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CORPORATE POWER IN THE FORESTS OF THE SOLOMON ISLANDS

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ABSTRACT

This paper assesses the environmental impact of multinational companies on commercial timber management in the Solomon Islands since 1990. As more and more companies, especially from Malaysia, have spread throughout the country, the capacity of the state and societal groups to develop and enforce effective rules have become increasingly strained. Corporate bribes and pressure on state and community leaders further contribute to inappropriate policies and weak enforcement. In this context, loggers have pushed log production over three times higher than the sustainable yield. With minimal controls, and in an effort to maximise profits and minimise risks, companies in the Solomon Islands have ignored environmental and harvesting guidelines, broken promises to landowners and communities, evaded export and income taxes, developed informal and formal arrangements that lower prices and increase production, and constructed complex corporate structures that obscure financial and environmental accountability. The environmental impact of timber companies is not unique to the Solomon Islands. Similar patterns are also found in other parts of the Asia–Pacific, South America, and Africa.
Over the last five years, Malaysian investors, backed by Japanese and Korean buyers, have pushed log production in the Solomon Islands more than three times higher than the sustainable level. Japanese log purchases alone in 1995 and 1996 were greater than the sustainable yield in the Solomon Islands. If log production continues to escalate at the recent rate, these aggressive investors and traders could deplete the Solomon Islands of commercial trees in less than a decade (Montgomery 1995, 75). This paper examines the environmental and economic impact of multinational companies on natural forest management in the Solomon Islands since 1990. It is not a polemic against companies in the Solomon Islands, or corporate investors and traders more generally. Instead, it points to systemic reasons for the behaviour of these firms.

Cheap forest resources that externalise environmental and social costs provide an irresistible and logical lure that entice investors and traders, even into areas with little infrastructure. Once there, these corporations harvest logs as quickly and cheaply as possible. Logically, they do not function within the

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This paper does not analyse the effects of global prices and markets. For a study of the environmental implications of international trade, and a discussion of possible trade reforms to promote sustainable timber management, see Dauvergne 1997c.
bounds of official laws or policies but within the bounds of state and societal rules that are actually enforced, persistently trying to bend these rules in their favour. They strain state capacity to manage forest resources, pressure and entice state officials to develop policies that maximise corporate profits, construct complex corporate structures that reduce accountability and transparency, and evade taxes and timber royalties. Corporations also generate potent financial incentives that stimulate unsustainable production, log concessions illegally and destructively, break or distort obligations to communities and landowners, make informal deals that lower export prices, and construct trade chains that lower consumer prices and stimulate wasteful consumption. These practices seem to suggest that corporations in the Solomon Islands are mischievous or devious resource exploiters. In some ways they are. But generally they are also rationally responding to market signals, the viability and profitability of operations, and the extent of state and societal controls.

The paper begins with a brief discussion of the theoretical literature on the environmental impact on natural resources of multinational corporations. The second section provides essential background on commercial forest resources, environmental policies, and forest institutions in the Solomon Islands. The third, fourth, fifth, and sixth sections examine the actual impact of these policies and institutions on the behaviour of multinational investors. The seventh section analyses the effect of corporate buyers. The conclusion reflects on the importance of the findings in the Solomon Islands for understanding the effects of corporations on environmental management in the tropical world.

**Multinationals, the environment, and theory**

It is exceptionally difficult to theorise about the environmental impact of multinational companies. The effect of corporations varies across regions, states, sectors, time, and subsidiaries. For this reason, generalising about their environmental impact can easily lead to platitudes. For example, even when it is possible to pin down corporate ownership, it is often too simplistic to generalise based on the origin of a company. All Malaysian companies are certainly not bad. Some undeniably have poor records; yet some may perform relatively well. It is also too simplistic to claim that multinational companies have better environmental records than local ones. In some cases, multinational companies—with more sophisticated equipment, more money, higher technical expertise, and perhaps greater concern with international criticism—have better environmental records. But in other instances, multinational companies exploit lower environmental standards and weak enforcement in developing
countries. In these cases, local companies—with closer links to the community and regional leaders, greater concern for long-term sustainability, and more knowledge of local conditions and problems—may well perform better than multinational companies. It is even difficult to generalise about the environmental impact of one company. A corporation (or its subsidiary or licensee) may have a good environmental record in one operation and a poor record in another 100 kilometres down the road.

Coupled with the difficulties of measuring environmental effects, it is hardly surprising that little theoretical literature exists on the environmental impact of multinational investors. There is, of course, an extensive literature on the impact of global economic processes and multinational corporations on the economies of developing countries (for example, dependency theory). 29 Few of these authors, however, have tried to theorise about the environmental effects of multinational companies on resource management. Because of the diversity of companies and major differences across sectors it may well be impossible to construct a general theory to explain the environmental impact of corporations on resource management. There are, nevertheless, general patterns of behaviour and effects that tend to recur. The conclusion of this paper summarises some of these patterns in the Solomon Islands—patterns that are also found in other similar settings in the Asia-Pacific region, South America, and Africa. 30

Commercial forests in the Solomon Islands: background

Total forest area in the Solomon Islands is 2.4 million hectares (about 85 per cent of total land area). Much of this is on steep slopes and small islands and only around 20 per cent (480,000 hectares) is suitable for commercial logging. 31 Customary landowners (communities and family groups) control

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29 I avoid reviewing the huge literature on dependency theory. In my view, incorporating this literature would push the paper toward ground well covered and push it away from understanding the environmental effects of corporations—an area with little social science research and one that is increasingly important for developing states, including those in the Pacific.

