

Whitepaper

TIMBER TRAFFICKING AND ILLICIT FINANCIAL FLOW



Timber Trafficking and Illicit Financial Flow

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Introduction

If you believe timber trafficking, deforestation, and the exploitation of natural resources are strictly modern-day problems, then this assumption clearly reveals a significant gap in your understanding of the world. You'll be surprised to learn that many environmental crimes have deep historical origins, dating back thousands of years.



Timber Trafficking in the Ancient World

For the classical world, forests were the primary supply of building materials and nearly the only source of fuel; the depletion of these resources led to several catastrophes. With the clearing of land for agriculture, forests withdrew and wood became scarcer and more expensive, adding to the catastrophic inflation in ancient times. Military conflicts were sparked by competition for forest resources, and these in turn led to demands for timber.



In Classical Greece and Rome

The demand for wood for ships, buildings, and fuel was the main cause of deforestation in ancient Greece and Rome, a fact that may surprise many people. A lot of environmental damage, including deforestation and consequent soil erosion, has been caused by these practices, as observed by academics such as J. Donald Hughes. These civilizations gradually declined as a result of soil deterioration brought on by a lack of trees, which also decreased the land's agricultural production. The economic foundation of the primarily agricultural societies was eroded by erosion, which also led to a population reduction. As a result, the Greco-Roman civilizations found it increasingly harder to fend against barbarian assaults from beyond the frontier. Hughes argues that the environmental difficulties that finally prevented the Greeks and Romans from thriving were largely caused by their massive deforestation and subpar agricultural methods.



The unlawful logging, trading, and transportation of wood and wood products is referred to as "timber trafficking." This practice has been around for a while and has been motivated by the need for wood and forest resources worldwide, frequently at the price of local economies, indigenous rights, and environmental health.

Environmental crimes are going up by 5–7% each year, becoming increasingly related to other criminal activities, meaning it is 'a growing threat to peace, security, and stability.'



A Convergence of Threats, a report published jointly by UN Environment and INTERPOL in December 2016, revealed: environmental crimes are the fourth largest category of criminal activity in the world.




Timber trafficking and its connection to Money Laundering

Trafficking in illicit timber threatens biodiversity, the habitats of endangered species, and the climate. This activity is often linked to transnational organized crime and terrorism. Illegal deforestation and the trafficking of timber finance organized crime, leading to severe ecological degradation and contributing to the loss of vital ecosystems. The consequences extend to the environment, economy, and society, exacerbating poverty in vulnerable communities and undermining efforts toward sustainable development and conservation goals.

The trade in illegal timber and timber products leads to massive economic losses and environmental damage for the countries that are exploited. The World Bank has estimated that up to US\$23 billion worth of timber is illegally felled or produced from suspicious origins each year, leading to significant revenue losses from uncollected logging licenses or taxes. Despite international policy to control the trade in illegal timber, it continues to flourish and is facilitated by widespread corruption and ineffective enforcement mechanisms in many regions.

In the Asia Pacific region, the trafficking of timber involves corruption in a range of processes along the entire demand and supply chain, including logging, trading, manufacturing, importing, and consumption. Timber trafficking is a serious transnational problem. The high profits involved in the illegal timber trade provide strong incentives for smugglers to launder illegal timber for sale on international markets. This paper argues how a comprehensive anti-corruption approach to the problem may help to finally break the persistent trafficking chain.

