacturers that said they typically could not track the origin or verify the legality of their *taun* (see Chapter 2).

The picture that emerges is one in which many companies dealing in *taun* flooring, from Chinese importers and manufacturers to U.S. flooring retailers, do not appear to be carrying out meaningful due diligence to confirm the legality of the wood.

and in many cases taken illegally and even forcibly. This situation has been the subject of extensive public reporting by civil society and the media, an official government inquiry, and numerous statements by the PNG government acknowledging the legality issues, since 2011, while illegal logging has been a well-publicized problem in PNG since the late 1980s. Responsible companies should have policies and procedures in place to identify and assess high risk sources and ensure they do not deal in wood associated with these types of abuses.

Beyond ensuring legality, companies shouldn't source from unsustainable logging operations such as clear-cutting of natural forests or industrial-scale logging in intact forests or other areas of high biodiversity. They should also avoid sourcing from operations where there are disputes over land, particularly involving indigenous or local communities with customary rights to the land and forests. Operations where intimidation or violence is used against civil society and community activists, as has been documented in many SABLs, should also be strictly avoided.

Where these requirements cannot be met, companies must drop the products and/or suppliers involved. Only then can American consumers have confidence that the products they buy aren't contributing to human rights violations and deforestation on the other side of the planet.

REGULATION ELSEWHERE

Other major economies have in recent years adopted a number of legal measures aimed at excluding illegal timber from their markets and requiring companies to conduct due diligence on their wood products.

Similar to the Lacey Act, the European Union Timber Regulation (EUTR) bans illegal timber on EU markets and requires companies that are first placing timber on those markets to collect information about the identity and origins of the timber they import.¹²⁹ The EUTR differs from the Lacey Act in obliging companies to carry out due diligence according to a set of criteria outlined in the directive, with potential penalties for not doing so. The bulk of enforcement actions taken by EU member states have been related to inadequate due diligence by companies. China was the most common source for the wood products in these cases.¹³⁰

Australia's Illegal Logging Prohibition Act¹³¹ and the Canadian Wild Animal and Plant Protection and Regulation of International and Interprovincial Trade Act¹³² are intended to perform similar functions. In Japan, a law came into effect this year creating a voluntary due diligence system for companies importing or selling wood products, although this approach has been widely criticized by civil society groups including Global Witness for lacking the teeth required to shift industry behavior.¹³³ The government is predicting widespread industry participation, but with regulations still under development it's too early to tell whether the system will be effective.¹³⁴

One global power is conspicuously missing from this list.

CHINA – THE MISSING LINK

China's lack of any legislation to prohibit imports of illegal timber and require Chinese companies to conduct due diligence on their timber imports sets it apart from this growing group of countries that have recognized their responsibility as major timber importers in efforts to stop illegal logging.

Although the percentage of China's timber imports that are illegal has fallen in recent years, as its demand grows the volume of its illegal imports has increased. In 2013, the last year a comprehensive survey was carried out, 17% of the timber imported by China was estimated to

have a high risk of being illegal.¹³⁵ China's enormous impact on the global timber trade comes with equally significant responsibility.

Since 2006, China has placed some restrictions on public procurement of certain wood-based products items, including copy paper and furniture – requiring for instance that any imported wood materials used to make copy paper be sourced from sustainable forests. As a study by London-based think tank Chatham House noted, however, the guidelines for determining what is considered sustainable are unclear.¹³⁶

Beijing has taken other steps to begin addressing the illegal timber trade, but they are neither comprehensive nor mandatory.¹³⁷ Among these approaches is a proposed mechanism, the China National Timber Legality Verification Scheme, which is designed to verify the legality of imported timber products based on bilateral government agreements or voluntary industry certification. Other independent initiatives have also emerged: the China National Forest Products Industry Association, a national timber trade association, is drafting its own voluntary legality standard.¹³⁸ The Chinese government State Forestry Administration (SFA) has been developing guidelines for sourcing timber in certain countries, including PNG; however, these do not appear to have been implemented.¹³⁹

Just as China's commitments to tackle climate change took on global significance because of the scale of its economy, its outsized role in the timber trade means that taking meaningful steps to exclude illegal timber from its markets would have an immediate and world-wide effect in promoting good governance and sustainable development. Such measures would send a strong signal to governments and companies up and down the supply chain, from producer countries like PNG to major export markets like the U.S., that China favors a fair playing field that fosters legitimate business and trade.

A comprehensive law against illegal timber would have benefits for Chinese exporters. As other major economies coalesce around the principles of prohibiting illegal timber and requiring supply chain due diligence, a strong law in China would help reassure these markets that wood products sourced from China don't carry with them risks of violating laws at home.

Encouragingly, in March 2017, a key government advisory institution, the Chinese Academy of Forestry, announced that the government is considering options for keeping illegal timber out of Chinese markets, including the long-term goal of establishing a new law or revising a current law to ensure timber legality. For PNG's indigenous communities and the rainforests they depend on, such measures could not come too soon.