30 For an overview of Malaysian and Indonesian investments in overseas timber operations, see Dauvergne 1995.

31 Commercial forests include areas below 400 meters above sea level and with slopes less than 30 degrees and exclude areas not suitable for commercial timber production (e.g., forests with insufficient volumes of commercial logs, watersheds, and areas set aside for villages).
about 87 per cent of total land area. The remainder is registered land which is
controlled by the government or owned privately. Customary rights are
generally determined by family and clan membership with unwritten rules that
vary across the country. About 80 per cent of logging is on customary land
(Montgomery 1995, 74).

The 1969 Forests and Timber Act (renamed the Forest Resources and
Timber Utilisation Act in 1984), along with various amendments to this Act,
frame forest management in the Solomon Islands (Corrin 1992; Ells 1996, 9–
10). The forestry division of the Ministry of Forests, Environment and
Conservation is responsible for implementing forest policies. The Ministry of
Finance issues export licenses and approves tax exemptions on log exports.
The Foreign Investment Board also requires multinational timber investors to
meet minimum financial, local employment, and infrastructure development
standards (Ells 1996, 11). Forest legislation has some serious structural
problems (Fingleton 1989). A consolidated text of forest legislation does not
exist, and uncovering timber regulations requires ‘a tortuous tracking exercise,
through the maze of amendments made to the original text’ (Fingleton 1989,
quoted in Ells 1996, 10). In 1994, the government took steps to draft better
legislation. The subsequent government under Solomon Mamaloni, however,
halted this process the following year.

Obtaining a logging license is quite complicated. Companies must first
obtain permission from the government to submit an application (the
Commissioner of Forests charges a fee). The application is then sent to the
appropriate provincial government and Area Council. The Area Council then
holds a public meeting, involving the landowners, provincial representatives,
and the applicant. At this stage, the Area Council determines the owners of the
timber rights, and whether these owners want to sell their rights. If the owners
do want to sell, the parties then negotiate the scope of the deal, the distribution
of profits, and the role of the provincial government. If the application is
approved, the Area Council provides a Certificate of Land Ownership which is
forwarded to the forestry division. The company and the landowners then
publicly negotiate a Standard Logging Agreement. The forestry division
monitors these negotiations to ensure that all parties follow procedures, that
legal appeals have been settled, and that the final logging agreement conforms
with the original Area Council certificate. The Commissioner of Forests then

32 For background on timber management in the Solomon Islands, see Larmour 1979;
issues a license to the applicant if the process is deemed acceptable (Ells 1996, 10–11).

Environmental legislation and rules, which have been developed in an *ad hoc* way, are largely ineffective (Friesen 1994, 23). A Standard Logging Agreement—in particular the section entitled ‘Overall Conditions To Be Imposed On Company As A Precondition For Any Logging In Solomon Islands’—outlines some of the basic environmental regulations for timber operations (Greenpeace Pacific 1995, 3). This requires companies to provide landholders with harvesting and road plans, post notices, comply with the River Waters Act, minimise soil damage through careful skidding practices, rehabilitate work sites, limit cutting to safe distances from waterways, follow guidelines for road and bridge construction, restrict logging to designated species and minimum sizes, and follow stipulated harvesting and removal guidelines (Greenpeace Pacific 1995, 3–7). In addition to these guidelines, the forestry division, in close cooperation with the Solomon Islands Forest Industry Association (SIFIA), developed a Logging Code of Practice in 1996 (SS). This Code is voluntary, however, and as a result will likely have little impact. As we will see later, most loggers do not obey compulsory environmental regulations, let alone voluntary ones. In this context, the Code could even have the paradoxical effect of masking and deflecting criticism of current destructive practices.

The Solomon Islands employs four main policies to capture revenue from foreign loggers: export taxes on logs, royalty payments to landowners, provincial forest charges, and corporate taxes on royalty payments and profits. The log export tax rate has varied over the last few years (Duncan 1994 October, 7; Duncan 1994; Economic Insights 1994, 41–42). In 1995 and 1996, it was 35–38 per cent of the free-on-board (FOB) value (which excludes the costs of carriage, insurance, and freight). This included a 7.5 per cent reforestation/timber levy which was exempted if a company had a reforestation program. The government also exempted part of the export tax, usually around 5 per cent, if a company demonstrated that it was funding ‘community projects’ in its concession area (for example, hospitals and schools). In addition, to encourage landowners to develop processing plants, the government granted landowner companies permits with partial or complete tax exemptions on log exports, such as the tax exemption for Somma, a local timber company linked to former

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33 For general background on environmental issues in the Solomon Islands, see Leary 1993; and South Pacific Regional Environment Programme 1992.
Prime Minister Mamaloni (defeated in August 1997). In 1996, log exports accounted for 55 per cent of total export revenue. Total tax exemptions on log exports in that year totalled SI$53 million, 66 per cent more than in 1995 (Central Bank of the Solomon Islands 1997, 7, 45).

Royalty payments to landowners vary considerably. Some agreements stipulate a set fee per cubic metre of harvested logs; others set a rate based on a percentage of FOB value. The Standard Logging Agreement and the Forest Act recommend a royalty rate of 17.5 per cent of FOB value for logs harvested from customary land. However, in 1994 the average royalty rate was only 11.5 per cent of FOB value (Price Waterhouse 1995, 23). Provincial governments also charge corporations licensing fees to harvest, process, and market timber. The most important fee is the annual business license. Most provinces charge about SI$50 000 for a foreign logging operation and SI$25 000 for a foreign sawmill, although in 1995 Western Province charged SI$150 000 for a logging license (Price Waterhouse 1995, 24). Besides these operational and export fees, corporations are also required to pay a 10 per cent withholding tax to the national government on royalty payments to landowners, as well as a standard corporate tax on profits.