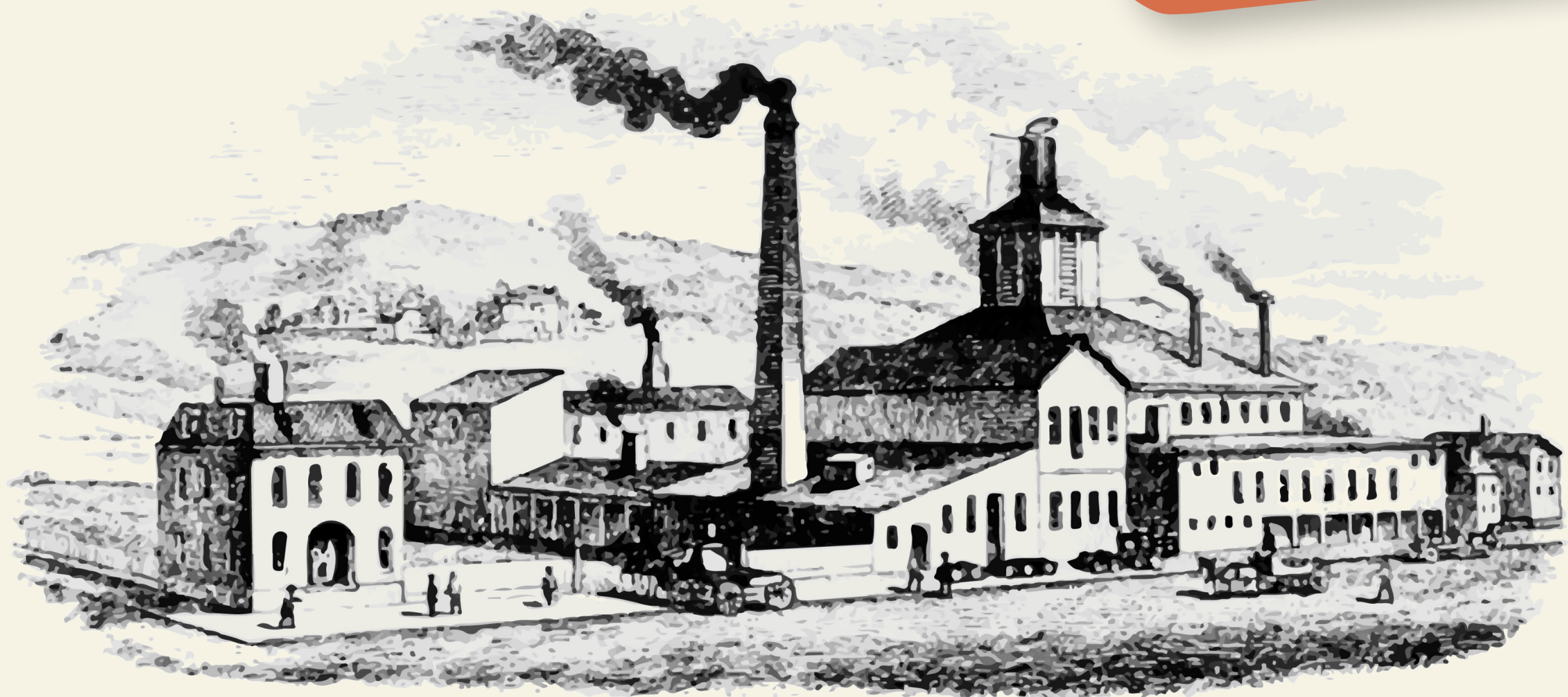


Industrial Revolution and Global Trade (1800s-1900s):

The tremendous urbanization, construction, and industrial expansion that accompanied the Industrial Revolution in the 18th and 19th centuries led to a spike in the need for lumber. In order to build railroads, mine supports, and make paper, timber became a vital resource. Eventually, this resulted in a rise in deforestation throughout tropical regions of North America and Europe.

Tropical forests in nations like Brazil, Indonesia, and the Congo are being exploited as a result of the growing demand for exotic hardwoods (such as mahogany, teak, and rosewood) in the late 19th and early 20th centuries. Large-scale logging operations were formed by North American and European businesses, frequently ignoring sustainability and local rules.

During the 19th and early 20th centuries, an estimated 50% of the world's forests were lost due to logging, which was driven by industrial demand for timber and expansion of railroads and shipping.



East Asia, Deforestation, & Illegal Logging Practices

East Asia is in the midst of an environmental disaster, with some of the highest deforestation rates in the world; by 2030, the region could lose approximately 70 million hectares of natural forest, equivalent to 25 percent of the projected global total. Unsustainable demand for high-value hardwoods is also a major driver of forest loss.

