

STANDING COMMITTEE ON
JUSTICE, LAW AND HUMAN RIGHTS

**[Verbatim Report of Interview with
Fiji Hardwood Corporation Limited (FHCL)]**

HELD IN THE

COMMITTEE ROOM (EAST WING)

ON

MONDAY, 15TH APRIL, 2019

VERBATIM NOTES OF THE MEETING OF THE STANDING COMMITTEE ON JUSTICE, LAW AND HUMAN RIGHTS HELD AT THE COMMITTEE ROOM (EAST WING), PARLIAMENT PRECINCTS, GOVERNMENT BUILDINGS, ON MONDAY, 15TH APRIL, 2019 AT 10.40 A.M.

Interviewee/Submittee: Fiji Hardwood Corporation Limited

In Attendance

Mr. Andrian Sofield	-	Chairman
Mr. Shakeel Maharaj	-	General Manager

MR. CHAIRMAN.- Good morning everyone. I would like to welcome the Team from Fiji Hardwood Corporation Limited (FHCL) who are here before us to present on the Public Enterprises Bill 2019 and we would like to extend our warm welcome.

(Introduction of Committee Members by Mr. Chairman)

Without any further delay, we give the floor to you for your submission, Sir. Thank you.

MR. A. SOFIELD.- Good morning and thank you very much, Mr. Chairman. I have met Honourable Nawaikula and Honourable Bulitavu when you were traveling around the country on the Code of Conduct Bill. I have not actually read this particular Bill.

FHCL is obviously in charge of the mahogany industry. We manage the resources and I have been the Chairman now for just three years. We do not have a Chief Executive Officer (CEO) at this point in time, our CEO resigned about 18 months ago and we have appointed Mr. Shakeel Maharaj, as our General Manager. We figured that we did not need a CEO.

The Company has had a very poor financial history. It goes back to round about 2003 where, I think, they set up a mill at Galoa and the Company ran over debt over that development of something like \$20 million plus. When I came into the company, the debt was about \$7 million. We employed Mr. Shakeel Maharaj as our Financial Manager and we recently appointed him as the General Manager. We have our debt owing at the moment at \$4.2 million and these are loans from the Fiji Development Bank (FDB) and Fiji National Provident Fund (FNPF).

I am very pleased to say that we are budgeting to clear those loans by the end of this year and I believe that with the way we have re-established our financial setup and our processes within the forest and our management operations, I am very hopeful that this year FHCL will show a profit. I think for the first time, that is history.

We are running very strongly and we have reorganised things. The industry is very susceptible to the weather, of course, and during wet weather, it is very difficult for us to get timber out. Now, we have re-arranged our operations in the forest and if I can explain, first, we have our licence holders where we have 13 of those and 12 of those were contested, one was issued to the Fiji Mahogany Trust representing majority of the landowners that was nine contested licences.

That happened in September 2017 when those licences were issued. There were problems leading up to that. We basically cut no timber at all and the licence holders realised that there was

going to be a change and they stopped buying. We had ran into difficulties with harvesting and our contractors basically pulled out.

The arrangement now is, we have contractors who harvest the logs and then we also have contractors who deliver it to the mill gate. We have established what we call the chain of custody of the logs which was not there totally. Before we were losing logs and all sorts of arguments backwards and forwards. So, we have re-established or re-worked our harvesting and delivery so that none of the licence holders were allowed into the forest any more. Before that, they were coming into the forest and things were happening there that should not have happened. They were selecting logs.

We believe some of our staff at that time were being paid off, which is very difficult to prove, of course, but difficult times. So when we restructured, we engaged our contractors to harvest and then we have separate contractors who deliver to the mills.

Now, the licence holders do not come into the forest so we are able to then establish that chain of custody and that is very important for our international clients of our licence holders.

We have another issue in that. We do not have any independent international certification. Now, because our licence holders want to export particularly, say to New Zealand, at the moment they are refusing to take our logs because we do not have an independent certification. That was established and we are working through that process.

In 2013, they stopped. I do not know why they stopped it but it has been something like \$300,000. It is not cheap to get it but it was stopped. So we have reinitiated that process and we are in the middle of that right now, so that we will get international independent certification which means our exports will be in a much better position and that helps our Fiji brand as well.

One of the other things that we have also set into motion is to measure what resources we own. Now, in our audit (and there was no audit done between 2009 and 2016 but an audit was done in 2016 and 2017), it sets a value on the forest of about \$200 million and it really was pretty much a calculated guess. Now, when we came to a financial audit in the last six months, they queried the value of the forest, the value of our resource.

