



**The Asia/Pacific Group on Money
Laundering (APG)**

Typologies Report: Illegal Logging and Money Laundering Issues

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TYOLOGIES NOTE

Money Laundering and Illegal Logging

Background

The Asia/Pacific Group on Money Laundering (APG) consists of 38 member jurisdictions which come together to implement the agreed international standards for anti-money laundering and combating terrorist financing. As part of its work, the APG produces regional typologies reports on money laundering and terrorist financing techniques in the Asia/Pacific region.

The APG's typologies work describes and analyses the nature of money laundering and terrorist financing. Since its establishment in 1997, the APG has undertaken typologies work to share information and support a better understanding of money laundering and terrorist financing methods, techniques and trends in the region.

Typologies of money laundering and terrorist financing allow governments to understand the nature of the problem and design effective strategies to address threats. Typologies help APG members to implement effective strategies to investigate and prosecute money laundering and terrorist financing, as well as design and implement effective preventative measures.

Introduction

The APG has been considering issues of the connection between money laundering and illegal logging since 2004. In October 2006 the APG with the World Bank held a Special Seminar on illegal logging money laundering issues. The Seminar brought together APG jurisdictions, international organisations and NGOs to consider AML/CFT measures to address the proceeds from forestry crimes.

Statement of the Problem

- The financial backers for criminal timber extraction operate globally and benefit from enormous proceeds crime.
 - Illegal proceeds are laundered to benefit those who control the illegal timber trade.
- The World Bank estimates that illegal logging is worth up to US\$15 billion per annum and accounts for up to 25% of forest removals worldwide.
 - Every year 10 million hectares of forests are destroyed, driving environmental changes.
 - Industrial timber exports are around US\$150 billion per year.
- Forestry crime is a transnational issue and includes money laundering to realise the profits of this crime.
 - Illegal logging and associated money laundering are closely connected. In the Asia/Pacific region, the two are linked to corruption and bribery, organised crime; smuggling offences, bank and other fraud offences.
 - Associated corruption affects customs, tax, law enforcement, military etc.
- It is a challenge to harness political commitment to act to combat money laundering associated with illegal logging.
 - There are barriers to understanding the nature of the problem and to endorse options to take effective action.

- The APG notes the risks of politically exposed persons related to the illegal timber trade.
 - Politically exposed persons are a challenge for investigating corrupt regulators, police or military officers that may be involved with the illegal timber trade.
- APG members highlight the need to integrate anti-money laundering and asset forfeiture tools into efforts against forest crime and related high-level corruption.
 - Effective money laundering legislation and preventative measures provide strong tools to detect the profits and investigate and prosecute the persons behind illegal logging and prevent financial markets from abuse.
- Corruption may stop issues of money laundering and illegal logging from being considered a national priority.
 - As an example, corruption has an effect on the response to illegal logging in Indonesia, despite some committed officers, and undermines trust between those authorities responsible for the enforcement and prosecution of relevant offences.

Some Possible ‘Red Flag’ Indicators

- Unexplained wealth of forestry officials (indicated by purchase of high value goods such as luxury vehicles) may be a red flag for bribery of officials involved in the sector.
- Trade transactions to finance timber business (extraction, shipping, milling etc) to a high risk country – i.e. where no legal forestry concessions are in operation.
 - For example, in Cambodia there are no legal concessions for logging and or commercial exploitation of forests by any foreign companies.
- False or questionable statements on bank loans, letters of credit, customs and shipping documents associated with the timber trade.
- Sources of cash used for loggers, food, chainsaws, trucks, heavy equipment, shipping etc.
- Involvement with politically exposed persons or military, police, or other law enforcement by:
 - timber brokers,
 - forestry officials,
 - licensed concession-holders outside contract,
 - wood processing companies, shippers, exporters, customs officials, and
 - financial institutions.

AML/CFT responses to the proceeds of illegal timber extraction

The FATF 40 Recommendations are relevant to combating money laundering that is associated with illegal logging and other forms of illicit resource extraction:

- Environmental crimes are in the “Designated Categories of Offenses” that the international standards require to be predicate offences for the ML offence;
- In some jurisdictions, illegal logging has been listed as a predicate offence, for example in Indonesia and recently in Malaysia.
- FATF requires countries to put in place preventative measures to deal with financial risks from “Politically Exposed Persons”.
- Criminal prosecutions and asset forfeiture are a powerful deterrent and will result in recovery of substantial assets.
- The international standards call for coordination between relevant authorities to investigate and prevent money laundering.

- International coordination is essential to investigate and prevent money laundering and associated predicate crimes.