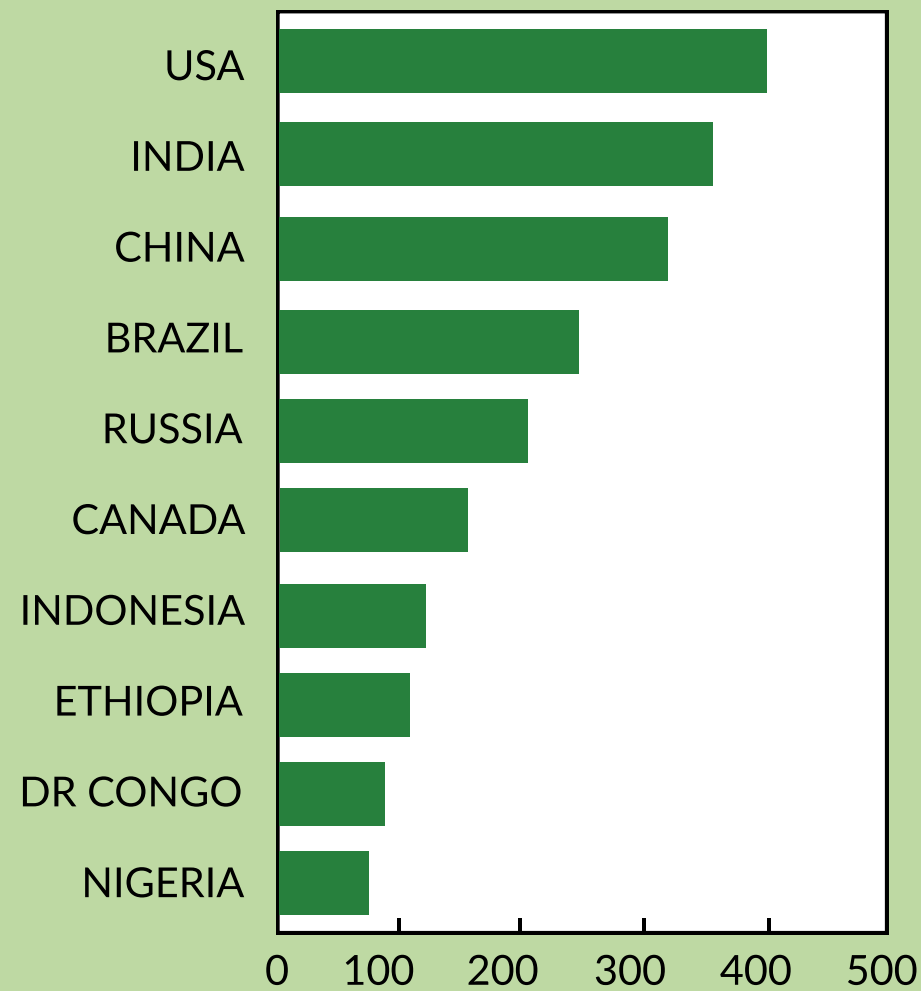


The logging of hardwoods has become industrialized in many countries in the region; logging companies and gangs now have the capacity to move into a forested area and rapidly extract all available hardwoods. These selective logging operations are typically run by large companies or criminal syndicates with strong links to the military and government; once they move into a rural community, this can have adverse and far-reaching impacts on existing social structures, communal land tenure, and traditional sources of livelihood.