I have had several meetings now with the Auditor-General over this. Apart from the fact that he was very unhappy with the audit that was done in 2016 because it queried whether it was tendered, it was not tendered through his office so he was not happy about that.

When we tendered the financial audit, he tendered those. We worked with the OAG so he tendered that and they came back with the same query. What is the value of the resource?

So now with the South Pacific Commission, we have already had a meeting with one of their gentleman who is very familiar with satellite technology and photographic technology to actually measure our forests. So I think for the first time since the company was set up, when we have been through this exercise which again, could cost us maybe a couple of hundred thousand dollars, we will know at the end of the day what we own.

As I said, it is a calculated guess. Using this technology and the methodology in measuring the forest, they will go in, they will look at the aerial photographs, they will go into the forest, they will take a couple of square kilometres sample or go and check every log in that area and then they will interpret that through the rest of that particular lease.

We have about 73,000 hectares under lease. A lot of it, we are not happy with. Some of it does not have any mahogany on it at all. In fact, we think there is only about 51,000 hectares or 52,000 hectares that is of value to us. At the end of the day, at least, now we will know what we own, which I think would be a big plus and that will obviously help with our audit.

With our leases, there has been an unfortunate lack of communication, I believe with the landowners, possibly going right back to the start of the company on day one when it was set up in 1998. My personal point of view is that, the landowners may have been marginalised a little. In fact, when I was appointed Chairman, I met with them the first week. They told me they had been trying to meet with the previous chairman and executives for two years and it just had not happened.

Now, we are in much more regular communication with them. I think they are feeling a lot happier. We are trying to bring them into the fore and by giving them an uncontested lease.

They did want 15,000 cubic metres a year. I said, "I will give you five. You need to walk before you can run", and they were not able to produce 5,000 cubic metres. However, they are now working on a programme which is really good, I believe and Mr. Shakeel has been meeting with them. He is now setting out monthly meetings with the Fiji Mahogany Trust and that is a real plus for us.

We are opening up a new forest in Sawakasa in May. We have had a meeting with the landowners' representatives already so that they know what we are doing and what they can expect. With our leases most of them, if not all, are 50 year leases. The maturity for a mahogany tree is 35 years so we do not start harvesting till, at least, 35 years old and even then, a particular part of the forest might not show a commercial return.

We have five grades of logs, Grade 1 being the top and are measured on diameter. So if we harvest 35 years then we replant, and that had not happened for four years when I came in. We have replanted to pick up those years.

We had a nursery with 550,000 seedlings in it which grow about a meter tall and then we put them out in the forest. So we change the method of planting. Prior to that, the hole is dug in the ground, three seeds were dropped in it, some soap put on it with the hope that it will germinate. And then we go back a few months to see if it was growing.

When we set up the nursery, we put the seedlings in the bags with a special mix which we have to play with to get a much stronger or better results. So we are getting over 90 percent germination in the nursery and another 80 percent in the forest which we had given up basically because they were not just getting anywhere, with the replanting down by maybe 15 percent. So we have overcome those issues by the end of this year.

We will be planting another 1,400 hectares and that one will pick up the backlog for the years that we have missed. We need to plant 750 hectares to 800 hectares a year for sustainability so we have that under control.

So really I think the other thing that we are doing in June, we are going to start harvesting in Labasa for the very first time. There have not been any harvesting in the resource in Vanua Levu, in fact, Seaqaqa. So we are going to start harvesting, start preparing to have meetings with the landowners and with our staff who were based in Labasa, we have closed the Labasa Office and we are in the process of moving into our office space in Seaqaqa where the forest is.

So with the very first time, we will see harvesting in Vanua Levu and what we are going to do there, instead of selling logs we are going to actually add value. We will contract a mill or several mills to cut the logs for us. It is no point harvesting logs and shipping them back to Viti Levu, so we will actually move into processing ourselves.

Whereas at Galoa, Fiji Hardwood own the mill. In Vanua Levu, we will not own a mill but we will sub-contract out. So the landowners and the people on the mill, I think it has gone up to about \$200 a cubic metre just in reaping. So we end up selling sawn timber in Vanua Levu which will be a big plus for us and also a big plus for the landowners up there, who had nothing but land lease for 50 to 60 years.

So in a way, we are trying to bring the landowners more into contact with what is happening. They do own the land, we own the resource and that is also an issue we had difficulty with in getting across. The landowners see the trees on their land and they think they own the trees, that is not been easy to do.

But if we come back to the lease being 50 years, we harvest at 35 years and we replant, we do not ever get that harvest again in that particular lease because it will take another 35 years. So there is not much point in replanting if we will never get to see the end of it. So we will be asking to convert our leases to 99 year leases so we can start harvesting at 35 years and we think we can then, maybe get 10 cycles over the following years once we start replanting. We should get up to perhaps 10 cycles over that period of time. Is that the number you want? It is not very good for the industry.

