



FIJI SAWMILLERS ASSOCIATION

PROMOTING & PROTECTING THE TIMBER INDUSTRY IN FIJI

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President: Jay Dayal Secretary: Amena Tuisawau Treasurer: Yugesh Narayan

24th September, 2012

**Commodore Josaia Voreqe Bainimarama
The Prime Minister of Fiji
Office of the Prime Minister
Government Buildings, New Wings
SUVA**

Dear Prime Minister Sir,

UNFAIR ISSUANCE OF MAHOGANY LICENSES

We, the members of Fiji Sawmillers Association hereby express our grave concern and utmost disappointment over the attached list duly signed by the FHCL Chair Mrs Elizabeth Powell recommending issuance of Mahogany Log Licenses. The said recommendations are absolutely unfair and biased against the local businesses, the resource owners and are not in the best interest of the country as a whole. The recommendations, if implemented, will create an atmosphere of disharmony, mistrust and total breakdown of faith between the Bainimarama Government and the local business stakeholders involved in Mahogany processing.

The recommendations seem to be intentionally undertaken to drive out local competitors against foreigners. We wish to highlight the following points for your consideration:

- 1) We are hundred percent locally owned businesses.
- 2) We repatriate hundred percent of the true value of the product and profit back to Fiji hence no transfer pricing takes place.
- 3) We, the current and potential processors of Mahogany timber, provide employment and the value of our investment are as follows:

No.	Company Name	Investment at Risk	Employment
1.	Dayals Sawmillers Ltd	\$10 million	165
2.	KKK Sawmills Ltd	\$3 million	65
3.	Mahogany South Pacific Ltd	\$1.5 million	15
4.	Forest Supplies Ltd	\$1 million	35
5.	Newmart Autosales Ltd	\$2 million	70
6.	Nasa Logging Ltd	\$2 million	47
7.	Valebasoga Tropikboards	\$15 million	400
8.	Waiqele Sawmills Ltd.	\$10 million	200
9.	Vitiana Sawmills	\$2 million	100
10.	Southern Forest Products	\$8 million	100
11.	Lumber Processors	\$6 million	100
	TOTAL	\$60 Million	1,297 Employees Affecting 5,200 people

- 4) The above investments and employment pose a great degree of risk of demise due to the above grossly unfair licensing recommendations. By issuing licenses to new unknown businesses there is no net gain in employment as our businesses will come to a complete halt leaving us with the painful option of terminating our employees.
- 5) Most, if not all of the above companies produce value added Mahogany products for export markets ready for use by the end use customer. Forest Supplies Ltd were awarded the Prime Minister's Exporter of The Year Forestry Award 2011.
- 6) We provide the much needed foreign revenue to the Government and have generated significant interest in various markets through our sheer hard work, innovation and commitment of resources over the years.
- 7) One hundred percent of our production and employment depends solely on the availability of Mahogany logs. In the event we are forced to forego the opportunity to process Mahogany then our operation and business will face total demise.
- 8) In addition to value adding, the above companies have endeavoured to maximise the unit selling price for export of Mahogany products. Example, Mahogany decking price increased from \$900 to \$1,700, while FHCL is still selling at \$1,500.
- 9) We sell rough sawn timber to local furniture manufacturers for their value adding into furniture for local and export sales.
- 10) The applicant members from the above list have been totally eliminated from the license recommendations for reasons unknown to us. In particular those that have been one of the largest log purchasers from FHCL and competing fairly in an open export market.

DISCRIMINATORY PRACTICES OF THE GOVERNMENT

We now wish to state the unfairness in the decisions undertaken by your Government which has caused the industry a great degree of distress and poses many questions of integrity.

MONOPOLIZATION OF RESOURCES BY SUSTAINABLE MAHOGANY INDUSTRIES (SMI):

- (a) Last year the entire Mahogany industry was staggered that SMI was issued with license for all of Grade 1 and Grade 2 logs when specific Expression of Interest was never published for bidding as was done for Grade 3, 4 and 5 (on Saturday, the eve of Christmas 2011 in the Fiji Sun).
- (b) We understand that SMI was supposed to produce guitars in Fiji however the export data reveals that approximately 90%, of their production is exported as rough sawn timber—with no value adding. Interestingly, almost 50% of their exports are to Dominican Republic market where most of the local sawmillers are exporting due to unavailability of Grade 1 and Grade 2 logs/ sawn timber. The above information is readily available from Department of Forestry or Ports Authority of Fiji.