Government forest fees are insufficient. The average log export price in 1994 was SI$400 per cubic metre. Yet the average stumpage price (defined as the price of a standing tree) was only SI$40 (Montgomery 1995, 75). Timber management policies have even greater flaws than policies to capture timber rents. The government has issued logging licenses and permits without any coherent plan. These are sometimes approved before loggers make formal agreements with landowners, contravening the official legislation (giving loggers licenses but no access rights) (Economic Insights 1994, 54). As a result, the government has issued licenses that would allow an annual harvest of 4 million cubic metres. If all of these licenses were active, loggers would deplete commercial forests in three years (Baird 1996, 23.) As one report dryly states: ‘The objective of ensuring a sustainable level of extraction has not significantly influenced the issuing of licences’ (Economic Insights 1994, 53).

Policies to promote processing are equally defective. The government requires timber companies to process 20 per cent of harvested logs. Sawmillers

34 Economic rent is defined as the market value of the timber minus the investment cost of harvesting, processing, and transporting the log and minus a ‘normal’ return on that investment. The economic rent for logging in natural forests is high since no initial investment is necessary to establish a natural forest. (The economic rent for plantations is logically much lower.)
are subsidised through tax exemptions on log exports and by waiving the tax on sawn timber exports. Yet these tax breaks and processing requirements have failed to create a viable sawn timber industry. Many landowner companies that have received exemptions have not established processing facilities; and many foreign investors have apparently processed far less than 20 per cent of production. Moreover, sawmills that are operating tend to use low-grade logs rejected for export. There are now numerous small sawmills, producing mostly for the domestic market. Exported sawnwood is of such low-quality that importers often resaw it, contributing to low prices. In some cases, resource owners would have fared better by simply exporting the original round log (Price Waterhouse 1995, I, 98, 112). The government plan to ban log exports in 1999 to boost domestic processing has further aggravated mismanagement. Foreign loggers have quite naturally responded by extracting logs as quickly and cheaply as possible before the ban is implemented. Many areas are mined and loggers do little to ensure that forests will regenerate (1995 Forestry Review).

Some communities, encouraged by generous tax breaks, have established landowner timber companies—a trend that appears to be increasing. In 1994, landowner companies accounted for 5 per cent of log exports; in 1995, this rose to 9 per cent (Price Waterhouse 1995, 9). Most landowner companies arrange logging contracts with foreign contractors (these contractors sometimes encourage landowners to form a local company). The terms of these contracts vary, although unlike the Standard Logging Agreement that requires foreign loggers to pay royalties, landowners generally pay foreign contractors set fees for harvesting, transporting, and marketing services. These arrangements have serious drawbacks. Loggers generally charge SIS250 to SIS270 per cubic metre to log concessions and up to SIS300 per cubic metre when the deal includes transport and marketing services. Although landowners receive slightly more money from these contracts than from royalty payments, on average foreign logging contractors capture between half and three-quarters of government tax exemptions on landowner company log exports (Price Waterhouse 1995, ii, 27). As a result, although the government partially justifies these tax breaks as

35 In 1995 the landowner company, Somma, received the largest tax exemption on log exports—around SIS4.3 million (1995 Forest Review).

36 Some landowner companies conduct small-scale logging and sawmilling. Non-governmental organisations such as SWIFT (United Church), Soltrust, and the Solomon Islands Development Trust have supported these landowner operations, especially ones that use portable sawmills.
necessary to promote local processing, landowners still have limited funds to establish sawmills. Also, no mechanism exists to ensure that processing plants are actually developed.

**Multinational investors and environmental management**

Timber management policies in the Solomon Islands clearly have structural defects, enabling multinational investors to operate with remarkably poor harvesting and environmental standards, and make windfall profits. An equally great, if not greater problem, however, is the implementation of these policies, especially environmental ones. Landowners and the Ministry of Forests, Environment and Conservation do not have sufficient financial, technical, and human resources to monitor remote logging sites. Compared to countries like Australia, Canada, Japan, and the United States the Solomon Islands Division of Inland Revenue also has less power to prevent or counter-act corporate schemes to evade taxes (Price Waterhouse 1995, 39–40). In addition, customary land ownership and scattered, small villages restrict the state’s capacity to enforce national forest policies. Political interference and lucrative financial arrangements between state (community) leaders and timber companies further undermine enforcement. In this context, multinational investors in the Solomon Islands have ignored, skirted, and undermined many policies. As a result, formal environmental and forest management guidelines often camouflage actual corporate practices, rather than improve timber management. With inappropriate policies and weak enforcement, multinational investors ignore many rules, especially harvesting and environmental guidelines; pressure governments to revoke or revise policies that undercut corporate profits or constrain production; manipulate logging agreements, and ignore promises to landowner groups; establish complex corporate structures and bribe key state officials to facilitate transfer pricing, tax and royalty evasion, and income tax fraud; and make informal agreements with buyers to maintain steady log export volumes. The remainder of this section and the following two sections evaluate the effects of these practices.

Foreign loggers have worked in the Solomon Islands for more than 30 years. From 1963 to the early 1980s, most commercial logging was ‘on government land or customary land leased by the government’, primarily in Western Province (Frazer 1997, 44). During this period, Levers Pacific Timber Ltd, a subsidiary of United Africa Company Ltd, was the most important logger, accounting for two-thirds to three-quarters of production. Two other important foreign timber operators were the Allardyce Lumber Company (at
the time Australian owned) and the Kalena Lumber Company (at the time financed by American interests). Annual production was about 260,000 cubic metres, below the estimate of annual sustainable yield (defined as the amount loggers can remove per year that will regenerate over the cutting cycle and allow equivalent commercial volumes in subsequent harvests). From 1981 to 1983, under the first Mamaloni government, the number of licenses issued to foreign companies quadrupled. Commercial logging operations spread to Guadalcanal, Malaita, and Makira–Ulama. Log production increased significantly, especially on customary land. This was an important turning point for forest management in the Solomon Islands. With the increasing number of companies and extent of harvests, the central forest department and the area councils could no longer monitor and control foreign loggers as well as in the 1960s and 1970s. Loggers also bribed and pressured political leaders and forest management officials. In this context, ‘companies were left largely to their own devices, ignoring the regulations with impunity’ (Frazer 1997, 52). Total log production rose sharply, exceedingly sustainable levels during the first half of the 1980s (summary is based on Frazer 1997, 44–52).