I am not sure how it affects the Bill restructuring but I did want to sort of give you a little bit of background of where FHCL is at the moment. As I have said, we have had very poor financial record from day one but this year looks like we are finely moving ahead.

We expect to harvest 20,000 cubic metres in Labasa, Vanua Levu, this year which is not even in our budget at the moment. So that will really pick the finance up that based on what we are doing now in Viti Levu. We will meet our budget anyway, we will pay up the loans, once we got the loans paid out then the company can move forward.

Another issue I have is with the Board. We have five members on the Board, two of us from private enterprise, three are Government appointees. There was the Solicitor-General, the first Secretary Industry and the PS Lands, though he has been appointed right now.

It is very difficult to get the quorum. I know that those people have so much to do; Fiji Hardwood is not on their priority list to attend Board Meetings. So I think last year we might have had three meetings if we were lucky and before that, we had many more but we might have six in the year but I just could not get it. I have asked for other Board Members but having Government Officers on the Board, is very difficult because they have other commitments and it is very time consuming. And I know there are remuneration goals, I think they consolidate revenue rather than into their hands, but it does happen pretty much across the Board with all Government appointees to Boards. So, that is being very difficult for me as the Chairman.

We work with the MIC and again that is difficult, because again, it is Government appointees, the Honourable Prime Minister is the Chair of the MIC and he had asked to meet four times a year. We have been meeting may be twice, although we do have a bit of more communication with another last six months. We were starting to move things along, because I know that they are very concerned about the status of the industry. But now I can see from the financial viewpoint, I think we are moving very closely to the way in which we were before. We have overcome lot of issues.

Coming to the restructure and when I read this Bill, I feel that I do not know the ins and outs of the Board appointments through a Ministry, other than we have to get their approval to appoint Board members who may be responsible to the Honourable Minister. It is very difficult.

I think that is probably almost a difficult thing that if we have a dysfunctional Board, it is very difficult to make it all work. It is really an important part of the process. I think that we do have a Board that can meet and give directions and set the policy. And really, there is only two of us who have almost taken on micro-management after our CEO left. Mr. Sanjit Patel as the other Board member, he and I basically undertake over the micro-management of the company for about a year.

The CEO left for family reason, his family was in Europe so we re-engaged senior consultants. We had a CEO who is a consultant at arm's length to see us through and we got to the point where we needed to move forward when Shakeel came on Board as the Financial Manager. After six months, he was appointed General Manager because of his interest, the way the things were starting to reorganise. I felt at this point in time and the history of the company, it is much more important to have a Financial Manager rather than a Forest Manager.

In the previous year, he was very good in the forest, set up our forest practices, set up our nursery, silviculture - the development of the seedlings and that sort of industry, he was very good at that. He worked through the licensing of forest, but on the financial side we had a very weak financial control or financial manager at that time. She resigned on her own accord in June to July last year, I think. Since then we re-established the company, put on a good financial footing and it is now looking very promising.

MR. CHAIRMAN.- Thank you for that brief in regards to the Bill and the company itself. Either way, that was a very good brief actually. Had you not raised it and given us the background, I would have asked you to give us the background because we are dealing with all the public enterprises and since we are dealing with the Bill, that is going to have a major impact. We have actually asked everyone to provide a background as to where they were, where they are and where they are expected to be in next five to 10 years' time.

Mr. Shakeel, congratulations on your appointment. Definitely expect some good outcomes as you have been appointed as GM. Sir, with regards to the comments you made on the Board, I would like to bring your attention to Clause 31(2)(b) and 68(2). I will read it out and I would like to have your comments with regards to that.

(Mr. Chairman read out the Clauses from the Bill)

Do you think these two Clauses are going to help you with the concerns that you have raised or are they going to increase your concerns? What are your views?

MR. A. SOFIELD.- As I said, having public servants or civil servants on the Board, it is difficult for them to attend, to have the time to attend. Our Articles require we have six Board Meetings annually which is pretty standard for all public enterprise units.

I know that the civil servants on our Board, also sit on other Boards and Chairman of other Boards. It is very difficult. Fiji Hardwood Corporation Ltd is probably pretty much down the bottom of the list. I mean, our turnover is \$10 million to \$12 million annually. And I hope we can double that but right at the moment, we are pretty much at the bottom of the list. And really, there should be more attention paid to it because of that, I believe, but it is very difficult.

