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Working Paper

TRANSPARENCY INTERNATIONAL
the global coalition against corruption



Timber Trafficking and Laundering: An Anti-Corruption Approach

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,[1] leading to 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 corruption. 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 trans-national problem. The high profits involved in the illegal timber trade provide incentives for smugglers to launder illegal timber for sale on international markets. This paper argues how an anti-corruption approach to the problem may help to finally break the trafficking chain.

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What is Timber Laundering?

Timber laundering means converting illegally-cut logs to legally-certified timber by exploiting legal loopholes — such as those relating to transport of timber, or certification of origin — and relying on smuggling channels to bring the goods to market.

As a result, companies buy raw timber for further processing and consumers purchase the end products without knowing the origin of the timber they have bought.

1. How corruption feeds timber trafficking

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.[2] 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'.[3] 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 office.[4]

However, corrupt practices can begin much earlier in the timber traffic chain.. They take root as a result of the weak governance of the sector which enables illegal timber to be laundered onto legitimate markets. Problems of governance are even more so the case now that the industry is increasingly dependent on timber certification. Certification was devised to help stamp out laundering by creating barriers through standards. But when governance systems are weak, this dependence on certification — and the trust it inspires — provides an opportunity for timber launderers to undermine processes and 'legalise' their illegal timber stocks.

The aim of certification schemes is to guarantee the legality and/or sustainability of timber and to verify its origin and chain of custody after it has been logged. Most certification schemes uphold both legality and transparency as pillars of good forest management and are based on compliance with national laws. Corruption that undermines these schemes, however, facilitates the laundering of illegal timber by breaking the integrity of the 'paper chain' that testifies to the origin and chain of custody.

Corruption is a vital component of the timber laundering process, which turns illegal logs into legally certified timber that can be sold on international markets. Companies without legitimate rights to forestry concessions may obtain licenses by paying bribes to corrupt officials. These licenses in effect 'cleanse' illegal timber before it has been cut down. Once trees are harvested the independence of auditors, who are meant to certify timber as being from legal and sustainable sources, may also be compromised, leading to the certification of illegally felled trees. The next links in the chain are export and import procedures. Bribery can persuade port officials to falsify documents, allow the export/import of protected/banned species of wood, or accept false certification for species, volume or grades of timber. This enables smugglers to undervalue their export tax; export/import banned species with illegal permits; abuse trade facilitation services (e.g. free trade zones and customs bonds); and smuggle illegal timber by concealing it using private wharves, switching of flags or offshore shipment facilities.

2. Breaking the supply chain

The timber trade linkages between Indonesia, Malaysia and China illustrate how laundering works in the region and the importance of robust certification programmes to address corruption.

In 2002, roughly 73 per cent of all timber exports from Indonesia had been logged illegally.[5] Despite the 2001 decision to ban the export of all unprocessed logs from the country, the cutting of and trading in Indonesian timber continues and is facilitated by smuggling networks. These groups allegedly take Indonesian logs into Malaysia and other countries by using intermediate stops along the supply chain.[6]

Although Malaysia has upheld the ban on timber imports from Indonesia since June 2002, it is alleged that up to 3-5 million m^3 of illegal Indonesian timber enters Malaysia each year.[7] Once in Malaysia, these logs are re-badged or certified as Malaysian and documents are forged in order to launder them onto the international markets. From Malaysia, they can then be exported to third party countries that have no way of establishing the true origin of the logs. In some cases, they may even find their way back to Indonesia as 'imported' wood, thus avoiding domestic regulations on timber sales.[8]

A key destination for this falsely certified timber is China. It has a particularly prominent role in the chain, because it is a leading exporter of processed wood in the region.[9] Since it cannot easily source the raw material from its own protected forests, China demands large quantities of unprocessed wood from other countries. In one year alone, the Chinese customs agency registered 90,000m^3 of illegal log imports from Indonesia.[10] There are also several reports from China of these imports being falsely declared as Malaysian.[11] In other cases, illegal shipments of Indonesian logs have arrived in China from Singapore or directly by sea from the Indonesian province of West Papua.[12] Once in China timber is processed, turned into furniture or flooring, and then exported legally under Chinese law. Consequently, the timber trade route through China has been described as a means to allegedly launder timber that has been illegally logged elsewhere.[13] While this last step is important, it's the whole process of logging, certifying, re-certifying and shipping through various transit points that facilitates and constitutes timber laundering, not just the final stage.