UNCERTAIN FUTURE

Walking down New York's East 57th Street in September 2016, Paul Pavol gestured toward the skyscrapers. "Do people really live up there?" he said half-jokingly to his wife Janet. She smiled and shook her head at his question, shivering in the autumn chill. Cosmas Makamet, from the PNG civil society group FORCERT, short for "Forests for Certain, Forests for Life," walked slightly ahead wearing a ceremonial cowrie-shell headband and a necklace of six-inch boar tusks, which went unremarked on by the locals.

Pavol was in the U.S. for the first time. He had come to receive an award for grassroots environmental activism from the Alexander Soros Foundation and look for international support for his cause. "Ladies and gentlemen, good afternoon," Pavol addressed the crowd gathered at the award ceremony. "I am here in New York City because my land in my village has been stolen."



Above High-resolution satellite imagery shows a cargo ship loading logs at an SABL loading site in East New Britain in April 2017.

Pavol and FORCERT continue their campaign to stop the logging in their district and see control of the land returned to customary landowners. The award helped draw international attention to the plight of communities in Pomio and across PNG that have lost their land under the SABL scheme. Civil society in PNG, led by national group ACT NOW!, has maintained vocal opposition to SABLs in Pomio and across the country.¹⁴⁰

Since returning to Pomio, Pavol and other villagers have successfully held loggers at bay, despite harassment and arrests by the police. In April, eight villagers from the village of Mauna were arrested by police housed and paid for by Rimbunan Hijau for trying to prevent logging around their village. They were taken to jail in the provincial capital, a day's journey by boat. The court ultimately dismissed the case against them, but not before the villagers had suffered substantial hardship. In response, Rimbunan Hijau provided Global Witness with written statements from a local landowner and a community leader claiming the forest in question did not belong to the eight men arrested.

Near Pavol's home, a tense standoff between communities and the company had prevailed, but on 10 May a Rimbunan Hijau manager issued a letter stating the company's intent to continue clearing forests despite the objections of "so called landowners" in the area. The letter included a threat to villagers who might resist: "any person(s) intending or seen to be intending to obstruct my operations in any way will be dealt with under the laws of this country." A copy of the letter is in Appendix F.

In November 2016, an SABL in Pomio where logging had not yet taken place was cancelled after widespread opposition from landowners, including a petition signed by more than 1,300 people and presented to their member of PNG's Parliament.¹⁴¹ However, the Government does not appear to have followed up more broadly on its public statements that SABLs were being cancelled. Logging and exports have continued under a number of SABLs, while five new large-scale forest clearance operations began exporting logs in the second half of 2016. This raises questions about whether the underlying problems that have led to violations of customary land rights in the development of large-scale agricultural projects in PNG are being addressed.¹⁴²

In perhaps the most flagrant example of the government's disregard for its own laws, logging and exports continued under the SABL issued to Sepik Oil Palm Plantation Ltd in East Sepik Province even after the



Above PNG's Prime Minister Peter O'Neill has repeatedly committed to crack down on illegal SABLs without following through.

Supreme Court declared the operation illegal.¹⁴³ On two occasions, Global Witness notified the offices of the Prime Minister, Police Commissioner, PNGFA, Lands Ministry, and PNG Customs Service of the imminent departure of ships likely to be carrying illegal timber from this SABL. We received no response.

By the end of January, six shipments of logs from the Sepik Oil Palm SABL had taken to the seas in violation of PNG law, all bound for China.¹⁴⁴ In total, more than 660,000 m³ of timber with an export value of US\$65 million was cut illegally and exported under this SABL.¹⁴⁵

CONCLUSION

As this report went to press, it looked increasingly unlikely that recent statements by Prime Minister O'Neill's government promising the cancellation of SABLs would be followed through on. Leases where logging is occurring have not been revoked and continue to be used as a basis for felling PNG's ancient forests. Meanwhile, logging under new forest clearance permits is ramping up.

The PNG government has so far failed to hold accountable those who issued or acquired illegal SABLs and has taken no action to strengthen the institutions meant to protect the legal rights of indigenous landowners. Until these things happen, illegal logging will continue to be widespread, and buying wood from PNG will continue to be a risky proposition.

PNG's trading partners, and particularly China as the destination for nearly 90% of PNG logs, have an important role to play in promoting better governance in PNG, and assuring a better future for its indigenous communities and unique rainforests. The Chinese government should lead the way by requiring its importers to ensure the timber they buy does not involve violations of laws in forest-rich countries such as PNG. This would be good for the people and forests of PNG and would improve China's reputation as a responsible trading partner.

Such an approach would also be good for business. Our findings indicate that major U.S. buyers of wood products from China have little stomach for high risk wood, due to the Lacey Act's prohibition on illegal timber. A similar ban in the EU is increasing the level of caution among European companies. The adoption of equivalent, or stronger, measures in China will reassure companies in its two largest export markets that Chinese wood products are not tainted by illegal timber.

CASE STUDY:

POMIO DISTRICT, EAST NEW BRITAIN PROVINCE



© GLOBAL WITNESS

“We don’t want the SABL, we don’t want oil palm,” Mary Bailonakia told Global Witness in 2014. Mary is one of many landowners in East New Britain’s Pomio District who claim their customary land was titled and leased as SABLs without their consent.