I understand the role of civil servants, you are all very busy and it is very difficult for them to come to meetings and meetings in the middle of the day, mornings, afternoons, whatever, because of their schedules. Also, their schedules change. They can change at a moment's notice, for example, if their Minister goes overseas and we just cannot fit it in. So I feel that, yes, civil servants could be on the Board but not as majority.

I think the Board should have a make-up. As you see, we have five members on the Board. If we had three from outside of Government, I think we would have a much better chance of being able to get a quorum.

The Solicitor-General is our Deputy Chairman. He is very busy. When I look back at the records, I see our civil servants have maybe attended one, two or three meetings in the last two years.

The Permanent Secretary for Lands was able to come along more often, but Permanent Secretary for Industry & Trade and the Solicitor-General are just too busy and they have attended very few meetings. Now, also in our Articles, if you miss three consecutive meetings, you should be thrown off the Board. But that obviously cannot happen for practical reasons.

So I think it is a difficult one but I do believe that the Boards should have a majority of people from outside of Government. The Government needs to be there, they are Government enterprises and Government units, they need to have representatives, I do not know what is going on but they also need to have people who can attend the Board meetings.

The Ministry always has a representative from the Ministry there to attend our meetings. That is alright, but he or she is not on the Board and obviously if there is no quorum, basically there is no meeting. So it is difficult. I would recommend that the Boards have a majority of non-civil servants on them.

I sit on other Boards where there are civil servants and we are adjusting meetings to meet their programme as best we can. So it is difficult. I know the role of the civil servants is important obviously, to be able to keep the Ministry involved in their particular businesses which they control, but it is difficult.

MR. CHAIRPERSON.- Having said that Sir, just comparing a Board to a particular Parliamentary Committee. Over here we are bringing substitutes. Is that not possible at Board level? For example, bringing in substitutes for the Board members who are sitting. Is it the person who is elected or the ...

MR. A. SOFIELD.- Yes, perhaps an independent director. They could be appointed, I believe, yes, as long as we have got, I mean if I can get a quorum ...

MR. CHAIRMAN.- Yes

MR. A. SOFIELD.- ... whether it be a subsidiary Board member or whatever or an independent member, it will make the thing work but it has been just so difficult.

I sit on other Boards where we get a quorum regularly and it works so much better but when it came down to two of us trying to keep the company operating which we did, it is very difficult but yes, certainly, a subsidiary Board member if something can be arranged under those lines, it would help because we do need to have a quorum to meet our Articles to get those six meetings annually.

But to set the policy and also that affects if we cannot get a Board meeting also, it goes down through the organisation, the staff get a bit, they say, the Board members do not come to meetings so why should we do this and why should we do that?”. Now, to me it is very important, if the Board functions well or operating well from the top, that will filter down through the organisation and you get a much better culture in developing, but at the moment it is very difficult.

MR. CHAIRMAN.- Thank you very much for that comment. Definitely, we will take note of it and we are going to deliberate at a later stage with regards to people being appointed and if they can send a substitute, if the substantive member is not attending the Board meeting because the work of the Board needs to continue, only then the company is going to perform.

MR. A. SOFIELD.- Yes, I mean, I cannot even get an AGM. We should have an AGM, but we have not had an AGM. I have not been able to get a quorum for that, but I also put a report in each year of attendance of our Board members that goes to the Ministry, I think it is very important and it does not look very good to some of them, but it is just the way it is.

I believe now that we are tracking it in a much more positive direction, and we get a lot better support from the Government side. The support that was coming was looking at how we are going to fix this up, but I think we have fixed it up. I think we are very fortunate in the last six months that we have actually fixed things, so we are travelling in a really good positive direction whereas before it was just really just wondering along.

It is an important industry for the country and we are up to date with all our loans payments, all our lease payments, we worked with iTLTB on all of that, we now collect all the rent, et cetera, before iTLTB was collecting and we were not getting the money. So we now collect it and we pay it to them rather than they collect it and hang on to it and hang on to our shares as well. So those issues all come into it, but we do have a much better method of operation now. Out in the forest, we are really operating very much more in a controlled manner and our finances are in a very much better state, and we are just moving ahead in a really good way.

MR. CHAIRMAN.- Thank you. I now actually open the floor to other Honourable Members as well, if they have any comments or questions, they would like to ask?

HON. N. NAWAIKULA.- When was the last time the company published its Annual Audited Accounts?

MR. A. SOFIELD.- We have just completed an audit which is with the Auditor-General right now for 2017. There was a gap there from 2009 to 2016. Ernst & Young were engaged to an audit, as I have said, unfortunately not through the Auditor-General’s Office and he was even very unhappy about that. He said, “How can I accept that audit when we were not involved with it.”