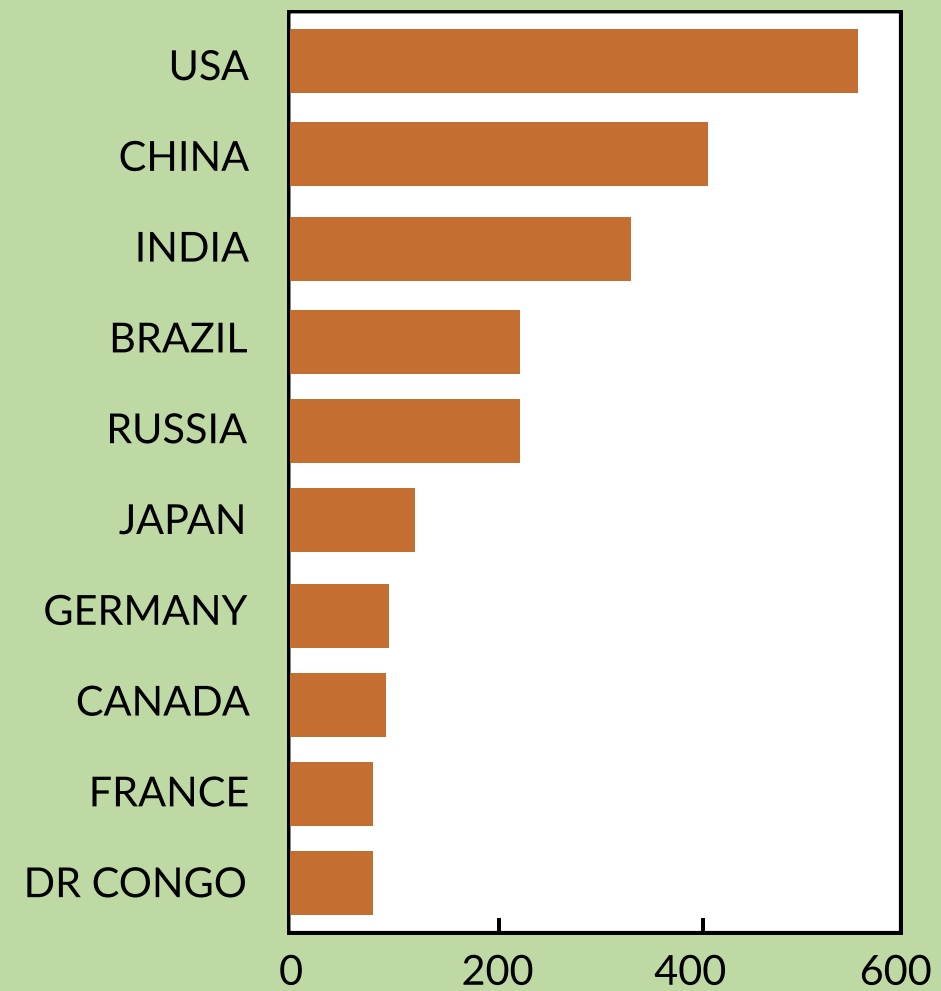
Additionally, despite being some of the most vulnerable people within these rural communities, enforcement action is usually targeted at this same demographic as the easiest part of the trade chain to apprehend because their arrest is unlikely to result in political repercussions.

Trafficking timber through third countries can be addressed by stronger bilateral agreements between countries that are complemented by national ratification and implementation of international agreements – making them legally binding in participating countries. Political will for these measures within the Asia Pacific region is crucial, and must be promoted through regional collaboration. For instance, countries must be willing and able to investigate suspicious activities and transactions to uncover laundering activities associated with the industry both inside and outside their borders.