- (c) The current recommendation of license to Pacific Western Timber (which is owned by John Wagner, the shareholder of SMI) for 30,000 cubic meters of Grade 3 logs (75% of the entire Grade 3 in the forest) indicates that Government is supporting SMI in their ploy to drive out local sawmillers and exporters who are competing against SMI in Dominican Republic market by restricting log supply to the local processors by eliminating competition.
- (d) Whilst your Government is promoting fair trade and competition the above actions are very much contradictory, unhealthy and uncalled for.
- (e) Pacific Western Timber is not a locally owned company and does not even own a sawmill. The comments from Mrs. Powell suggest that they *intend* to setup a sawmill in Vanua Levu as a justification to their application. The present sawmillers in Vanua Levu are struggling for logs for peeling into veneer and plywood or sawn timber. With the introduction of additional sawmill in Vanua Levu your Government will lead the present sawmillers to demise due to scarcity of log supply.
- (f) Our Vanua Levu sawmillers were not even given a fair chance to submit their respective bids for the Grade 1 and Grade 2 logs which are suitable for peeling. Valebasoga Tropikboard Ltd is one of the largest privately owned plywood mills in Fiji with more than \$15 million worth of investments. They have been struggling to secure enough log supply and with their intention to process Mahogany in the foreseeable future is now completely shattered due to the actions of your Government.
- (g) SMI, as per export records are selling to their own company in the US namely Pacific Western Timber and Sustainable Mahogany USA. This poses a question transfer pricing and repatriation of the fair value of the timber back into Fiji.
- (h) In November 2011, the forest operations were closed in Nukurua by the FHCL Board. We understand that the entire operation was shut down until April 2012 because SMI was over stocked with logs and sawn timber which it was finding hard to sell. This shows that the industries welfare and forest operations are dictated by SMI.
- (i) SMI is following it's own log grading rules that are different from what other buyers follow. How come a foreign company is allowed such an extent of dictatorship in the forest operations?
- (j) SMI is further allowed 30 days credits terms while local bona fide companies are not even permitted to remove logs until they present a bank cheque.

UNFAIR CRITERIA AGAINST LOCAL OPERATORS

- (a) We note from the license recommendations that Rainy Woods Ltd, a portable sawmill operator –with no significant investment, has been recommended for 120 cubic meters of Grade 3 and 30 cubic meters of Grade 4 logs. This equates to 150 cubic meters of logs per annum. The value adding activities listed for the company are: “processing timber for decking, flooring and weatherboard for export and local sale”. We are intrigued at this recommendation as 150 cubic meters of logs will not even meet 2 containers of Mahogany decking. No company would survive on less than 2 containers of export per

annum. It is simply illogical, irrational and uncommercial. This shows that the recommendations are senseless and merely a sham.

- (b) We further notice that Northern Forest International Ltd that has been recommended a total of 24,930 cubic meters of Grades 3 and 4 logs **does not** own any sawmill and has **no investments** to justify this volume.
- (c) Wood Moulders (Fiji) Ltd is yet again a very new player in the industry with no track record of timber processing.
- (d) A1 Access Technology and Green Lumber Solutions are companies without a sawmill and are merely middlemen. Collectively they have been allocated 8,070 cubic meters of logs per year while established sawmillers with a proven track records such as our businesses were provided with no consideration or volume allocation at all.
- (e) One of the industry members, Touchwood Investments, is a contract ripper of Mahogany timber and he does not export value added products directly. Yet the allocation to the company is 7,200 cubic meters per annum.
- (f) The above proves that the recommendations are merely a sham and are prepared without any proper criteria and are targeted to drive out the existing competitors of SMI out of business.

Sir, we humbly seek your **most urgent intervention** in the matter before an industry wide damage is done by the farce actions of the Chairperson of FHCL Board. We are hopeful that through amicable dialogue we will be able to address the issues above as we also hope to receive license for the volumes requested.

Yours faithfully



Jay Dayal
President

MEMBERS LIST:

Jay Dayal (Dayals Sawmillers Ltd)
Mohammed Shameem (KKK Sawmills Ltd)
Sujan Patel (Mahogany South Pacific)
Rajesh Chand (Forest Supplies Ltd)
Amena Tuisawau (Southern Forest Products Ltd)
Amad Begg (Waiqele Sawmills Ltd)
Mukhtar Ali (Valebasoga Tropikboards Ltd)
Mohammed Feroz (Newmart Autosales Ltd)
Samsoor Begg (Nasa Logging Ltd)
Niwaz Ali (Vitiana Sawmills Ltd)

Cc: Col Pio Tikoduadua, Permanent Secretary Prime Minister's Office
Minister of Forests, Mr Jokatani Cokanasiga