“We want our land back,” Bailonakia said. “That’s our mother. Without the land, we cannot live.” She was among the landowners who testified in opposition to the Pomio SABLs during hearings by the Commission of Inquiry into SABLs in 2011. Their voices went unheard when the Commissioner in charge failed to submit his findings.¹⁴⁶

“

**Mary
Bailonakia**

OVERVIEW

LEASES



Four land titles (Portions 196C, 197C, 198C, 27C) and accompanying SABLs covering 554 km² were issued in 2008 to four landowner companies (Pomata Investment Ltd., Ralopal Investment Ltd., Nakiura Investment Ltd., and Unung Sigite Ltd., respectively), which formed an umbrella company Memalo Holdings Ltd. and subleased the land to Gilford Ltd., a subsidiary of multi-national logging company Rimbunan Hijau.

LOGGING & CLEARANCE OPERATIONS



By February 2017, almost 210 km² of mostly intact rainforest had been cleared by Gilford Ltd. under forest clearance permit FCA 15-07 covering the Pomata, Ralopal, and Nakiura SABL areas (424 km²) (also see pages 14-15).

TIMBER EXPORTS



1,275,218 m³ of logs with a declared export value of about US\$122 million were exported between August 2011 and January 2017. Logs were shipped to China (88%), South Korea (10%), India (2%), and Japan, Vietnam and Philippines (<1%). See Appendix C for a partial list of companies that bought the logs.

Global Witness interviews with landowners in the Ralopal, Pomata and Unung Sigite lease areas between 2014 and 2016 corroborate other reports of widespread opposition to the SABLs in Pomio.¹⁴⁷ Many landowners have alleged fraud and forgery were involved in the issuance of leases,¹⁴⁸ pointing to forged signatures and non-representative Incorporated Landowner Groups (ILGs) used to give the appearance of landowner consent.¹⁴⁹

In the Ralopal lease area, legitimate ILGs developed under a European Union-funded community support project were ignored and replaced with new ones over the same land a few years later.¹⁵⁰ A legal challenge against the Ralopal and Pomata SABLs brought by several landowners has been stuck in the courts since 2013. In response to opposition from landowners, the Unung Sigite SABL was revoked in November 2016, according to Rimbunan Hijau.¹⁵¹

Rimbunan Hijau and the directors of the landowner companies that hold the SABLs deny there was fraud and forgery involved and maintain that the vast majority of landowners support the project. Rimbunan Hijau insists that its operations follow all applicable laws and regulations. The company has claimed that “all due process” was followed in the establishment of ILGs in the Ralopal and Pomata lease areas. See Appendix D for full details of their responses.

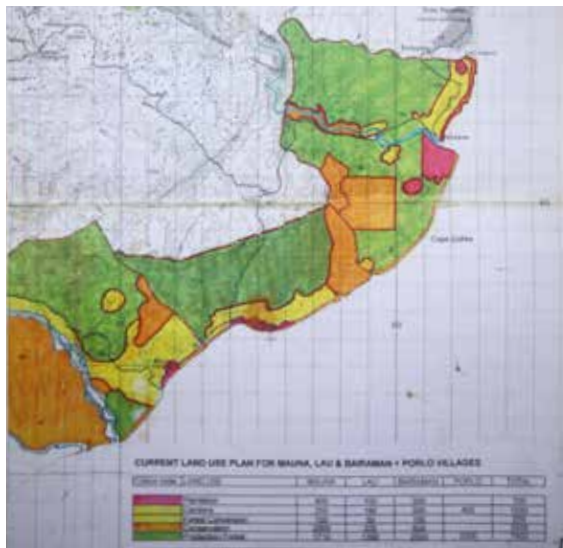
Right Classrooms constructed by Pomio District communities using locally-produced timber. With support from the European Union and local civil society group FORCERT, villagers in the villages of Mauna, Lau and Bairaman developed sustainable land-use plans designating areas for gardening, conservation, and small-scale timber extraction for sawmilling for local use and export. They achieved Forest Stewardship Council (FSC) certification for community forestry in 2006 and began exporting timber to Australia. Community members told Global Witness the SABL held by Ralopal Investment Ltd. was issued over this land without the consent of the landowners.



©GLOBAL WITNESS

Right Drawing from the late 1990s showing the sustainable land-use plan developed by the communities of Mauna, Lau, and Bairaman with international support.

Far right Since 2011 most of these communities' forests have been cleared for oil palm by Rimbunan Hijau.



CASE STUDY:

BEWANI, WEST SEPIK PROVINCE



©GLOBAL WITNESS

“Before, our forefathers and ancestors, they used to use this jungle here...for their livelihood...for hunting, for medicine, for fishing, for cutting logs to build houses, all these things,” Bewani landowner Peter Wuni told Global Witness in 2016.