Corporate pressure on the natural forests was temporarily relieved in 1986 when Levers Pacific Timber withdrew, allowing log production to again fall below a sustainable level. This respite did not last long, however. A moratorium on new logging licences imposed in April 1983 was lifted in 1987. By the early 1990s, log production again began to accelerate with the influx of Malaysian investors. In 1991, log production in the Solomon Islands was 10 per cent higher than the sustainable yield. By 1995, partially in response to higher tropical log prices, production from the natural forests had reached 826,000 cubic metres, 91,000 cubic metres higher than in 1994, and well above a recent estimate of annual sustainable production from the natural forests (276,000 cubic metres) (see Table I). Log production from the natural forests remained at roughly the same level in 1996 (Central Bank of the Solomon Islands 1997, 16). At this rate, loggers will deplete commercial timber stocks in less than thirteen years. If rates continue to rise, however, this will occur in less than ten years (see Table I).

Yet these grim production figures only tell part of the story. It is just as crucial to ensure that harvesting and silvicultural practices allow for natural

37 Except for Hyundai Timber Company (a subsidiary of the South Korean Hyundai Group) most of these new companies had small operations.
regeneration. Current logging practices are dismal. Loggers ignore requirements to provide landowners with harvesting plans, construct roads and bridges shoddily, pollute waterways, cut undersized and protected species, destroy wide areas with skidding operations, irreparably damage remaining trees and food sources, leave pools of water that breed malaria mosquitoes, and illegally log areas outside their license (South Pacific Regional Environment Programme 1992, 25–26; Greenpeace Pacific 1995). Some corporate groups in the Solomon Islands, such as Kumpulan Emas, have no logging experience. Other companies, like Lee Ling Timber of Sarawak, have terrible environmental reputations at home. A glance at the record of Silvania Products reveals the poor management of foreign logging operations in the Solomon Islands. The government suspended Silvania’s logging license in late 1995 for inadequate accounts of log stocks and poor road management.38 This was Silvania’s fourth suspension since 1993 (Forests Monitor 1996, 6–7).39 As part of the 1993 National Forest Resources Inventory, one study of Silvania’s operation concluded: ‘The degree of canopy removal and soil disturbance was the most extensive seen by the authors in any logging operation in tropical rainforest in any country. It appeared more like a clearfelling operation and bore little relation to any attempt at retaining even a token sample of future commercial crop on the site’ (quoted in Forests Monitor 1996, 7). In early 1994, a government official found that Silvania had disregarded or misunderstood markers to protect sacred sites (summarised in Forests Monitor 1996, 7). A 1994 Ministry of Forest, Environment and Conservation inspection of Silvania’s logging site on Vangunu concluded: ‘the environmental impacts of Silvania’s logging operation on Vangunu are among the most serious observed to date in Western Province’ (quoted in Forests Monitor 1996, 7). As a result of operations like Silvania’s, the 1995 Forestry Review—an unofficial report apparently written within government circles—claims that in the Solomon Islands ‘forest practices in many locations are amongst the worst in the world’. At 1995 and 1996 harvest rates, companies log between 15 000 and 20 000 hectares each year. Few consistent efforts are made to facilitate natural regeneration of logged areas. Phillip Montgomery, former project director of the

38 The government also suspended Isabel Timber Company’s logging license in late 1995 for poor construction of logging roads (Forests Monitor 1996, 9).
39 In mid-1994, the Solomon Islands government, under Prime Minister Francis Billy Hilly, suspended the logging license of Silvania Products, charging the company with ‘illegal and highly damaging practices’ (quoted in Mellor 1995, 44). The new government under Mamaloni lifted the suspension in November 1994.
AusAID Timber Control Unit Project, notes: ‘To come back and re-cut the Solomons forest in 50 years and get equivalent sorts of yields to what they are now producing means that everything has to be done correctly now. The reality is that there is no adherence at all to a silvicultural regime that will allow this to occur. Many of the harvesting operations are still poorly planned and poorly managed’ (Montgomery 1995, 74).

From 1964 to 1989, the forestry division reforested about 16 per cent of logged areas, primarily on public land (Bennett 1995, 264). Little reforestation has occurred on customary land. The New Zealand funded project to reforest customary land only covers 10 to 15 hectares per year (1995 Forestry Review). Eagon Resources Development Company, which logs an area on Choiseul Island, is one of the few companies with a long-term reforestation program on customary land (Frazer 1997, 61). Almost all companies that have been partially exempted from the reforestation levy have conducted no reforestation. In addition, the Solomon Islands central government has kept the reforestation/timber levy, even though in theory it should be transferred to the provincial governments, which in turn should distribute it to landowners to reforest degraded areas (Price Waterhouse 1995, 50–51; personal communication, Judy Bennett, 9 April 1997).

Kolombangara Forest Products Limited operates the largest reforestation project—a timber plantation of *Gmelina arborea* and *Eucalyptus deglupta*. In 1994, this company exported 9500 cubic metres of logs; in 1995 this rose to 35 000 cubic metres; and in 1996 it increased to 50 000 cubic metres (40 000 cubic metres of which were exported to Japan). By the end of 1996 the company had planted 6000 hectares. They are now negotiating to purchase a 1000-hectare government plantation on Gizo and considering expanding to degraded areas on North New Georgia (Central Bank of the Solomon Islands 1997, 18; for background see Davis and Abbott 1989). By 2008, the company plans to have 15 000 hectares of plantation forest, with an annual production of 306 000 cubic metres (personal communication, Judy Bennett, 9 April 1997). This plantation could well provide important revenue and employment in the future. But it does not solve the environmental problems of logging on customary land or in old-growth forests. It is essentially a crop that does little to preserve environmental or community integrity, local livelihoods, or biodiversity.

