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Solomon Islands – the untold story Logging corruption ruins a Nation

The disturbing scenes in the Solomon Islands of civil unrest and calamitous violence against property are an example of what can happen when logging industry corruption is allowed to continue unchallenged.

When the Australian led RAMSI Mission was sent to the Solomon Islands in July 2003 it was specifically warned that the logging industry was out of control – logging at twice the sustainable rate and fuelling political corruption. But in the last three years the level of logging has tripled while Government revenues remained largely static – clear evidence of unbridled political corruption that has now spilled over into violence.

***Masalai** is deeply concerned that the very same forces that have crippled the Solomon Island's forests and destroyed its political integrity are still at work in PNG, more than fifteen years after Justice Barnett's seminal Commission of Inquiry. In 2005 the World Bank cancelled its Forestry and Conservation Project because there was no political will in PNG to deal with illegal and unsustainable logging. The Solomon Islands shows how dangerous it can be to continue to ignore logging corruption.*

In 1989 Justice Barnett's Commission of Inquiry found that the Malaysian logging industry in Papua New Guinea was acting totally outside the law while bribing politicians and forestry officers.

A series of government investigations since 2001 have confirmed that the situation today is even worse. Now politicians and some Forestry offices are actively soliciting the logging companies and facilitating their unsustainable and illegal activities¹.

In the Solomon Islands things have been no better. The same Malaysian logging interests, including Rimbunan Hijau, have been raping the forests and defrauding the people there for many years.

In the last three years the scale of the problem in the Solomon's dramatically increased as log exports soared – a pattern that is being repeated in PNG with record export levels this year and a series of new and illegal logging projects coming into production.

The problems in the Solomon's were recognised in the National Economic Recovery, Reform and Development Plan published by the Solomon Islands Government in 2003². The Plan specifically

¹ Forest Trends Report *Logging, Legality and Livelihoods in Papua New Guinea: Synthesis of Official Assessments of the Large-Scale Logging Industry* available at <http://www.forest-trends.org/documents/png/>

stated that *'on-going corruption and misuse of public funds prevents the public service delivering adequate services to the majority of people. The Plan also acknowledged the image of the forestry sector as being one of 'unscrupulous Asian companies extracting unsustainable quantities, damaging the environment, evading taxes and avoiding payments to landowners and using unfair transfer pricing mechanisms to the disadvantage of the economy'.*

One of the key objectives of the Plan was therefore *'to strengthen and improve governance institutions and good governance'*, including reform of the forestry sector.

The Plan also warned that *'if the present state of affairs continues the inequality and conditions of an unjust society will increase and poverty will increase and deepen'.*

Solomon Islands logging – systemic fraud

In March 2005 the Solomon Islands Government commissioned a Department of Natural Resources audit of the Forestry Department and the collection of royalty payments and fees by the logging industry.

The Report found that large amounts of tax were not being paid by logging companies as they routinely bribed politicians to obtain unlawful 'exemptions'.

Amazingly, after the RAMSI Mission began in 2003, the logging companies were able to almost treble the amount of timber exported under these questionable exemptions.³ Thus the amount of tax forgone rose from \$10 million in 2003 to \$30 million in 2004.⁴

The Report also found that while logging companies were able to avoid paying much of their tax liabilities large sums of money were being paid to forestry officials and diverted to unbudgeted expenditure.

Almost \$1.5 million was identified that had been paid in unauthorised ex-gratia payments to MPs, Ministers and officials. The identified misappropriations included over \$25,000 to a dive boat operator for a picnic day out for the Prime Minister and friends!⁵

The Report concluded that

"There is no doubt that the poor management and administration, lack of accountability and transparency of granting timber exemptions has resulted in a significant amount of export duty being foregone which otherwise should not have been exempted and this has had a significant impact on the government revenue stream"⁶

In November 2005 the Solomon Islands Auditor General published his own findings on corruption and mismanagement in the forestry sector.⁷

The Auditor General concluded that:

- *In 2004, there was an estimated \$29,930,324 in forgone revenue to the Government in the granting timber duty exemptions. This represented significant increase from 2003. The administration and management of timber duty exemptions lack transparency and accountability.*
- *Lack of proper forestry and accounting records – Reconstructed records indicate significant arrears of timber royalty payments due but not collected.*

² Solomon Islands Government NERDD Plan Strategic and Action Framework Final Report. Dept of National Reform and Planning. October 2003

³ In 2003, 169,000 cubic meters of timber was exported without any timber royalties being paid. In 2004 this figure leapt to 444,000 'royalty free' cubic meters.