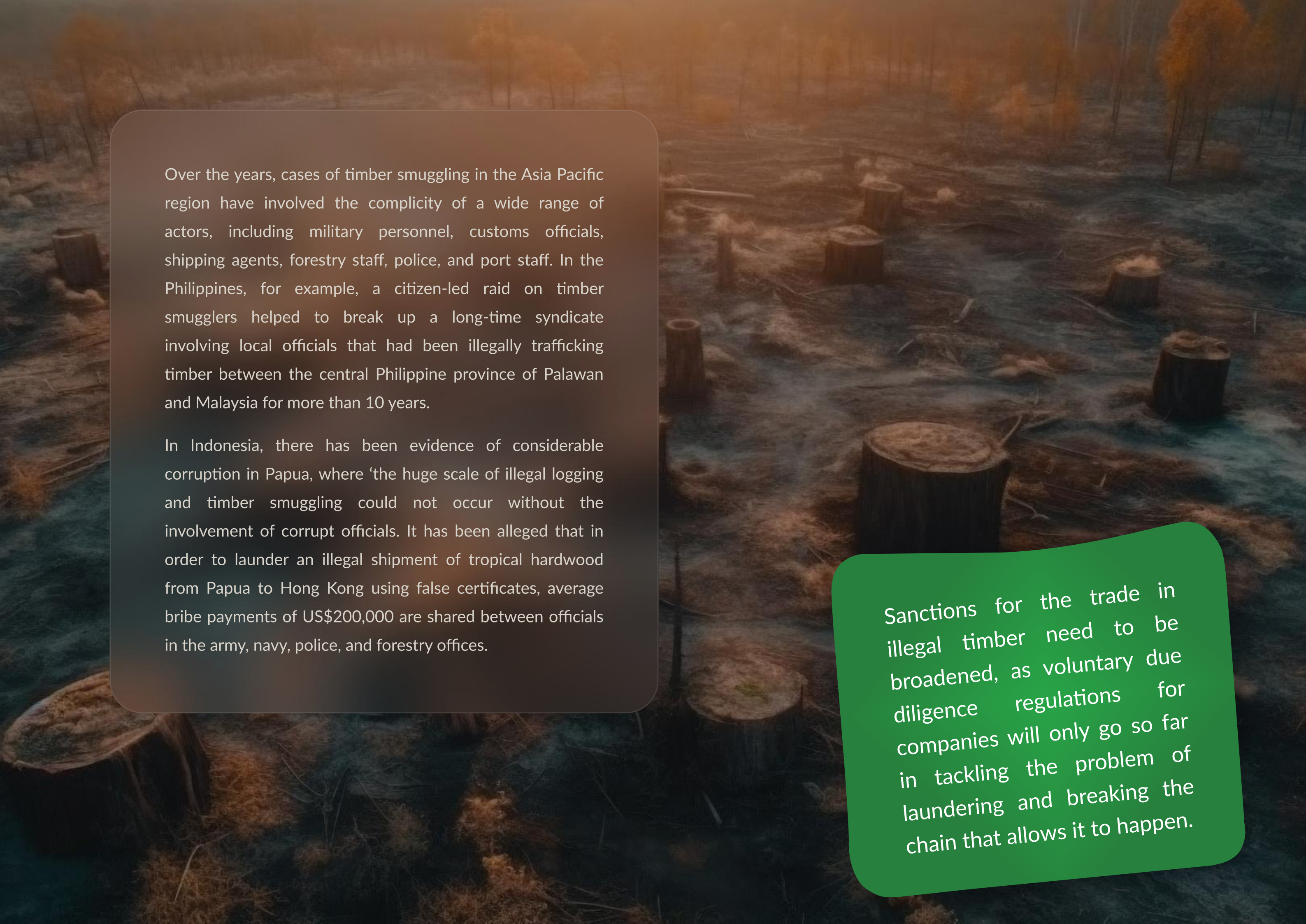
Top 10 nations of direct timber harvests and timber harvest footprints



a. Direct timber harvest (million m³)



b. Timber harvest footprint (million m³)



Over the years, cases of timber smuggling in the Asia Pacific region have involved the complicity of a wide range of actors, including military personnel, customs officials, shipping agents, forestry staff, police, and port staff. In the Philippines, for example, a citizen-led raid on timber smugglers helped to break up a long-time syndicate involving local officials that had been illegally trafficking timber between the central Philippine province of Palawan and Malaysia for more than 10 years.

In Indonesia, there has been evidence of considerable corruption in Papua, where 'the huge scale of illegal logging and timber smuggling could not occur without the involvement of corrupt officials. It has been alleged that in order to launder an illegal shipment of tropical hardwood from Papua to Hong Kong using false certificates, average bribe payments of US\$200,000 are shared between officials in the army, navy, police, and forestry offices.

Sanctions for the trade in illegal timber need to be broadened, as voluntary due diligence regulations for companies will only go so far in tackling the problem of laundering and breaking the chain that allows it to happen.

Timber trafficking and its connection to Money Laundering

Timber trafficking, the illegal trade of timber, often intersects with money laundering activities due to its high-value nature and the complex, opaque networks involved. The illicit timber trade frequently involves the illegal logging of protected or high-value tree species, which generates substantial revenue.

Criminal organizations exploit these activities by laundering the proceeds through various financial and trade mechanisms. The timber is often exported through legitimate channels, masked by falsified documentation and fraudulent claims about its origin and legality. This allows traffickers to integrate their illicit profits into the legal economy, obscuring the trail of the funds.

The value of timber, combined with its global demand, provides an attractive opportunity for laundering money, particularly in regions with weak regulatory oversight or high levels of corruption. By moving illicit funds through the timber trade, criminals can legitimize their earnings while perpetuating environmental degradation and undermining legal trade practices.

By funneling the proceeds from timber trafficking through such schemes, criminals can effectively launder their money, making it appear as though it originates from legitimate sources. This not only supports and perpetuates the illegal timber trade but also undermines efforts to combat financial crime and enforce environmental protections. The synergy between timber trafficking and money laundering sheds light on the need for enhanced regulatory measures and international cooperation to address both the environmental and financial impacts of these illicit activities.