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40 It is unlikely, however, that provincial governments, Area Councils, and landowners would be capable of large-scale reforestation.
Corporate pressure and policy change

Corporations have pressured the central and provincial governments, and sometimes bribed key officials and politicians, to revoke or amend policies that threaten multinational profits (Bennett 1995, 263). From 1993–94, the government of the National Coalition Partnership, under Prime Minister Billy Hilly, started reforms to reduce log production and increase state control over corporate timber investors. The government raised log export taxes, announced plans to ban log exports in 1997, began monitoring timber export prices, increased efforts to verify log grades and species classification of log exports, discussed hiring a foreign firm to strengthen surveillance and compliance, and started work on new national forest legislation. These reforms did not last long. Under intense pressure and lured by lucrative deals, cabinet members began to resign and defect, leading to the fall of Billy Hilly’s government in late 1994.

With Mamaloni again in charge, forest management took a step backwards in 1995. The government lowered the log export tax, delayed the log export ban until 1999, removed foreign advisers from the forestry division, and shelved plans to improve surveillance of foreign operations (Frazer 1997, 65–66). Moreover, Mamaloni’s government began the process of devolving responsibility for logging licenses and reforestation of customary land to the provincial governments, a move that will likely lead to ‘a further intensification of logging in quest of provincial revenues’ (Bennett 1995, 266). Four forestry aid projects were also cancelled: the National Forestry Action Plan, funded by British aid; the Timber Control Unit Project, linked to the Ministry of Forests, Environment and Conservation, and funded by Australian aid; the report on Forestry Taxation and Domestic Processing, funded by the European Union; and the Inventory and Valuation of the Government Owned Plantations, also funded by the European Union. The greatest setback was the cancellation of the Timber Control Unit. To tackle widespread under-invoicing of log exports, this unit monitored grading, species classification, and log volume and price estimates. It also set indicative prices for species and log grades. This unit apparently had some important practical effects. Without its presence, export prices for the same species and grades often varied from 50 to 100 per cent. At the peak of its effectiveness this dropped to 5 to 10 per cent.

41 Kathleen Barlow and Steven Winduo write: ‘At present, the Solomon Islands Industry Association, a body representing foreign logging companies, has far more influence over government policy than does the Forestry Division’ (1997, 15).
although higher volumes of low-grade logs still left sharp differences in average shipment prices among companies (1995 Forestry Review).

Corporate pressure and bribes have also contributed to lower log export taxes and generous tax breaks. Integrated Forest Industries, for example, paid no export tax in 1995. According to a report in the Solomon Star, Integrated Forest Industries received this exemption after distributing SI$7 million to three government ministers and key government officials from 1993 to 1995 (the company also provided generous presents and perks) (summarised in Forests Monitor 1996, 8). These exemptions have undermined government revenues. Despite log exports increasing by 88 000 cubic metres in 1995, the decrease in log export taxes and world market prices, combined with tax breaks for landowner companies (around SI$24 million), reduced the amount of revenue the government captured with the log export tax by SI$12.6 million (1995 Forestry Review).

Corporations and landowners

Most of the resistance to large-scale logging has been from landowners. To gain access to forest areas, corporate investors have made verbal and written agreements with landowner groups to build roads, bridges, schools, and clinics (Duncan 1994 October, xiii). These agreements have involved long and complicated negotiations among landowners and between landowner representatives and corporations. Many landowners have optimistically agreed to these deals expecting ‘development.’ Others, however, have felt betrayed or cheated, both by corporations and landowner representatives. To obtain favourable agreements, corporations have exploited unclear laws, the technical advantages of well-trained foreign negotiators, and divisions and weak or corrupt leadership among landowners (Bennett 1995, 262; Frazer 1997, 51). They have also funded Area Council (Timber Rights) meetings and bribed and pressured influential and defiant landowners (Ells 1996, 11, 16). Despite obtaining favourable agreements, they have nonetheless ignored or twisted many of these, evading royalty payments and breaking promises of lasting development (Sol-Tree Nius 3; Fingleton 1994, 21). Moreover, loggers often cause far more damage than landowners expect, polluting waterways, destroying sacred areas, and irreversibly damaging forest ecosystems. Some rural communities are now

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42 The three ministers apparently bribed were: George Luialamo (Minister of Commerce, Employment, and Trade); Christopher Columbus Abe (Minister of Finance); and Nathaniel Supa (Minister of Home Affairs).
worse off, and destructive logging has contributed to increasing rural–urban inequalities (Frazer 1997, 39).

Supported by non-governmental organisations (NGOs) such as Soltrust and the Solomon Islands Development Trust, a broad social base of opposition to loggers has developed (Frazer 1997, 54–60; Roughan 1997). To some extent, this has delayed and constrained corporate expansion. Local opposition has even contributed to the withdrawal of a few companies, such as Levers Pacific Timber in 1986. Some frustrated opponents have sabotaged equipment and burned logging camps (Friesen 1994, 31). The general manager of Mavingbros Timber, Ling Chung Kok, and some of his employees have received death threats. Paramilitary police have had to guard log shipments from Mavingbros Timber’s logging site on Pavuvu (Mellor 1995, 42; also see, Roughan 1997, 161–164). General opposition, NGO pressure, and local anger have not, however, been cohesive or strong enough to lower aggregate production significantly, although under the new reform-oriented government of Prime Minister Bartholomew Ulufa’alu this opposition may gain a stronger voice.