However it was done but then the financial audit was done by Aliz Pacific and that we have already been through that. It is now with the Auditor-Generals Office for final acceptance. We have had a few adjustments to it in the last couple of months. And I have had several meetings now with the Auditor-General, so we are on track with all of that. We have finally got it up to where it should be.

HON. N. NAWAIKULA.- And you know back to 1998, 2000 everyone thought that the Mahogany Industry was a solution, it will even pay at that time doubted possibly half the national debt. What happened?

MR. A. SOFIELD.- I have lived through all our little crisis, having been since 1976 and obviously that was a major part of our problem in 2000, I believe. It was a political hot potato as we all know. Well, let us be frank about this, it was of concern to everyone. It had so much promise. As I have said, with 73,000 hectares and we believe now it is only 51,000 or so that are of use that we can harvest.

I mean, while we have been paying lease owners now, the RFMF in Nausori Highlands harvested the timber and never replant it because they took over the area as a rifle range, but we are still paying the lease on it.

I think we are probably paying out several hundred thousand dollars a year on land lease money for no reason. We will get no benefit out of that, so that will be one. Once we get pass and know resources we own, having our loans under control and paid out, we can really start to look now at how we move forward. As I said, I think our next step is to renegotiate our leases so that the industry can survive, otherwise it will not, because we will not get a return from it. That is when the trees mature at 35 years and some of them, we do not harvest for 45 years before we can get into that particular forest. That is our next step to really try and bring the leases to a point where everything operates on a commercial basis, but I think the industry has tremendous potential, as it started out with that.

It was really unfortunate, they set the mill up in Galoa. I think it came out of Australia, I am told that it was not a new mill. It could not cut timber in a straight line, it was an absolute disaster. And all those investments just disappeared, something I believe, it was over \$20 million.

I have been working very hard on getting our loans out which we will do this year and then we can move forward. The annual licences that shared out on a volume, I believe initially there were round about 180,000 cubic metres and 190,000 cubic metres a year. They were harvesting 45,000 cubic metres to 50,000 cubic metres, never ever be able to meet their licenses. When I was appointed, the licences totalled 112,000 cubic metres that brought it back. Under our new licensing arrangement, I have set it at 80,000 cubic metres.

We are only harvesting 50,000 cubic metres, so to go from 50,000 cubic metres to 80,000 cubic metres was a big ask to improve our harvest by 60 percent, but we felt we could do it with better management in the forest and we are actually proving that now.

In the wet season, it is difficult to get the logs out of obviously because the roads just turn to mud and you cannot get the equipment in and out. And the way it was set up, each contractor is given what we call a 'coop' and the coop might be in an area of 200 hectares, say 500 acres, and they had to clear all the timber out of there before they were issued another coop to work on.

What we have done now, because lot of those coops are well into the forest, we are now offering them smaller coops, much near to the access roads which is serviceable in the wet weather, so they do not have to complete one before we give them one near to main roads that we can work on. By doing that, we have been able to keep the harvest rolling over in the wet weather, which was not happening before. We got to the point, I think in December, when we cannot harvest any more, we stopped and that was the reason we could not access it. So we set up a new arrangement where in the wet weather, we can actually continue to harvest at a lesser rate but, at least, we can keep it moving.

The target of 80,000 cubic metres, as I said, is going to 60,000 cubic metres in what was historically being done over the last four, five or six years. I have asked the staff, in 30 weeks a year,

give me 2,000 cubes a week, which gives us 60,000 cubic metres and the other 22 weeks of the year, give me a 1,000 cubes a week, because in the wet weather the harvest will be half or less than half. So I am working under that arrangement, and it is starting to show up.

In fact, the wet weather this year we have been doing \$400,000 a month where before we were doing nothing. So over the last four or five months, we have been tracking along at \$300,000 or \$400,000 a month. Already this month we have banked \$420,000 month, we are still going half way through the month. So now we are moving into bad weather, it is really starting to work a lot better.

Yes, the resource has value, we keep being compared to the pine industry and it should not be done and we are not comparing apples with apples, that is a totally different industry, they are chipping their logs and sending them out. The contractors like working in the pine industry because the slopes are not steep, it is much easier to get the timber out in the logs and are much more uniformed and mahogany log can be this big. The pine log is basically the same length, very much easier and very much lighter to handle.

We believe that Tropik Woods are paying \$27 a cubic metre to harvest the pine, we are paying \$70 because of the extra difficulty in extracting it. We were paying \$65 and I took it up to \$70 to get the contractors interested because no one is interested in working in the mahogany industry. It is hard, it is a lot harder than working in the pine industry.