Global Regulations to Combat Timber Trafficking and Money Laundering

FATF, Timber Trafficking and Illicit Financial Flows

The FATF has recognized illegal wildlife trade as a major transnational organized crime, which generates billions of criminal proceeds each year. FATF provides a framework of standards and recommendations that member countries are expected to implement. FATF's standards for wildlife practices include measures for preventing and detecting money laundering and terrorist financing, which can be applied to various forms of illicit trade, including timber trafficking. Therefore, in 2020, the Financial Action Task Force (FATF) conducted a new study to provide guidance to countries on measures they can take to combat money laundering from the illegal wildlife trade.



“Environmental crimes—such as illegal logging, illegal mining and waste trafficking—generate enormous criminal proceeds each year, with estimates ranging from USD 110 to 281 billion per year.
—FATF”

This is the FATF's first global report on this topic. It draws on inputs and case studies from over 50 countries from across the, as well as civil society and the United for Wildlife Financial Taskforce. To ensure an effective response for this work, the FATF has agreed to conduct a review from mid-to-late 2021 to collect information from countries and the private sector on how they are using the report and responding to its proposed actions.

The US Lacey Act:

The Lacey Act, enacted in 1900, is one of the United States' oldest conservation legislation. The law, named after its proponent, Congressman John Lacey, was originally established to combat excessive hunting of game birds.

The Lacey Act criminalizes anyone who imports, exports, transports, sells, or acquires wildlife taken or sold in violation of state or foreign laws. It also bans mislabeling wildlife shipments, bringing dangerous animals into the country, and importing live wildlife under inhumane conditions.

Congress passed a significant amendment to the Lacey Act in May 2008, prohibiting the trade of unlawfully derived plants or plant products such as lumber, wood, and paper. A coalition of environmental, industry, and labor groups backed the amendment in an effort to reduce illicit logging and protect the US forest sector.



Since the 2008 amendment to the Lacey Act, the U.S. has seen a significant increase in enforcement actions against illegal wildlife trade. For example, in 2019, the U.S. Department of Justice secured over \$2.6 million in penalties and forfeitures in cases involving Lacey Act violations.

The 2008 amendment enhanced responsibilities along the timber supply chain, particularly among importers. Importers of plants or plant products are required under the amendment to ensure that imported plants or plant products are legally obtained. Importers must take reasonable precautions to ensure that the plant or plant produce was not taken, harvested, held, transported, sold, or exported in violation of an underlying law in the United States or in any other country.




The same individuals involved in environmental crimes are often engaged in other criminal activities such as corruption, tax crimes, and human trafficking.
—FATF”

UNODC’s Efforts to Combat Timber Trafficking

The United Nations Office on Drugs and Crime (UNODC) has been actively engaged in combating timber trafficking through a multifaceted approach that emphasizes both enforcement and capacity-building. One of UNODC's key efforts is the promotion of the Forest Law Enforcement, Governance, and Trade (FLEGT) initiative, which aims to improve forest governance and address illegal logging and associated trade.

This initiative supports countries in implementing and enforcing laws and regulations that govern forest resources, promoting transparency and accountability in timber trade. By facilitating international cooperation and technical assistance, UNODC helps countries develop effective strategies to combat timber trafficking and reduce the impact of illegal logging on global biodiversity and ecosystems. This includes the development of robust legal frameworks, enhanced monitoring and reporting systems, and the strengthening of law enforcement capacities to tackle the complex and often transnational nature of timber trafficking operations.




Eighty-four percent of countries surveyed reported a convergence between environmental crime and other serious crimes, including corruption (42 percent), counterfeiting (39 percent) and drug trafficking (36 percent), cybercrime (23 percent), and financial crime (17 percent).

In addition to the FLEGT initiative, UNODC has been involved in raising awareness and providing training to relevant stakeholders, including law enforcement agencies, customs officials, and forest managers. Through workshops, conferences, and publications, UNODC disseminates best practices and promotes knowledge sharing on combating timber trafficking. The organization also collaborates with other international bodies, such as INTERPOL and the World Customs Organization, to facilitate cross-border cooperation and intelligence exchange.

