

Controlling Illegal Logging and Forest Law Enforcement— Searching for the Role of Anti- Money laundering (AML)

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Outline

- General Perspective on Forest Law Enforcement and Governance
- AML
- Questions and options

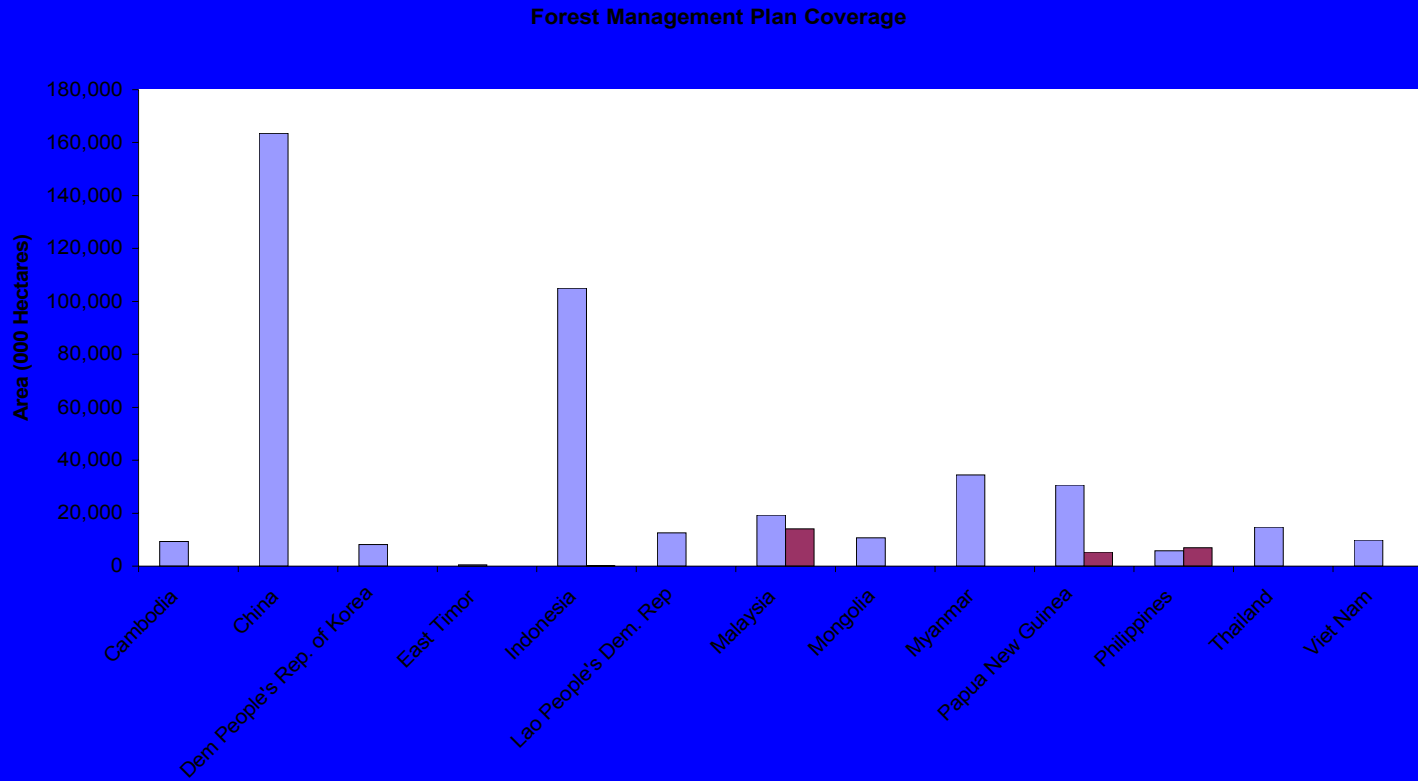
Forests and Forestry in Global Perspective