The value of our timber, of course, is way above pine, probably three times, but we just could not get the volumes up but it looks like now we are tracking along the right road and I think we are pulling it back together. We do not need any Government assistance on it. I believe that we are now working independently on our finances. The loans were negotiated many years ago with FNPF and FDB and that will be out of our way and I believe that we can really push the industry forward now.

I do not believe we need any Government subsidies. At one time, I was thinking, "How the hell are we going to keep this going? We are going to need some money from Government."

Actually, because of the way the licence fees were collected and the way it was all structured, we believe they were holding over \$2 million of our money that would go on right back for 15 years in collection of fees. They were collecting all the fees and they meant to pay someone at the Fiji Hardwood but that has not happened but we did get that. I think late last year we got about \$300,000. Well, if we do not get the rest, I am not so concerned now because we are on the right track and we operate independently. But that money was not a loan from the Government, what was what owed to FHCL. So, we will contribute into the Government coffers come next year.

MR. CHAIRMAN.- Thank you very much for that comment. Definitely, if it is a public enterprise it should be money flowing to the Government and not from the Government. Otherwise, there is no purpose of having a public enterprise. It is a commercially-owned company and we need dividend from the Government side as well. Any other comments Honourable Members?

HON. M.D. BULITAVU.- Thank you, Mr. Chairman. In terms of the how the company is complying with its commercial objectives, measuring the performance, transparent performance, monitoring the performance, how are you complying with that? How this Bill has further enhances on that?

MR. A. SOFIELD.- We are meeting our financial objectives at last and, in fact, for the first time since I have been the Chairman, we actually have a budget for the year. We are meeting those

budgets, we are complying with all that is required now whereas it was not happening before. As I have said, we have just completed the financial audit. We are meeting all our commitments as far as lease payments to landowners. In fact, we are paying more than our loan commitments per month now because of our income. We have been able to increase that so that we can get rid of the loans a little bit sooner.

We are meeting all our compliant requirements as per the decree of licences paying landowners, paying lease, we pay a land lease fee for every tree that is taken out, we pay a stumpage fee to the landowners. We pay land management fee to look after the environment situation. When you start taking trees out, obviously the land can then start to erode, so that is why we go back into re-planting and looking after how we operate within the forest. So, we are meeting all of those.

The thing that is of concern as I had said earlier, is our International Independent Certification which lapsed and I do not know why we spend so much money on letting it lapse. Maybe, they ran out of money to complete it, I do not know. So, that is our only current outstanding compliance issue which we are not up to speed with, but we are now working on that. We should have that within the next four to five months so I expect it will not happen overnight, it is a long process involved.

I believe that the company is now operating with all our OHS requirements. We are going to meet a lot of the conditions already but it will be asked of us to get the international compliance so, we are improving very well.

HON. N. NAWAIKULA.- A lot of people have different views about the landowners, some criticise them, but I can see that I also have the same eyes. If we give all these land here and we walk past and we are told that you do not own that, similarly like in the Fiji Pine where they were told that, this is going to empower you, this is going to be part of your home, but as it turned out they are not shareholders in the Fiji Pine or Fiji Hardwood because it is owned by Government. They own a very little share in relation to that, I mean, the Fiji Pine Trust. So, how do you address their concerns?

MR. A. SOFIELD.- That question has been raised particularly on shareholding. Originally I believe the landowners hold 10 percent of FHCL when the company was first set up. I think under the 2010 Decree that shareholding was removed and I do not think they have ever received anything because the company was not making any money. I had a meeting with the Fiji Mahogany Trust just three weeks ago in Suva and five of their representatives raised that issue. We have asked the Solicitor-General and Deputy Chairperson to comment on that, that obviously they would like to get their 10 percent back, and I think they should have it back. But it is the legislative thing I do not have any control of at the moment. But certainly the question has been asked, that is why we are addressing now.

I do not know what is our legal position is on that but the Decree is there. They feel very strongly about that and I can understand that but we have to resolve it one way or the other. We are talking with them, we are trying to bring them in and we want them to be part of it. I think they should not have been left out, just collecting their royalty, Mr. Chairman. Take the people in Vanua Levu, ever since that land was leased, all they have got is land lease but they got no stumpage fee and they got no land management fee, only shares. We are really trying to bring them in and get them much more integrated in the industry and I think it will be for the benefit of the industry.

HON. N. NAWAIKULA.- Yes.

MR. A. SOFIELD.- If we have a happy landowner, we are just really moving forward.

HON. N. NAWAIKULA.- It will be meaningful for them too because they can say, “I am part of it”.