Opportunities for Action

The APG's work with the World Bank, NGOs and other organisations has identified a number of opportunities to take action:

- Involve forestry ministries in the AML/CFT national coordination groups that set and oversee AML policies.
 - A number of APG jurisdictions include natural resource ministries/agencies in AML coordination mechanisms.
 - For example, in response to identified money laundering associated with illegal fishing, New Zealand includes the Fisheries Department in its AML NCC.
- Financial intelligence units (FIUs), relevant forestry and law enforcement agencies need good working relationships to share information and to work with other stakeholders.
 - Intelligence on illegal logging, forest smuggling, illicit trade, and associated financial activities are often found in media reports and the investigative work of NGOs and from international organisations (e.g. the World Bank).
- Support international cooperation to identify and investigate money laundering risks in the sector.
 - AML/CFT regulators need to share information with international counterparts on risks associated with illegal logging across the region.
 - For example in Cambodia there are no legal concessions for logging and/or commercial exploitation of forests by foreign companies.
- Foreign counterpart FIUs should be aware of the risk profiles of logging sectors in order to advise their financial sector on risks associated with logging business.
 - The example in Cambodia requires regional financial institutions to be aware of high risks and to monitor for and report suspicious transactions.
- Ensure staff of forestry agencies are trained in AML measures and are required to maintain high professional and integrity.
 - Consider adopting requirements for financial disclosures by staff of forestry agencies to assist with combating corruption and money laundering associated with the sector.
 - Ensure that staff of forestry agencies are involved in AML training.
- Ensure guidance is given for AML preventative measures that address risks from the logging sector.
 - Guidance on risks from illegal forestry should be included in KYC/CDD guidelines issued to financial institutions and other reporting entities for AML/CFT compliance.
 - Guidelines should include "Red Flag" indicators for financial institutions, lawyers and accountants.
- Establish specialist inter-agency AML and illegal logging 'strike-forces' or task forces of dedicated law enforcement and regulatory resources.
 - These allow a combined strategic approach to target abuse in the sector and focus on investigation, prosecution, freezing and confiscation of proceeds of crime. Indonesia is considering a strike-force response.

- Dedicated task forces help build trust and cooperation and support information sharing.
- Develop and share a best practices guide for investigators and prosecutors - to provide specialised capacity to investigate and prosecute money laundering associated with illegal logging.
 - Training investigators, prosecutors and judges, including how to conduct financial crime investigations, is essential.
- Support cooperation with NGOs, regional timber importers, and other stakeholders in the sector to support the development of a culture of AML/CFT compliance in the sector.
 - NGOs and legitimate timber sector are key partners for competent authorities in combating money laundering in the sector.

International responses

The APG's work to consider issues of laundering the proceeds of forest crimes follows a range of broader regional and global responses including:

- Bali Ministerial Declaration on Forest Law Enforcement and Governance (Indonesia, China, Cambodia, Lao PDR, Papua New Guinea, Thailand, Philippines)
- EU Action Plan for Forest Law Enforcement Governance and Trade (May 2003);
- China-UK Letter of Intent (May 2004);
- China-Indonesia MOU (December 2002);
- Norway-Indonesia Letter of intent (August 2002);
- Africa FLEG Ministerial Declaration (16/10/2003);
- Japan-Indonesia MOU (June 2003);
- US President's Initiative on Illegal Logging (February 2002); and
- APG Typologies Workshop, Brunei (October 2004).

CASE STUDIES

INDONESIA

Case Study 1

During 2004 – 2005, a high-ranking officer of district forestry services, Mr. X, received an incoming transfer from several forestry companies for total amount of Rp30 – Rp100 million. It was indicated that those companies operate illegal logging activities in P Island. Therefore, in order to protect their illegal timber businesses and to obtain timber transportation documents (known as SKSHH), they regularly paid bribes to Mr. X. Based on Mr. X's credit card transactions, it was found that he frequently made transactions at jewellery shops and travelled to Singapore several times.

Case Study 2

Ms. A and Mr. B opened seven current accounts in Bank P on August 2001. Then, Ms. A authorised Mr. B and one foreigner (Mr. C) to withdraw money from her account whenever they needed. Mr. B and Mr. C are known as timber exporters to Singapore and Malaysia. From 2001-2004, they received money transfers worth a total amount of US\$11 million from several timber companies in Singapore and Malaysia. Mr. B and Mr. C got logs from Papua and East Kalimantan. To prevent detection and seizure by local government officials, Mr. B

periodically transferred money to private accounts of forestry government officers and law enforcers to pay bribes to avoid enforcement actions.

MALAYSIA

Mr M, a suspect involved in drug trafficking activities, had the criminal proceeds derived from his illegal activity kept with his sister-in-law, Ms BB as his nominee. Ms BB owned a business in selling/servicing tyres and declared she earned a monthly and daily income of RM6,000 (equivalent to approximately US\$1,740) and RM2,500 (equivalent to approximately US\$725) respectively. However, her income could not be verified with any legal documents.

Ms BB opened an account with Bank ABC which regularly received cash deposits. She also placed personal fixed deposits and joint fixed deposits with five other individuals totalling RM1 million (approx. US\$290,000).

It was also revealed that Ms BB is shareholder and director in Company XYZ together with two other individuals and Ms BB made multiple cash deposits into the company account of Company XYZ. A banker's order of RM1.3 million (approx. US\$377,000) was paid via a solicitor firm to pay Company KLM for a timber concession of 300 hectares to launder the illegal proceeds