**Corporate structures and tax evasion**

Nominee ownership has allowed logging companies in the Solomon Islands to register legal ownership in tax havens (such as the Bahamas and the British Virgin Islands) while effective control remains in a country with higher tax rates (Penna 1986, 4–6). In addition, nominee companies in places like the British Virgin Islands do not have to file annual accounts or hold annual meetings, decreasing environmental and financial accountability and transparency.

Unravelling corporate ownership and lines of control can be exceedingly difficult. For example, in 1991 four Solomon Islands logging companies, Silvania Products, Integrated Forest Industries, Isabel Timber Company, and Rural Industries, were subsidiaries of Axiom Forest Products Ltd (incorporated in the British Virgin Islands), which in turn was a subsidiary of Axiom Forest Resources Ltd (incorporated in Hong Kong). In late 1992, China Industrial International Corporation (incorporated in Bermuda) bought the holding company Axiom Forest Resources Ltd and renamed its subsidiary Axiom

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43 For background on the growing influence of the Solomon Islands Development Trust, see Roughan 1994.
Forest Products, China International Forest Products. In mid-1993, Lee Kuan Mang (a shareholder in the Malaysian company Mint Horizon Sdn Bhd) bought China International Forest Products. In late 1993, the Malaysian company Kumpulan Emas Berhad (listed on the Kuala Lumpur stock exchange) purchased China International Forest Products from Mint Horizon, renaming the company Emas Pacific (incorporated in the British Virgin Islands). The end result is that Kumpulan Emas now owns Silvania Products, Integrated Forest Industries, Isabel Timber, and Rural Industries. Yet in October 1995, the Solomon Islands register of companies still recorded Axiom Forest Products as the owner. The confusion does not end here. The board of directors and major shareholders at Kumpulan Emas recently changed. Chief executive officer Datuk Lim Fung Chee and chairman Datuk Abdul Ghani Ali sold their shares in late 1995 and resigned from the board of directors in March 1996. Datuk Khoo Thaw Choon is now the executive vice chairman (Forests Monitor 1996, 1–2).

Complex corporate structures and opaque links between firms facilitate tax evasion. Foreign investors throughout the developing world employ an array of schemes to evade taxes. A company sometimes sells a product to its parent company at a significant discount. The parent company then sells the product for its full market value. The product only leaves the host country on paper; but this allows the company to register its profits in a tax haven or a country with lower corporate taxes than the host country. (This also enables companies to reduce export taxes.) Double-invoicing is another common scheme to evade taxes. In these cases, a buyer receives two invoices that together equal the value of a single purchase: one from the company that actually produces the product (perhaps 60 per cent of the value), and one from an affiliated company in a tax-free or low-tax country (perhaps 40 per cent of the value). The company that produces the product never records the invoice from the affiliated company, thereby lowering recorded export prices, total profits, and corporate taxes. If necessary, the affiliated company may then provide an interest-free loan to the original company equal to the value of the second invoice. Corporate groups will also sometimes lower a subsidiary’s income taxes by shifting debts from the parent company to the subsidiary (known as debt-loading). An even more straightforward way to evade taxes on corporate profits is to simply record low profits in the host country. Because of the complexity of international transactions and corporate structures governments are often unable to verify these figures, especially in developing countries with few institutional and technical resources and relatively weak tax departments. Other common ways corporations lower profits, and therefore taxes, in host countries include: purchasing
ghost services or paying excessive fees for services from an affiliated company, over-estimating the depreciation of equipment (perhaps used equipment that is declared new), and over-declaring the costs of supplies and commissions from an affiliated company. Although almost impossible to prove, most multinational timber investors in the Solomon Islands appear to use some or all of these techniques to evade corporate taxes (see Price Waterhouse 1995).

Overseas subsidiaries and affiliates also sometimes borrow heavily from parent companies to finance their operations. Paying interest on loans to a parent company often has tax advantages in a host country. No tax rules exist in the Solomon Islands to prevent this method of lowering taxes and loggers apparently rely extensively on loans from parent companies. Some foreign loggers in the Solomon Islands have also delayed filing their income tax returns, allowing them to pay quarterly income tax payments based on income estimates that are several years old—and that ignore profits generated by the recent increases in international tropical log prices. In addition, some of these firms are apparently evading, or at least delaying, payment of the withholding tax on royalties. In 1994, companies paid about SIS27 million in royalties. In that year, total corporate withholding taxes should have been about SIS2.7 million. But Ministry of Finance receipts suggest that companies may have only paid SIS0.73 million (Price Waterhouse 1995, 24, 43, 45–46).

To evade the log export tax and lower recorded corporate profits, multinational investors in the Solomon Islands also alter species names and log grades and mix high-grade species with lower-grade ones. In 1995, for example, exporters classified a large amount of logs as second grade, decreasing average export prices (Central Bank of the Solomon Islands 1996, 18). Ron Duncan estimated that corporate schemes to record low log export prices may have cost the Solomon Islands government up to SIS94 million in 1993 (1994 October, xvii). Price Waterhouse estimated in 1995 that ‘the declared FOB value is...25 percent to 30 percent under-recorded’ (1995, ii). The 1995 Forestry Review notes that most companies ‘should have at least been able to achieve the prices realised by Somma of SIS458 as the Makira logs are generally smaller and of lower quality to those on other concessions’ (1995). Nevertheless, all of the major foreign investors declared far lower average log export prices (see Table II; see Table III for average log export prices of local companies); as a result, the overall average declared export price of logs was only SIS366 in 1995. Government researchers recently examined Japanese and Korean log import
prices and found strong evidence of under-pricing of log exports. In Japan, after taking into account freight and insurance costs, the average export price of Solomon Islands logs in 1994 was US$33.9 per cubic metre lower than the average Japanese import price (representing about 25 per cent of the FOB price); in Korea, the difference was US$32 per cubic metre (representing about 30 per cent of the FOB price) (Mulholland and Gane 1995, 2). Price Waterhouse estimated that in the first half of 1995, Solomon Islands log exports to Japan were under-invoiced on average by SI$80 per cubic metre (representing around 24 per cent of FOB price).