MR. A. SOFIELD.- Yes, exactly, that is why the Management Team met in Sawakasa last week with the landowners before we are going to open up Sawakasa in May. We have not harvested there before so the Management went and met with the landowners, the former Permanent Secretary for Lands, Mr. Malakai Finau, who is on the Board. He went with our team representing the Board. So what we are planning to do is really work lot more closely with the landowners.

The Management were asked to make sure that we get a monthly meeting with them, just bring them in for a cup of tea and sit down. “Do you have any questions? What are they? Let us look at them.”

Part of the problem is because of the dis-communication with the landowners. They all go off to the Office of the Prime Minister where the Mahogany Industry Council seats. They all go in there and I have seen them sitting in. I mean, it is difficult for them and they might seat there for hours before they can see the Honourable Prime Minister or anyone else on the Board, then it takes up the time of the Mahogany Industry Council members unnecessarily.

What we have been trying to do is, get them to come and ask first. If we cannot help them then, we will go up with them to the Mahogany Industry Council but really, we should be the first port of call. So we are trying to bring them in and say, “If you have a problem before it becomes a major problem, come and discuss it with us. We will try and resolve it for you before it gets out of hand.”

I think by bringing them in and just communicating with them on a regular basis will assist the industry tremendously because there are a lot of issues. And rightly so, they want to know what is going on and it is their land. It is our resource but it is their land.

We have instances where in some cases, our leases have been encroached, and timber has been taken out illegally so then we have to work with iTLTB on that, and we have got a few of those.

We had about 20 issues with landowners, we have probably resolved half of them now that is within the last few months. We are constantly working in trying to resolve whatever we can in the best possible way without having to go to the top because it would take everyone’s time and we should be able to resolve them. If it becomes a major issue then, yes, we will go out with them.

HON. N. NAWAIKULA.- What is that the relationship between the company and the Mahogany Council?

MR. A. SOFIELD.- The Mahogany Council is responsible for allocating of licences. The Mahogany Industry Council oversees FHCL. We report to them, as I have said the Honourable Prime Minister wanted four meetings a year. I think, again, there has probably been a lack of opportunity for the two to get together.

I have had four or five meetings with the Mahogany Industry Council now. And really to-date, “the Company is not doing too well, what is going on?” And I think now we are about to go back and report that finally, we have turned it around. But the Mahogany Industry Council does run the industry basically, we just manage the forest on their behalf.

HON. N. NAWAIKULA.- Would it be correct to say that, even though you own the forest, it is not up to you who has the licence to harvest it because that is the responsibility of the Council.

MR. A. SOFIELD.- Yes, the Council allocates the licences. When we restructure the licences, we put out a public tender and we went through a very transparent stringent assessment. I think we had something like 70 companies making 180 submissions.

We have five different grades of licences that we put in and apply for different grades. Then we were all interviewed, we ran workshops, before they were actually tendered. The company ran a number of workshops to invite anyone who has put an expression of interest to come along, listen to what we were trying to do so that whoever then finally applied for a licence understood where we were at and what was expected of them.

Now, that all went forward and we finally made a recommendation to get 12 licences, plus one to Fiji Mahogany Trust, representing the landowners. As I have said, an uncontested licence, for a start, we feel that that would help the landowners to come in.

One of our requirements was payment upfront because looking back over the history, companies would ask for 30 days credit, and then we would go to 60 days, then 90 days and then not get paid at all. We said, "If you want to be part, you have to put money upfront." That started out 'ok' but then we could not supply the logs for whole lot of reasons. I am going back now 18 months. We could not supply the logs and things really started to fall apart, it was not very good. But now we have been able to turn it around because we have the logs, we now can supply the logs because of our rearranged Forest Management Procedures.

The only other problem is, the licence holders did not have the money to put upfront. Before, the licence was totally inflexible. For instance, an American company, Sustainable Mahogany Industries had exclusive licence for Grades 1 and 2 logs. No one else could buy those logs.

Then they pulled out, they got very disillusioned with what was going on here, so they quit. We had 5,000 cubic metres of Grade 1 and 2 logs sitting on the forest floor for something like nine months, because we did not have a licence to even sell it ourselves. We could not legally, move it, we ended up selling most of it as waste. I think we realised \$2 million out of it which is less than half its value.

Under our new licensing arrangement, we built in flexibility. When we have the logs in what we call concentration, we harvest them and bring them to a yard in the forest where they are all stacked. We tell our licence holders, "These logs are available for you now under your allocation of your licence. Pay us the money. You have three days to pay the money."