⁴ Ministry of Natural Resources Forestry Dept Audit Report, 2 March 2005 at page 36

⁵ Report at page 67

⁶ Report at page 6

⁷ Office of the Auditor General Media Statement, 4 November 2005

- *Continuous breaches of agreement by logging companies but there has been a lack of action by the Department of Forestry, Environment and Conservation in relation to these breaches.*
- *A number of irregularities were noted in particular, unlawful ex-gratia payments (same as Fisheries), unaccounted for advances made to individuals from logging companies, timber royalty payments diverted to private account and Audit has not been able to sight documents pertaining to payments amounting to \$400,000 in relation to 2 trust accounts.*

Solomon Islands logging – unsustainable

The Solomon Islands has also seen a massive increase in unsustainable logging since the country came under the de-facto control of Australia with the deployment of the RAMSI Mission in July 2003.

In 2003 AusAID commissioned and paid for an assessment of the National Forest Resource as part of its Solomon Islands Forest Management Project. The Assessment, published in October 2003, acknowledged the important role that forests played in the everyday lives of local people. Not only did the forests provide fuel wood for cooking and building materials they were an important wildlife habitat, provided a range of non-wood products such as food and medicine and were important in protecting the quality of both land and marine water.

The Assessment found that the then current rates of timber harvesting – around 600,000 cubic metres per year – was totally unsustainable and that at that rate the forests would be completely exhausted by 2015. The Assessment recommended an immediate reduction in harvesting levels to below 250,000 cubic meters in order to sustain the forests for the long-term benefit of the people.⁸

These warnings and recommendations were ignored. Despite the commonly acknowledged need to tackle corruption, the logging industry was encouraged to increase production, often beyond the levels allowed in individual permits. As a result the amount of timber harvested increased steadily from 550,000 cubic meters in 2002 to 1.2 million in 2005. **This is almost five times the level of harvesting recommended in AusAID's own 2003 report.**

Any arguments from the Australians that these increases have been necessary to support government revenues and ease the burden on Canberra, are not borne out by the statistics. Despite the amount of timber exported having more than doubled between 2002 and 2005, the contribution of logging revenues to government income actually fell, from 16% in 2002 to just 13% in 2004. Similarly the contribution of logging to the overall economy also fell. In 2002 exported logs provided 27% of total export revenues, by 2004 this had fallen to 18%.⁹

This indicates that firstly other areas of the SI economy have been performing strongly and the need to massively increase logging was not a genuine economic one; and **secondly that massive amounts of money have been stolen or corruptly hidden.**

The recent crisis in Honiara has its shallow roots in bought votes and a rigged election. No matter who did what, this required large amounts of cash. It is certain that much of this cash came from corruption in the forestry industry.....

Interestingly, AusAid has funded the consultant firm URS Asia Pacific since 1999 to run the The Solomon Islands Forestry Management Project. This has cost approximately \$AUD 10 million and was expected to run until 2008. According to URS¹⁰, this project was to:

“contribute to socio-economic development, peace building and the well-being of the people of the SI and their environment by enhancing: the management of natural forests; growth of the forest estate through plantation development; revenue collection

⁸ National Forest Resource Assessment, October 2003

⁹ All figures in this paragraph has been derived from the SI Government Budget and Customs data

¹⁰ http://www.ap.urscorp.com/_business/prjinx.asp?BDY=57

(from log exports) by landowners and the Government; and the capacity of the Forestry Division (FD) to effectively support and regulate this key sector of the Solomon's economy."

Many people are going to be asking "What went wrong!".

Solomon Islands logging – warnings ignored

In November 2003 Sharan Burrow, the President of the Amalgamated Timber and Construction Union in Australia, wrote to the Australian Minister for Foreign Affairs, Alexander Downer, warning him about the potentially catastrophic situation developing in the Solomon Islands forestry sector.

Mr Downer was told that with the recent increase in logging activity, commercial forest resources could be wiped out by 2010 and that AusAID was promoting even greater levels of log export by allowing logging companies to ignore their domestic processing obligations.

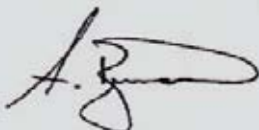
He was also informed of the endemic corruption and warned of the stresses that current policies would create 'on a rapidly growing population' and the danger of '*permanent impoverishment, dependency and insecurity*'.

These warnings were not heeded and timber harvesting and log exports were allowed to further spiral out of control – the rest is history.

Advocacy, resourcing, and effective implementation of such policies must be financially and politically supported by donors. We cannot allow this vitally important industry to be put in the too-hard- basket. The Australian government must not allow its funded activities to promote or accept the unsustainable destruction of the native forests of the Solomon Islands. Australia, as a major donor in the development of good governance and security in the Solomon Islands, cannot afford to ignore the abuse of natural resources or the country will become permanently impoverished, dependent, and insecure.

We urgently request your intervention to ensure the protection of the richest natural resource of the Solomons and that it will not be exploited for short-term gains of balancing budgets.

Yours sincerely,



SHARAN BURROW
President