- Forests are 3.8 billion hectares out of 13 billion hectares global total land area
- Deforestation of 10 million hectares per year is one of the most significant environmental changes affecting the Earth today
- Industrial Timber production around 1.5 billion cubic meters (0.25 m³/person)
- Exports around US\$ 150 billion per year
- Protected Area 852 million ha of which 479 million ha is forest

Forestry is Ripe for Crime

- Less than 6 % of area has management plans (overstates extent of management)
- Only 80 million ha of “certified” management (2%)
- Illegal logging accounts for perhaps 25% of removals worldwide
- Forestry is a technically demanding activity
low level of practice

Forests in East Asia are not scientifically managed



Forward and Backward into Governance

- Bad Governance feeds into and perpetuates bad forest management (the crooked and corrupt are happy now and figure out quickly that reforms will cost them)
- Structured and disciplined forest management lends itself to predictability, transparency and accountability that will reinforce good governance

Addressing Forest Crime

- Promoting Improved Forest Management
 - Management Planning, Inventories, Operational Control
- Preventing and Reducing Industrial Over-Capacity
- Community Involvement
- Linkage to the Governance Agenda
 - Transparency, Administrative Reform, Judicial Reform
- AML (?)

Money Laundering

- Disguising the proceeds of illegal activities to make them appear legitimate
- Three Elements:
 - PLACEMENT
 - LAYERING
 - INTEGRATION
- Legal Basis
 - Predicates (Specific listing of relevant crimes)
 - Threshold (Value/Felony/Major Crime)

Proceeds from Illegal Logging

- Log value at “stump” is conceptually the residual of world price less costs of extraction
- Most official pricing systems aim at full recovery
- Differential between actual payments and amounts due can involve large sums (est. **\$15 billion annually** [10%]), a substantial portion of which could be subject to AML(?)

International Standards for AML/CFT

- Financial Action Task Force
 - FATF 40
 - Non Cooperative Countries and Territories (Cook Islands, Indonesia, Myanmar, Nigeria, the Philippines)
 - Typologies
 - FATF-type Regional Bodies (e.g. APG)
- Reporting Requirement on Financial Institutions to Report Suspicious Transactions (STR)
- Politically Exposed Persons (PEPs)
- *Burden of Proof*

Cases—APG Typologies Reports

- General
 - PEPs (Lazarenko, Fujimori associates), Real Estate, Corruption, Banking
- Forestry Cases
 - USA— Mail Fraud prosecution of illegal logging
 - Pakistan— Corruption by Forestry Official

Issues and Questions

- “Cases of First Impression”
- Cross-sector/Inter-agency collaboration needs
- Possibilities for Overseas Prosecutions
- Social equity advantages of AML prosecutions
- Technical assistance needs

Recommendations to Asia-Pacific Group:

- Note the importance of carrying out objectives of the Bali Declaration and other initiatives using AML as a tool;
- Establish a Working Group to conduct “Best Practice” development work on investigating and prosecuting AML and asset forfeiture cases
- Reinforce the FATF requirement of making Environmental Crime a predicate offenses and specifically could recommend an additional predicate for illegal logging

World Bank Role

- AML objective is strengthening the development contribution of the financial system
- Technical assistance in support of institution building to pursue AML related to illegal logging
- Financial support through ongoing lending for forest management/policy
- Policy advice on Finance Sector Policy and Regulation
- Support on Governance and Anti-Corruption

General Observations

- Improved forest management and policy is necessary
- No single law enforcement tool will be sufficient
- Expressions of commitment need to be turned into programs, projects and routine procedures
- A body of professional practice (Prevention, Detection, Suppression) is available, but genuinely expert and experienced advisors are rare--
Solutions will be “home-grown”

Recommendations

- Raise awareness of financial institutions to “suspiciousness” of transactions related to forestry and forestry-related PEPs
- Advocate inclusion of illegal logging in FATF Typologies work
- Track AML case law