Wuni is a landowner from Imbinis village whose land was included under a huge SABL in the Bewani area of West Sepik Province. In 2011, he testified during the official Commission of Inquiry into SABLs (COI) that not all Bewani-area landowners had given their consent to the SABL. “Now, when oil palm came into being, all these things are gone...We become slaves on our own land.”

“

**Peter
Wuni**

OVERVIEW

LEASES



A land title (Portion 160C) and lease covering 1,399 km² was issued in 2009 to Bewani Oil Palm Development Ltd. (“BDL”), currently owned by four landowner companies.¹⁵² The land was sub-leased to Malaysian-owned Bewani Oil Palm Plantations Ltd. (“BOPPL”).

LOGGING & CLEARANCE OPERATIONS



Malaysian-owned Bewani Forest Product Ltd. carried out logging under forest clearance permit FCA 10-03 covering the entire SABL area issued to BDL. By December 2016, 150 km² had been cleared within the SABL, of which about 56 km² was intact forest (see map, opposite page). Approximately 80 km² has been planted with oil palm.¹⁵³

TIMBER EXPORTS



446,805 m³ of logs with an export value of about US\$62 million were exported between May 2012 and January 2017. Logs shipped to China (83%), India (14%), Bangladesh (2%), and South Korea (1%). See Appendix C for a partial list of companies that bought the logs.

The COI documented serious failures in the legally required steps for issuing a land title and SABL to BDL covering a vast area of customary land and forest relied on by thousands of people. It concluded that the Land Investigation Report (LIR) required to document landowner consent was “badly done,” the SABL boundary was not appropriately surveyed, and the Declaration as to Custom, meant to confirm customary land boundaries, was not properly obtained, resulting in the “forced inclusion of people who have no wish to be part of the project.”

The COI also found that the lease did not exempt hunting or gardening areas, or sacred sites, an oversight by government officials it described as “a reckless failure...possibly

bordering on criminal negligence.” In 2016, Global Witness interviewed dozens of villagers who said they were landowners in the SABL area and had not consented to the clearance of their forest for oil palm. Villagers described the negative impacts the loss of land and forest was having on their ability to obtain food and other necessities (also see page 10). The COI recommended the SABL be “revoked and reviewed” on the basis that, among other things, a “proper” Land Investigation Report had not been conducted and “informed consent of the landowners...was not obtained prior to the issuing of the SABL title.”¹⁵⁴

When asked to comment, BOPPL admitted there were irregularities in the issuance of the land title and SABL to BDL but said it was

not involved and this did not mean the land had been taken without landowners’ consent. The company stated that the land title has never been challenged in court by landowners and that “the overwhelming majority of actual landowners support the oil palm project”. The company further stated that by the time it entered into an agreement with BDL in October 2010, the latter represented 124 Incorporated Landowner Groups (ILGs). BOPPL said it has invested 800 million PNG kina in the project and the benefits to all stakeholders, including landowners and the state, “have been, and will continue to be, significant.” See Appendix D for further details of the company’s response. The other companies named in this case study did not respond.

This map has been removed in the low-resolution version of the report and is available as a separate file at **<https://www.globalwitness.org/PNGmaps>**

CASE STUDY:

NEW HANOVER ISLAND, NEW IRELAND PROVINCE



@WILL NICHOLLS/CANOPY WATCH (WWW.CANOPYWATCH.ORG)

“All we are witnessing is misery, is destruction,” John Aini (front, in photo) told Global Witness in 2016. Aini is the founder of a community-based environmental NGO and a local elected official on New Hanover Island, New Ireland Province.

Over 75% of the land area of New Hanover was included in three SABLs issued in 2008. “We will have nothing left in future. We will have no trees. These are burdens we will be faced with for a long time to come,” he said. “We just want our land back.”¹⁵⁶

“

**John
Aini**

OVERVIEW

LEASES



Three land titles (Portions 885C, 886C, 887C) and SABLs covering a total of 936 km² were issued in 2007 to Tabut Development Ltd., Umbukul Ltd., and Central New Hanover Ltd., respectively. The land was sub-leased to Malaysian-owned Tutuman Development Ltd. (“Tutuman”).

LOGGING & CLEARANCE OPERATIONS



A forest clearance permit (FCA 16-02) over the Central New Hanover SABL area (568 km²) was issued to Tutuman. Most logging was contracted to Malaysian-owned Joinland (PNG) Ltd. By September 2016, about 85 km² of mostly intact forest had been cleared. An additional unquantified area was logged. About 67 km² of land planted with rubber, cocoa, coconut, and *Calophyllum*, according to a March 2016 government memo.¹⁵⁷

TIMBER EXPORTS



612,145 m³ of logs with an export value of about US\$56 million were exported between December 2011 and January 2017. Logs were shipped to China (96%), India (2%), Vietnam (1%), and Japan (<1%). See Appendix C for a partial list of companies that bought the logs.