Some foreign log exporters are apparently involved in under-pricing to a greater extent than others. In 1995, companies with no tax breaks on log exports generally reported the lowest prices and firms with generous tax breaks tended to report the highest prices (see Tables II and III). This occurs because companies that pay full export taxes have a greater incentive to under-declare log export prices than companies that receive exemptions. (Although all companies have an incentive to under-declare log export prices to lower corporate income taxes.) Declared export prices for logs of the same species and grades also vary considerably across firms. Malaysian companies appear to be the worst offenders. In 1995, the Malaysian company Silvania Products recorded the lowest log export prices (SI$338 per cubic metre), followed by the Malaysian company Kalena Timber (SI$339), the Malaysian company Golden Springs (SI$351), the Malaysian company Isabel Timber (SI$369), and the Malaysian company Eastern Development Enterprises (SI$372) (see Table II).

**Informal agreements and log buyers**

From 1991 to 1995, log exports, mostly to Japan and South Korea, accounted for 88 per cent of total log production in the Solomon Islands (calculated from Table II). Logs come primarily from Western Province, and to a lesser extent Choiseul and Isabel. In the first half of 1995, 60 per cent of logs were from Western Province (Baird 1996, 23). In early 1996, the three major log

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44 A close look at Solomon Islands log export records and import records of Japan and South Korea suggests that log smuggling is not a serious problem in the Solomon Islands (Mulholland and Gane 1995, 2). The main problem is under-reporting of prices, species, and grades.

45 Around US$5 per cubic metre may be accounted for by agent fees in places like Singapore and Hong Kong (Mulholland and Gane 1995, 2).
exporters were Golden Springs, Eagon Resources, and Silvania. Together they comprised 62 per cent of total log exports from January to May 1996 (Forestry Review Update 1996, 7).

Strong circumstantial evidence exists that investors in the Solomon Islands make informal agreements with corporate traders for ‘guaranteed’ log purchases.\textsuperscript{46} Solomon Islands customs data shows that from July 1993 to May 1996, the Australian company Allardyc sold over 98 per cent of its logs to Itochu corporation. Over this time, the mainland Chinese company Dalsol sold all of its logs to Zhong Xing Investment. From January 1994 to May 1996, the Malaysian company Kalena Timber sold all of its log shipments to Durley Holdings Ltd in Singapore. Other foreign as well as local loggers also have similar strong ties with one or several particular buyers (Table II and III for details). These arrangements help investors to maintain steady log production, provide a buffer against price fluctuations and, in some cases, provide investors with vital credit or technical assistance to maintain operations. They also, however, tend to raise aggregate production, lower log export prices by severing competitive bids, and facilitate tax evasion.\textsuperscript{47} Global market prices that do not reflect environmental and social costs further depress timber prices.

Corporate buyers also contribute to high production and export volumes and low import and consumer prices. Japanese general trading companies (\textit{sogo shosha}) are especially important. The six largest \textit{sogo shosha} are Mitsubishi Corporation, Mitsui & Company Ltd, Itochu & Company Ltd, Sumitomo Corporation, Marubeni Corporation, and Nissho Iwai Corporation. These companies, which are at the core of Japanese industrial groups, are some of the world’s most powerful traders. In terms of 1995 sales, Mitsubishi was the world’s largest firm, followed by Mitsui, Itochu, and Sumitomo. Marubeni was sixth and Nissho Iwai was ninth.

\textit{Sogo shosha} are not just traders. They also invest in joint ventures, act as quasi banks, and transport and market goods. But their role as trade intermediaries is central to their operations. Unlike most multinational corporations, to facilitate and coordinate trade, they generally do not try to

\textsuperscript{46} A general manager of one of the largest foreign timber companies in the Solomon Islands claimed that most exporters arrange informal log purchasing agreements (personal communication, Honiara, 11 July 1996).

\textsuperscript{47} Informal agreements between loggers and Japanese buyers have also occurred in the Philippines, Indonesia, Sarawak, and Sabah (Nectoux and Kuroda 1989; Dauvergne 1997b); and Papua New Guinea (Cooke 1997).
maximise profits. Instead, they charge firms in a trade chain small commissions, working at remarkably low profit margins—often below one per cent. They provide credit, protect small firms from exchange rate fluctuations, supply fast and accurate market information, and arrange contacts for affiliated companies in the trade chain (Yoshino and Lifson 1986; Eli 1990). In the case of the tropical timber trade, they link together loggers, shippers, plywood processors, wholesalers, retailers, and final consumers (often construction companies) (Jaakko Poyry Oy, 1992). To charge small commissions and function at such low profit margins, *sogo shosha* need to maintain high export volumes and strong consumer demand. To keep consumption high, they have strong incentives to maintain low export and consumer prices. Quite naturally, unprocessed natural resources with international market prices that ignore environmental and social costs, such as tropical logs, are especially attractive to these companies.

Although consumption and recycling patterns are, of course, partly due to consumer habits, low international market prices for tropical timber, coupled with the activities of international log traders, have stimulated wasteful consumption. (Wasteful consumption occurs when by its very nature it exceeds sustainable limits.) In Japan, plywood plants process about three-quarters of total tropical log imports. Sawmills use most of the rest. Much of this timber is wasted. Construction firms use huge quantities of tropical plywood to mould concrete (*kon-pan*). In Japan, these panels are generally thrown away after only a few uses—a practice that is also common in Korea. Japanese buildings made partially from tropical wood, or which were built using *kon-pan*, are often torn down after only twenty to 30 years. And when people move, they often simply throw away their tropical wood furniture (see Dauvergne 1997a and 1997b).