Banks and financial institutions investing in the forest sector should implement due diligence procedures that consider the environmental and social consequences of loans, including compliance with applicable regulations. Export Credit Agencies should develop guidelines for better project screening and norms of practice for forest sector projects.

By integrating timber trafficking into broader anti-organized crime strategies, UNODC addresses the links between illegal timber trade and other criminal activities, such as money laundering and corruption. These comprehensive efforts aim to disrupt illegal supply chains, reduce the environmental impact of deforestation, and promote sustainable forest management practices globally.



EU Timber Regulation

The European Union Timber Regulation (EUTR), implemented on March 3, 2013, represents a critical step in the EU's commitment to curbing illegal logging and timber trade. The regulation mandates that operators who place timber and timber products on the EU market must exercise due diligence to ensure that the products are legally sourced. This involves tracing the origin of timber, understanding the legal framework of the exporting country, and assessing the risk of illegal timber entering the supply chain. Since the implementation of the EUTR, there has been a reported reduction of around 30% in the trade of illegal timber into the EU.



The EU imports approximately 20% of the world's timber, making it a significant player in the global timber market.

Therefore, EUTR's primary objective is to reduce the demand for illegal timber within the EU, which is a significant driver of deforestation and forest degradation globally. By creating a robust framework for verifying the legality of timber, the EUTR aims to promote sustainable forest management practices and protect biodiversity.

The EUTR also includes enforcement measures and penalties for non-compliance, which are essential for ensuring that the regulation's objectives are met. Member States are responsible for monitoring and enforcing the EUTR within their jurisdictions, which includes conducting checks on operators and their due diligence systems. In cases of non-compliance, operators may face fines, sanctions, or even prohibition from trading timber products.

The regulation is complemented by the Forest Law Enforcement, Governance, and Trade (FLEGT) Action Plan, which supports countries in improving their forest governance and trading systems. Together, the EUTR and FLEGT contribute to a comprehensive approach to combating illegal logging, fostering transparency in the timber trade, and supporting global efforts towards sustainable forestry.

Key Recommendations for Stakeholders

For Financial Institutions

This may sound cliched but financial institutions should enhance due diligence by focusing on regions and industries prone to timber trafficking. This involves developing targeted risk assessments that take into account geographic and sector-specific vulnerabilities. Institutions need to integrate comprehensive monitoring systems that can identify suspicious transactions linked to timber trade. Strengthening Know Your Customer (KYC) protocols to include detailed scrutiny of clients involved in the timber industry is crucial. Additionally, training staff to recognize red flags associated with timber trafficking and ensuring robust reporting mechanisms will aid in mitigating risks effectively.



For Governments and Regulators

Strengthening international cooperation is essential for tackling timber trafficking. Governments should work collaboratively across borders to share intelligence and coordinate enforcement actions. This can be achieved through establishing and participating in international coalitions focused on combating illegal timber trade.

Enforcing stricter regulations on the timber industry will address loopholes and improve transparency. Governments should implement tracking systems for timber supply chains and require documentation to ensure legality. Increasing penalties for violations and improving regulatory frameworks will help curb illegal activities.



For AML Solution Providers

AML solution providers must tailor their solutions to address environmental crime indicators specifically related to timber trafficking. This involves incorporating algorithms and data sources that highlight potential environmental and forestry-related offenses. Solutions should support multi-jurisdictional compliance by keeping in mind various jurisdictions like the US Lacey Act, EU Timber Regulation, and FATF guidelines. Providers should also focus on enhancing their systems to detect patterns indicative of timber trafficking, such as unusual transaction volumes or discrepancies in supply chain documentation. By doing so, AML solutions will be better equipped to support financial institutions and regulators in their efforts to combat illegal timber trade effectively.



ABOUT US

At **AML Watcher**, we aim to support more than 10,000 businesses in their fight against rising FinCrime by creating a secure and compliant financial world where they can thrive.

AML Watcher maintains 60,000+ databases including 1300+ watchlists, over 200+ sanction regimes, local and international PEP coverage, over 5000 reputed and reliable media sources across 235+ countries, in 80+ languages bringing everything you need for AML Screening in one place.

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