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**MAXIMISING THE CARBON ABSORPTIVE CAPACITY OF PNG FORESTS
THE CATALYTIC ROLE OF COMMERCIAL FORESTRY**

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The Australian Government's GIFC initiative is important and timely. I welcome the opportunity to give the PNG forest industry's perspective on mobilising private sector investment.

PNG does not have a significant deforestation problem. There has been some deforestation, particularly in the Highlands. This reflects population pressures. As a developing country, a modest area of PNG's significant forestry endowment has also been cleared for agriculture.

PNG's forest cover has been quite stable since Independence. I will therefore focus on the potential for GIFC to maximise carbon dioxide absorption. The atmosphere cannot determine if a tonne of carbon dioxide emissions has been reduced by avoided deforestation or increasing the carbon absorption capacities of existing forests. But we need to understand the distinction. Policy and institutional changes in PNG that encourage trees to grow faster than would otherwise have been the case are as potentially valuable as avoided deforestation in countries where deforestation is a problem.

Carbon absorption investments under GIFC in PNG are likely to be very cost effective. Such outcomes are arguably easier to achieve in PNG than in some other GIFC target countries. It is therefore important that PNG forest industry perspectives are reflected in the design of the GIFC.

Mobilising private sector investment

Mobilising and therefore maximising private sector investment in carbon absorption can help achieve GIFC objectives. But we need to accept some basic facts about commercial forestry in PNG.

- Commercial forestry is legal and sustainable. Permits are issued by PNG in accordance with its law. Commercial forestry operates where soils and rainfall combine with low population densities to deliver fast regrowth. Cutting cycles are appropriate. Land that is inappropriate for commercial forestry is off limits. Around a third of the total area of PNG is not allocated for any purpose.
- Governance challenges reflect government and landowner company realities. Commercial forestry should be part of the solution. But it is not the problem.
- Royalties, taxes and spending on infrastructure and health and education facilities by the commercial forestry sector give the lie to assertions by Green NGOs that the industry does not generate real and significant economic benefits to PNG.
- The industry is investing in value adding. Policy settings are gradually improving. The industry is addressing legality and transparency. This is a market-driven response to misconceptions about illegal logging in PNG.

Commercial forestry in native forests is increasingly being conducted in accordance with global norms of sustainable forest management. If it can encourage PNG to continue to

evolve in this direction, GIFC can achieve its twin objectives of carbon absorption and sustainable development.

But clarification on some key GIFC design issues is needed.

- Is plantation forestry to be included, and if so on what basis?
- Is equal weight to be placed on avoided deforestation and carbon absorption/abatement? If not, how can the initiative maximise the carbon absorptive potential of PNG's forestry endowment – and enable PNG to achieve its legitimate development objectives?
- Will Australia apply Kyoto Protocol sinks rules, or is it prepared to develop and apply a set of rules that will maximise the incentives for private sector investment in sustainably developing PNG's forestry endowment? Is Australia prepared to develop and negotiate sinks rules that maximise its access to the low cost abatement potential of PNG's forestry endowment while also enabling PNG to achieve its commercial forestry objectives?
- Can GIFC funds be used for silvicultural investments?
- Can PNG participate in an Australian emissions trading system, and if so under what conditions? What would the implications be for commercial forestry in PNG from such participation?

I encourage those designing GIFC rules to engage constructively with PNG's commercial forestry industry. A preparedness to do so will signal an intention to help PNG maximise the socio-economic and environmental benefits from its forestry endowment under GIFC investments.

Maximising poverty reduction and environmental benefits

ITS Global's reports demonstrate that commercial forestry generates very substantial macro and micro socio-economic benefits for PNG and its people. Underutilization of PNG's annual sustainable forestry cut, as estimated by FAO and ITTO, represents an opportunity cost to PNG. Current harvesting is 2.3 million cubic metres per annum. But FAO and ITTO estimate the annual sustainable cut at 3.9 million cubic metres per annum. This underutilization costs PNG around \$US20 million in lost government revenue each year. PNG cannot afford such losses.

Commercial forestry generates infrastructure, health and education services. Local people value and use such investments. If commercial forestry did not provide such services, there are no grounds for assuming the National or Provincial Governments would do so – let alone maintain such investments.

There is no evidence that commercial forestry delivers significant adverse environmental outcomes. It is a renewable resource. Cutting cycles are set and monitored according to well-known local conditions. Re-growth rates are measurable and vigorous. A young tree absorbs more carbon dioxide than an old tree.

Payments under GIFC to local people to undertake environmental services will require careful analysis. Their preferences need to be identified. They understand the importance of their forestry resource. They also understand the failures and weaknesses of existing landowner representative structures in PNG. But like people the world over, they also want better infrastructure, health and education services. There are some complex issues in PNG that require careful analysis. What might work in other GIFC partner countries will not necessarily work in PNG – especially given unique risks and security of tenure issues.

Methodological and institutional challenges

PNG FIA shares the view of other speakers that satellite mapping can make a useful contribution to achieving GIFC's objectives. But on its own it will not be sufficient. Policy and institutional issues in using the output, including capacity development, will need to be addressed.

On-ground work is required of the potential absorption/abatement contribution from changes to silvicultural investments and changes in cutting arrangements – for both native and plantation forestry.

Some pilot projects should also be undertaken on technical issues such as current conditions on the ground (before and after logging), growth rates and types of tree species, carbon absorption and current and prospective cutting cycles.

The results need to be agreed between Government and industry.

GIFC funds should be used to encourage PNG to address institutional challenges. Silvicultural investment arrangements in logged areas can and should be improved. For example, rather than the current arrangement, whereby a silvicultural levy is paid by the companies to the PNG Forest Authority, a more effective option would be for the forestry companies to be given the responsibility for undertaking such investments. Such an arrangement could maximise regrowth and therefore carbon absorption.

Some pilot projects, involving public/private sector partnerships in silvicultural investments, should be developed.

Strategic partnerships

A strategic partnership between the PNG and Australian Governments will need to include PNG's commercial forestry industry. PNG FIA and its member companies would welcome engaging at an early stage in that strategic partnership. An agreement

between officials of the two countries that is remote from “on ground” realities would not be the best the way forward.

A strategic partnership is essential.

- It is hard to see how GIFC can maximise its role in mobilising private sector investment in carbon absorbtion in PNG without the active support of the commercial forestry industry.
- The timing is good. PNG is becoming increasingly aware of the sustainable potential of its forestry endowment – and is improving its policy and institutional settings. GIFC is pushing on an open door.
- A strategic partnership along the lines I am suggesting offers Australia the best risk management options.

Let me conclude by thanking the Australian Government for this initiative. It can and should be used to generate both environmental and development objectives in PNG.