The COI described the majority of New Hanover’s landowners as “totally unaware” that their land had been given away; determined that staff from the Department of Lands and Physical Planning accepted money from Tutuman and allowed it to carry out the legally-required process of identifying landowners and documenting their informed consent, which it described as a “gross abuse” of the process; and found that some names were used fraudulently in the resulting Land Investigation Report. It recommended the

SABLs be revoked on the basis of lack of consent by the majority of landowners and other violations.¹⁵⁸ Global Witness’s interviews in 2016 with villagers in Metamin, northern New Hanover, found that many landowners opposed the SABL and blamed upstream clearance operations for the pollution of the Min River, a key source of food and clean water (see pages 10 and 11 for details). The companies named in this case study did not respond to a request for comment.

This map has been removed in the low-resolution version of the report and is available as a separate file at **<https://www.globalwitness.org/PNGmaps>**

CASE STUDY:

TURUBU, EAST SEPIK PROVINCE



“We were surprised to see police at the camp site. Police at the logging site. Police at the log pond site,” long-time community activist Gabriel Molok (center, in photo) said in an interview with Global Witness in 2014, describing the use of police to stifle dissent by the companies logging his community’s land. “I want to tell the world about what is happening in this country. I am not fearful about it.”

Molok passed away in 2016, but lived to see PNG’s Supreme Court rule that the SABL over his peoples’ land had violated legal protections for customary land rights under the Land Act and Constitution (see Box, page 16).

“
**Gabriel
Molok**

OVERVIEW

LEASES



A land title (Portion 144C) and lease covering 1,168 km² was issued in 2008 to Sepik Oil Palm Plantation Ltd., 80% owned by Malaysian-owned Wewak Agriculture Development Ltd. and 20% owned by local landowner company Limawo Holding Ltd.

LOGGING & CLEARANCE OPERATIONS



Malaysian-owned Summit Agriculture Ltd. carried out most logging under forest clearance permit FCA 11-01 covering the entire SABL area. By December 2015, an estimated 507 km² of forest had been logged, 227 km² of which was outside the SABL boundaries. Less than 2 km² was cleared for agriculture.

TIMBER EXPORTS



667,116 m³ of logs with export value of about US\$65 million was exported between March 2010 and January 2017. Logs were shipped to China (95%), India (5%), and the Philippines (<1%). See Appendix C for a partial list of companies that bought the logs. Most are registered in offshore secrecy jurisdictions.

Global Witness’s interviews with landowners in the Turubu area of East Sepik Province between 2014 and 2016 documented widespread opposition to a vast SABL issued to Sepik Oil Palm Plantation Ltd. The Commission of Inquiry into SABLs documented numerous legal violations in the issuance of the SABL related to the failure to acquire the informed consent of customary landowners in the area.¹⁵⁹

It found that 56 Incorporated Landowner Groups (ILGs) endorsing the project groups did not represent the majority of Turubu residents. Some entire communities were not represented while other, previously existing, ILGs were not approached. Some ILGs were set up in a matter of hours under pressure from leaseholder representatives and did not follow legally required procedures meant to ensure informed consent by the landowners.

Satellite imagery shows the SABL was used as a front for logging operations inside and outside the lease boundaries with virtually no corresponding agricultural activity (see opposite). The companies involved did not respond to a request for comment.

This map has been removed in the low-resolution version of the report and is available as a separate file at **<https://www.globalwitness.org/PNGmaps>**

APPENDIX A:
LOG EXPORTS (M³) UNDER FOREST CLEARANCE PERMITS ISSUED FOR SABLs
BY YEAR, 2009 - 2016

PROVINCE	FOREST CLEARANCE AUTHORITY (FCA)	EXPORTER ^B	2009	2010	2011	2012	2013	2014	2015	2016	TOTAL, 2009 - 2016 ^E
Oro	05-01	Matufi (PNG) Ltd.			63,608	49,375					112,983
West Sepik	10-01	Mekar Harvest (PNG) Ltd.	4,613	11,514	22,859	7,979					46,965
West Sepik	10-02	Vanimo Jaya Ltd.	22,662	56,691	36,131	13,597	17,308				146,388
West Sepik	10-03	Bewani Forest Product Ltd.				58,509	110,590	110,503	67,545	99,658	446,805
West Sepik	10-04 ^A	Jambo Trak Ltd.	1,133	37,301	43,519	63,596	51,772	73,178	15,964		286,463
West Sepik	10-07	Global Elite Ltd.							56,486	96,480	152,966
East Sepik	11-01	Wewak Agricultural Development Ltd.		46,674	24,739						659,351
		Summit Agriculture Ltd.			32,304	75,776	90,519	170,937	150,247	68,154	
East Sepik	11-02	Star Avenue Ltd. (Brilliant Investment Ltd.)		62,927	71,832	139,805	61,886				336,450
West New Britain	14-01	Westenders Ltd.				52,889	81,059	34,460			168,408
East New Britain	15-02 ^A	Tzen Niugini Ltd. (Cakara Alam (PNG) Ltd.)	12,344	69,793	127,861	105,910	71,319	72,500	69,723	45,347	574,797
East New Britain	15-03 ^A	Tzen Niugini Ltd. (Cakara Alam (PNG) Ltd.)		146	6,345						6,491
East New Britain	15-04	KK Connections Ltd. (Kerawara Ltd.)	92,472	138,960	127,977	67,214	60,803	53,560	104,552	90,020	735,558
East New Britain	15-05 ^A	Tian Suyn (PNG) Ltd.		69,843	99,668	70,013	64,664	87,132	136,744	103,619	631,683
East New Britain	15-07	Gilford Ltd. (Rimbunan Hijau (PNG) Ltd.)			42,286	100,195	219,889	339,383	162,270	402,343	1,266,366
New Ireland	16-01	Tutuman Development Ltd.		10,814							118,433
		Aset Meriah (PNG) Ltd.				28,176					
		Multiplus Corporation Ltd.						30,515	35,563	13,365	
New Ireland	16-02	Tutuman Development Ltd.			6,812						605,952
		Joinland (PNG) Ltd. (Tutuman Development Ltd.)				81,102	101,664	164,594	160,278	91,502	
Totals by year			133,223	504,664	710,175 ^C	914,136	931,473 ^D	1,136,762	959,372	1,035,599	6,296,059