If they do not pay, we then have what we call now, a cross purchase arrangement where other licence holders may not hold a licence for that particular log. There are a minimum of two licences for each grade of log, although they may hold a licence for that particular grade that we sell, they are able to purchase under what we call a cross purchase arrangement.

So we give, first of all, the licence holders have their grade at first opportunity. If they renege, we give it to the other licence holders to come in and buy, they get three days. If they do not purchase it, we then have what we call a client pool and these were the companies that just failed to get the score to get a licence. I think there are eight of those, so we offer them the logs because they nearly got there.

If they do not front up and if they do not pay, we now have approval from Mahogany Industry Council only very recently to sell on the open market. We had an advertisement in the papers on Saturday morning. For the first time, we are selling on the open market and today is Monday and we have \$125,000 already being lodged with us, purchased and lodged on the open market, because we have surplus logs as the licence holders are not buying.

One of our biggest buyers was asking for 30 days credit and I refused it, because if you open it up for one, you open up the whole thing and then the whole thing goes on again and suddenly, you give out logs and do not get paid for them. So we are very strong, and that is one of the financial controls we have put in place. We must be paid, we are not giving logs away.

So with our licensing arrangement, we now have built in this flexibility which was not there before, and it is starting to work now. I think once the licence holders saw that their logs could be sold to someone else, they started to think twice about it and now they can sell in the open market.

HON. N. NAWAIKULA.- My other question is this, the purpose of this Act, is to clear out all the bureaucracies. You can see the Act that was there previously, this one is very simple and for incoming public entities, like EFL...

MR. A. SOFIELD.- Yes.

HON. N. NAWAIKULA.- ...they just incorporate and all these simply regulates how their Boards are appointed and how they report.

MR. A. SOFIELD.- Yes.

HON. N. NAWAIKULA.- But, there are a few companies, for example, FHCL, Fiji Pine, which who were incorporated through legislation.

MR. A. SOFIELD.- Yes.

HON. N. NAWAIKULA.- And compared to this, there are more regulated than the others. For example, in your case, whereas you are an entity, you still have the Mahogany Council to report to. Would you prefer this way or to be regulated the way you are?

MR. A. SOFIELD.- I think it will be better for us not to be quite so regulator.

HON. N. NAWAIKULA.- (inaudible)

MR. A. SOFIELD.- Yes, I mean, if we operate it like a private company rather than have to go out, I cannot understand why the Mahogany Industry Council was there initially to protect the whole industry. It was a new industry and you said it had a very political...

HON. N. NAWAIKULA.- Mr. Chairman, that could just be the note for Jeannette to note, that we still have others that are incorporated through legislation and they are more regulated compared to the others. So why do we still do that?

MR. A. SOFIELD.- I think, if we are able to act more like a private corporate company where we are still within the bounds of Government, of course. I think we would be more efficient and again, the Mahogany Industry Council, it is difficult for those members to meet.

The members to that Board are the:

- Prime Minister - Chairman;
- Attorney-General;
- Minister for Forests;
- iTLTB represented on the Board;
- Fiji Mahogany Trust have a person on that Board; and
- Independent Director.

Now trying to get all those people together in one room is not easy, unless you go to Parliament.

(Laughter)

MR. A. SOFIELD.- But, I was there the other night and I did not see it. No, I did go and watch your long session the other evening.

(Laughter)

MR. A. SOFIELD.- But it is difficult and I am sure, I think, we still should report to the Ministry. There has got to be someone we need to report to, but maybe not the Mahogany Industry Council if we operate under more of a corporate private enterprise situation.

And really that is what Mr. Patel and myself are really doing that to try and keep the thing going. If we had not been there, I think this would have all collapsed. We spend an inordinate amount of time on it.

The other thing and I will raise this issue, I think that the Board remunerations are not reflective of the amount of work, time and effort that needs to go into this. So it is difficult to get the right people on these Boards. I can tell you that as Chairman for FHCL, I get paid \$15,000 a year, our Directors get \$9,000 a year and out of that, the three of them, that money goes straight into Government coffers, they do not get anything out of it.

So Mr. Patel is getting paid less than the minimum wage I think by the amount of time that he has to put into. Honourable Maharaj, would know that.

(Laughter)

MR. CHAIRMAN.- I believe we have had a robust discussion with regards to the industry itself and the Bill. From the Committee side, we would like to thank you for availing yourself to be present here before the Committee this morning.

A big *vinaka* to you and with the deliberation that you have done and the points that you have raised are noted by the Committee and we will definitely deliberate on some pertinent issues that you have raised.

Thank you very much for coming this morning and you may join us for morning tea.

MR. A. SOFIELD.- Thank you very much.

The Committee adjourned at 11.34 a.m.