**Conclusion: corporations and timber mismanagement**

This paper focused on multinational companies, one piece of a complex puzzle of interconnected forces that leads to unsustainable logging. Putting these companies under a microscope revealed the fine grains of this piece of the puzzle; but it also necessarily obscured the other parts such as the politics of landowner groups, the science of tropical forest management, poverty, concepts of development, conventional economic indicators that externalise environmental and social costs, poorly designed Northern aid projects, Northern technology transfers, and international agreements and organisations. Multi-
national corporations are, of course, only part of the problem and are shaped by, and respond to, other forces that also drive unsustainable logging.

This microscope reveals, however, important patterns and effects of multinational loggers in the Solomon Islands. In the 1980s, as the number of foreign investors and the extent of resource production rose, and as operations dispersed, the Solomon Islands did not sufficiently strengthen state agencies responsible for forest management, and state capacity to monitor and regulate corporate activities declined. When Malaysian loggers spread throughout the country in the early 1990s, log production rose quickly, from just over a sustainable level at the start of the decade to three times higher by the mid-1990s. These investors have persistently bent and manipulated state and societal rules to maximise profits and minimise risks, contributing to broken promises to both governments and communities. At the same time, they have frequently ignored formal policies, instead operating within the confines of state and societal rules that are actually enforced, whether these are written or unwritten. They have depleted state revenues through tax evasion, sometimes bribing officials to facilitate these illegal activities. In theory, anyway, this has depleted potential state and community funds to support sustainable forest management.

These firms have also allied themselves with powerful political and local élites, channelling money, gifts, and perks to key individuals. Partially through these networks of local allies, they have pressured or enticed various governments in the Solomon Islands to revise or create policies that increase profits and decrease environmental protection. This has contributed to lax state environmental regulations and unsuitable state policies—such as widespread tax exemptions and insufficient tax rates.

The domestic and international contexts have further aggravated poor environmental practices by multinational investors. Market fluctuations, landowner disputes, unclear laws, potential political changes, and inadequate forest data have created an unpredictable setting for investors. Investors have responded by attempting to recover initial financial costs quickly, often ignoring long-term management plans, and mining forest areas as fast as possible.48

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48 Similar patterns are found in the Philippines from the 1950s to the 1980s, Indonesia in the 1970s (Dauvergne 1997b) and Papua New Guinea presently (Cooke 1997).
Investors have also created webs of firms that involve home companies, subsidiaries, nominees, contractors, and licensees. These webs obscure environmental accountability and facilitate transfer pricing and tax evasion. Investors integrated into complex corporate structures appear to evade taxes to a greater extent than companies with relatively clear lines of ownership and straightforward marketing channels. Ethnic Chinese companies from Malaysia, which operate within some of the most opaque and complicated corporate structures, appear to be especially adept at transfer pricing and tax evasion. Multinational loggers also make informal agreements with buyers that lower prices, help maintain high and steady production volumes, and facilitate tax evasion. Low international prices, high export volumes, and unsustainable consumption are further reinforced by traders, the structure of trade chains, and markets that ignore environmental and social costs.

The pattern of corporate environmental impacts seen in the Solomon Islands is also found in other developing countries, although to some extent it varies depending on the matrix of other factors. Although it is too simplistic to claim that multinational corporations are the sole cause of unsustainable logging, it is clear that aggressive investors, often in alliance with traders, are triggering and accelerating timber production around the world. For example, when mostly Malaysian multinational investors flooded Papua New Guinea in the late 1980s and early 1990s, log production more than doubled, from 1.45 million cubic metres in 1990 to 3.5 million cubic metres in 1994. Although aggregate log production dropped to around 3 million cubic metres in 1995, multinational loggers are still creating severe environmental problems (Filer 1997). Multinational investors, again mostly from Malaysia, have put similar pressure on Guyana’s forests. Commercial forests cover about 14 million hectares of Guyana. In 1989, the government had leased about 17 per cent of this area. By 1994, however, more than half of this area was leased with additional proposals still under review. Log production has risen quickly. From 1992 to 1994, it more than doubled, from 151 000 cubic metres to 403 000 cubic metres. In 1995, it increased further to 456 000 cubic metres, and it will likely continue to escalate over the next ten years (Colchester 1994; and Sizer 1996). These are not isolated cases. Foreign timber investors have spread throughout the tropical world, including into Laos, Cambodia, Surinam, Brazil, Belize, Cameroon, Ghana, Zaire, and the Republic of Congo.

Multinational investors are, of course, not omnipotent. Local resistance, nongovernmental pressure, and state actions can force investors to improve environmental practices or perhaps force them to go home. Yet without strong state and community environmental commitments and controls, multinational
loggers in the tropics tend to be bad managers. This does not mean that local companies will perform better. A quick glance at the timber industries in East Malaysia and Indonesia shows that local companies often perform just as badly, perhaps even worse. In Sarawak, Malaysia, annual log production from 1990 to 1995 averaged nearly 18 million cubic metres, over two times higher than sustainable levels. In Indonesia, average log production from 1990 to 1996 was between 36 to 44 million cubic metres, close to two times higher than sustainable levels (and 15 to 23 million cubic metres higher than average log production in the 1970s when the sector was dominated by multinational investors). Problems in Sarawak and Indonesia are compounded by poor environmental and harvesting practices, and illegal logging in national parks and conservation areas. At current rates and under current practices, Sarawak will likely deplete its valuable commercial logs in less than a decade while Indonesia, which still contains about 60 per cent of the remaining commercial timber in Southeast Asia, could reach the same point in about three decades (Dauvergne 1997b). All of these cases demonstrate the environmental dangers of uncontrolled multinational and domestic loggers. Although they may well create a temporary financial windfall for a state, or perhaps a local community, these booms do not last, and in places like the Solomon Islands these companies inevitably leave behind environmental degradation and economic wastelands.
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