A) Large-scale agricultural projects referred to as SABLs in the final reports of the Commission of Inquiry (available at <http://www.coi.gov.pg/sabl.html>) but not listed among the 77 SABLs reviewed.

Jambo Trak Ltd (FCA 10-04) denied that it was logging under an SABL (see Appendix D).

B) Based on official PNG timber export data published annually by SGS (PNG) Ltd.

C) One minor log-exporting SABL included in this total that exported 4,234 m³ in 2011 has not been included in this list for brevity.

D) Reduced by 12,255 m³ relative to figure published by Global Witness in a November 2015 briefing on SABLs after an error in published customs data was discovered.

E) Does not include 140,624 m³ of log exports under six new FCAs that could not be confirmed as involving SABLs.

APPENDIX B:
THE 15 LARGEST CHINESE IMPORTERS OF LOGS FROM PNG IN 2016^A

COMPANY (ENGLISH NAME)	COMPANY (SIMPLIFIED CHINESE NAME)	2016 IMPORTS FROM PNG (M ³) ^B	BOUGHT FROM SABLs?	BASIS FOR LINK TO SABL (SEE APPENDIX C) ^C
China National Chemical Fiber General Co	中国化纤总公司	672,862	Yes	PNG export data
Ningbo ND Import and Export Co Ltd	宁波宁电进出口有限公司	436,505	Yes	PNG export data, field research
Jiangsu Wan Lin Modern Logistics Co Ltd	江苏万林现代物流股份有限公司	222,568	Yes	PNG export data
Ningbo Hong Guang Decoration Materials Co Ltd	宁波市红光装饰材料有限公司	207,262	Yes	PNG export data, field research
Suzhou Port Development Group Co Ltd	苏州港口发展(集团)有限公司	195,610	Yes	PNG export data
Wenzhou Timber Group Co Ltd	温州木材集团有限公司	161,565	Yes	PNG export data
Shanghai Mai Lin International Trade Co Ltd	上海迈林国际贸易有限公司	140,136	Unknown	
Ningbo Yong Li Lumber Co Ltd	宁波永利木业有限公司	126,800	Yes	PNG export data
Xiamen Xindeco Ltd	厦门信达股份有限公司	88,480	Unknown	
Ningbo Shi Jianfa Timber Co Ltd	宁波市建发木业有限公司	84,115	Yes	PNG export data, field research
Zhejiang New Vision Import and Export Co Ltd	浙江新景进出口有限公司	64,327	Unknown	
High Hope International Jiangsu Champion Holding Ltd	江苏汇鸿国际集团中锦控股有限公司	60,396	Yes	PNG export data ^D
Jiaxing An Rong International Trading Co Ltd	嘉兴市安荣国际贸易有限公司	58,259	Yes	PNG export data, field research
Jiangsu Happy Group ^E	快乐木业集团有限公司	46,741	No ^F	
Suzhou Zhangjiagang Free Trade Zone Modern Logistics Co. Ltd. ^F	苏州港口张家港保税区现代物流有限公司	45,440	Unknown	

A) Listed under Harmonized System tariff code 44039990, which accounted for 90% of PNG logs imported into China in 2016.

B) Cubic meter value was estimated from kg using a conversion factor of 816.88 kg/m³ calculated based on China Customs data.

C) Field research entailed interviews with company staff and observation of logs in ports.

D) Parent company High Hope International Ltd. listed in PNG export data.

E) Jiangsu Happy Group stated that it did not buy timber from SABLs due to legality risks.

F) See company response to our request for comment in Appendix D.

APPENDIX C:
THE 20 LARGEST BUYERS OF LOGS FROM NINE SABLS THROUGH 8 FEBRUARY 2017^A

BUYER NAME	REGISTERED IN	VOLUME (M ³)	MAIN DESTINATION (% IF LESS THAN 100)	SABLS (FCAs)	YEARS
Ningbo Yong Li Lumber Co. Ltd.	China	666,547	China	14-01, 15-04, 15-05	2008-2014
Ningbo ND Import and Export Co. Ltd.	China	631,992	China (98%), Vietnam (2%)	10-05, 14-01, 15-04, 15-05	2012-2017
Ningbo Hong Guang Decoration Materials Co. Ltd.	China	461,624	China (98%), South Korea (2%)	11-01, ^B 15-07, 16-01, 16-02, 16-04	2013-2017
China Light Resources Import & Export Corp.	China	321,847	China (98%), South Korea (2%)	15-05, 15-07, 16-01, 16-02	2010-2017
Rosehall Worldwide Ltd.	British Virgin Islands	305,972	China	10-07, 11-01	2013-2015
Resources Hub Ltd.	British Virgin Islands	274,000	China	10-07, 11-01	2015-2017
Top Ascent Asia Ltd.	Hong Kong	201,804	China (75%), India (22%), South Korea (3%)	10-03	2012-2014
Shanghai Minnan Timber Co. Ltd.	China	198,622	China	15-07	2011-2016
Top King Trading Ltd.	Unknown	149,990	China	10-03	2015-2016
Sojitz Corporation	Japan	127,442	Japan (73%), Philippines (26%), South Korea (1%)	14-01, 15-04, 15-05, 15-07, 16-02	2008-2016
High Hope International Group Corp Ltd.	China	125,250	China	15-07	2011-2016
St Ley Timber Pte. Ltd.	Singapore	102,493	China (78%), India (22%)	11-01	2011-2013
Pacific Shine Inc. Ltd.	Hong Kong	95,012	China (74%), India (20%), Bangladesh (6%)	10-03	2014-2015
Jiaxing Anrong International Trading Co. Ltd.	China	90,932	China	15-07	2011-2016
Jiaxing JiuCheng Trading Ltd.	Unknown	89,786	China	15-07	2014-2016
Jiangsu Wan Lin Modern Logistics Co. Ltd.	China	80,647	China	16-02	2012-2014
Kam Hing Trading (HK) Ltd.	Hong Kong	73,474	China	15-07	2012-2016
Giant Kingdom International Ltd.	British Virgin Islands	69,318	China (93%), India (7%)	11-01	2012-2013
Ningbo Shi Jianfa Timber Co. Ltd.	China	68,213	China	10-03, ^B 15-07, 16-02	2012-2014
Shanghai Runsen Wood Ltd.	China	60,109	China	15-07	2011-2014

A. Based on PNG export data for nine Forest Clearance Authorities (FCAs) issued under SABLS accounting for roughly 80% of total log exports from SABLS. The 20 buyers in this table accounted for 85% of the logs bought from these nine SABLS. Minor buyers have been omitted for brevity.

B. Based on interviews and field research in China.

APPENDIX D:

ADDITIONAL RESPONSES FROM COMPANIES TO ALLEGATIONS FROM GLOBAL WITNESS

COMPANIES OPERATING UNDER SABLs

Rimbunan Hijau stated the Sigite Mukus project is delivering “real and lasting benefits” to Pomio people, employs over 4,000 people full-time, and benefits thousands more by health and education services and economic opportunities afforded by the project. It stated that it only operates “where the majority of the landowners are in favour of the project.” In response to recent statements by the Prime Minister and Lands Minister that SABLs are illegal, the company stated that “legality in PNG is decided in the courts” and no current court orders to suspend or cancel operations had been received by project management or leaseholders. It repeated that it operates at all times in full compliance with all laws and regulations, and all land conversion in the project area was done with the approval of landowners.

In response to our allegations of recent police abuses in Pomio, RH stated that a March 2017 police investigation team had found no evidence of malpractice at the Sigite Mukus project site and that local community members have requested a larger police presence to help maintain order as the area experienced strong economic growth. The company claimed to have been informed that the eight landowners from Mauna recently arrested while attempting to blockade logging were not the landowners of the area in question, and provided statements from the directors of the leaseholding companies and two local landowners to this effect. The company stated that it has in no way contributed to social problems such as substance abuse, and has a policy prohibiting alcohol and drug use in camps. It claims to have systems in place to demarcate and protect important cultural areas, and an environmental plan instigated by local landowners that identified “extensive areas for conservation, in order to manage and mitigate the environmental impact of the project.”

Bewani Oil Palm Plantations Ltd. denied that the SABL was among those referred to by recent government statements that SABLs are illegal and have been cancelled, and provided a copy of a 25 June 2015 letter from the Lands Department stating that the project was a success and the SABL would not be revoked. However, this letter erroneously states that the COI concluded “there is nothing wrong with the SABL.”

The company stated that the COI documented examples of support for the project and explained that following the COI report, there was “wider consultation and it was determined the project was viable and was supported by the landowners. Consequently, when the NEC acted

on the COI Report and made a decision to cancel certain SABLs, the SABL for Portion 160C was not one of those recommended for cancellation.”

The company stated that it strictly complies with all regulatory requirements and that the project was bringing “real development to the area.” It said it has invested 800 million PNG kina in the project and the benefits to all stakeholders, including landowners and the state, “have been, and will continue to be, significant”, including infrastructure development, employment for 1,100 PNG citizens, profit sharing, levies and royalties.

Jambo Trak Ltd. stated that its operation under FCA 10-04 was not under an SABL. The company stated that it had signed a Sales and Marketing Agreement with a landowner company that held the FCA.

KK Connections Limited stated in their reply to Global Witness that not all SABLs are illegal, and that KK Connections Limited and its subsidiaries and related companies do not hold any SABLs. The company stated that one of its logging operations is being carried out under an SABL held by a landowner company, and that this SABL has not been declared illegal. It stated that KK Connections Limited and its related companies have not been involved in any illegal logging operations in PNG.

CHINESE IMPORTERS OF PNG TIMBER

Suzhou Zhangjiagang Free Trade Zone Modern Logistics Co Ltd. stated that it adheres to scientific standards to protect the forest environment, uses strict criteria for selecting suppliers that are lawfully registered in local jurisdictions, complies with customs declaration requirements and pays all applicable taxes.

BUYERS OF SABL TIMBER

Sojitz Corporation stated that it had suspended its purchases of timber from SABLs in April 2017 and would not resume them until it could confirm the legality of timber from SABLs. It referred Global Witness to its Wood Procurement Policy, and stated that its goal included ensuring 100% of its wood was traceable and produced through environmentally and socially conscious forest management.¹⁶¹

Pacific Shine Inc. Ltd. stated that it is no longer purchasing timber or logs from Papua New Guinea.

Top Ascent Asia Ltd. stated that it had ceased purchasing timber from Papua New Guinea “years ago.”

APPENDIX E: METHODOLOGY FOR LOGGING AND DEFORESTATION ESTIMATES

For the Pomio, Bewani and New Hanover SABLs, cloud-free LANDSAT 7 and LANDSAT 8 images taken prior to the onset of logging operations under the SABLs were used to establish baseline forest cover for the areas of interest. This was compared with the most recent cloud-free LANDSAT imagery as of January 2017 to assess areas of forest cover loss. Analysis was done using an unsupervised classification algorithm followed by manual interpretation of the results. For the analysis of the Bewani SABL area, GLAD deforestation alerts from the University of Maryland (<http://www.glad.umd.edu/>), made available by Global Forest Watch (<http://www.globalforestwatch.org/>), were used to

calculate area of tree cover loss in 2015 and 2016. The most recent cloud-free LANDSAT images used were as follows: Pomio, January 2017; Bewani, December 2015; New Hanover, August 2016; Turubu, December 2015. For the analysis of logging area in and around the Turubu SABL, 2000 forest cover data adjusted for forest loss between 2000 and 2008 using data from Hansen/UMD/Google/USGS/NASA, accessed through Global Forest Watch, was used to estimate the area of forest logged around new logging roads identified manually using LANDSAT 8 imagery, assuming logging extended 500 meters on either side of the road.

APPENDIX F:

LETTER FROM RIMBUNAN HIJAU SUBSIDIARY GILFORD LTD. DATED 10 MAY 2017 STATING THE COMPANY'S INTENTION TO RESTART LOGGING IN POMIO'S MARANA AREA, WITHIN THE SABL ISSUED TO POMATA INVESTMENT LTD., DESPITE OBJECTIONS FROM LOCAL COMMUNITIES.

GILFORD LIMITED

Drina Camp
P.O. Box 102
Port Moresby, NCD
Papua New Guinea

Date: (4:48 am) Wednesday, 10 May 2017

TO: The Management
Memalo Holdings Limited
Drina Camp

FROM: Mr Mok Chow Kheng
GM/Gilford Limited
Drina Camp

SUBJECT: RESUMPTION OF OPERATIONS INTO MARANA LAND MASS

Please be advised that we will be resuming operations and plan to move into Marana Land on Wednesday 17, May 2017.

Operations in this area have been suspended since 23 November 2016 when the so called landowners erected blockages. It is over 5 months now with no landowner(s) making any effort to resolve this issue. As time is of essence to us we are moving in to resume operations where we left off.

Be further advised that as **Sub Lease Holder (Gilford Limited)** to this area (Pomata Concession) this authority gives me the right to conduct business as per this agreement for the next sixty years.

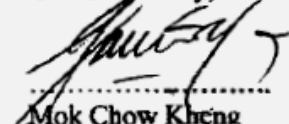
The operations will only stop when I am served a restraining order or a court decision telling me otherwise. As I write, I have not been served such a notice. As such, as Sub Lease Holder, I am proceeding with my business plan in accordance and compliance with the FCA requirements.

May I also remind us all that any person(s) intending or seen to be intending to obstruct my operations in any way will be dealt with under the laws of this country.

Please inform all affected parties on Gilford Limited's stand on this issue.

For your information and, I would appreciate your understanding in this matter.

Yours sincerely,



Mok Chow Kheng
General Manager
Gilford Limited/Drina Camp

C: Mr Andrew Tiong
General Manager
Gilford Limited/Port Moresby

C: Police Station Commander
Palmalal,
Pomio District, ENBP

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