3. The challenge of combating laundering

Timber laundering takes advantage of loopholes pertaining to timber origins required for certification, or provenance statements from export processing zones; these are exacerbated by poor legislation and policy design, both at the national and international levels. Anti-money laundering laws that are weak or not enforced, for example, may contribute to timber laundering and are an indicator of broader illegal activities.

Certifying for Sustainability

Timber can be certified through two different processes:

1. Forest management: Forestry operations are evaluated according to previously defined environmental, social and economic standards and certified as complying with these standards by a qualified independent auditor.

2. Chain of custody: This scheme traces the origin of wood (including country of origin), allowing traders to identify illegally harvested material in their supply chain, and assists retailers and consumers to exclude illegal wood from their purchases.

Some certification schemes, such as the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification Schemes (PEFC), are international in scope. Others are national and include initiatives undertaken by Brazil (*Programa Brasileiro de Certificação Florestal* – CERFLOR), Ghana (Ghana Forest Management Certification Standard) and Malaysia (The Malaysian Timber Certification Council).

Since timber certification schemes rely on documentation, once a certificate is seen at a checkpoint, there may be no further questioning to verify its validity.

The process involved in certifying the legality of timber, on which the sustainability of forestry depends, is also susceptible to laundering. Certification processes are complex and the many schemes are fragmented and incomparable. Schemes may have loose definitions of what is 'legal' or 'sustainable', and use different methods or standards to determine compliance. Furthermore, not all schemes are independently validated, making them vulnerable to manipulation and abuse. When there is such variation and ambiguity over certification schemes it is understandable that invalid, inapplicable or forged documents are difficult for customs officials to identify.

A key challenge for forestry sector reform is a lack of government resources and capacity. Since timber laundering is recognised to be a serious crime only in rare cases, it tends not to be a priority for government institutions. Customs officers or government sawmill inspectors may not have the requisite knowledge or resources to accurately identify species, recognise their country of origin and know which ones are banned, or they may be unaware of international transport and trade laws. Moreover, since timber certification schemes rely on documentation, once a certificate is seen at a checkpoint, there may be no further questioning to verify its validity.

Finally, political will is necessary to combat this trade. Even if the know-how and policies are present, there must be an interest on the part of government officials to tackle the problem. Although there are bilateral agreements in the region, for many countries it may be profitable to ignore timber laundering. In some cases governments may fear that effectively combating the trade could damage the national forestry sector and lead to under-utilised timber processing factories and workers, and reduced government revenues. There may also be concerns of undermining traditional patronage networks that link the illegal timber trade with local powerbrokers who provide important political support.

4. The way forward

Laundered timber feeds the international timber trade and can be only effectively tackled through initiatives that go beyond the national-level to look at the broader network in place across countries and regions.

This in turn means that the reach of legislation in the region must to go beyond current standards and criminalise the import of timber that is not demonstrably from legal or sustainable sources. The US Lacey Act, introduced in 1900 and amended in 2008, provides a model for how this could be done: the onus for ensuring that imports are legal lies with the importer. As a result the importer should exercise due care to identify illegal or suspicious timber. This is one step beyond reliance on certification schemes, which only certify the legality of timber at one stage and in the country that is examined. They do not necessarily investigate the entire process, from the award of concessions, to sustainable forestry management or labour practices at other points along the chain. This leads to some timber being certified from plantation forests, despite the fact that

such plantations may result from the destruction of original forests that do not follow global standards of sustainable forestry management.

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.[14]

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.

Building the capacity of customs officials is essential to ensure that they can play an efficient role in identifying timber laundering activities, including ensuring that personnel are well trained and can authenticate sources of timber and their accompanying documents. At the same time, they must be knowledgeable about other relevant government departments and how they can work together to improve enforcement and monitoring. Regular scrutiny by independent corruption monitoring agencies would also enhance transparency and accountability in the sector.

Independent verification and monitoring of every step in the governance and operations of the timber supply and demand chain is needed if certification systems are to work.

Finally, the role of civil society should not be forgotten. Independent verification and monitoring of every step in the governance and operations of the timber supply and demand chain is needed if certification systems are to work. This is the area where the public can be harnessed as partners and stakeholders, through the involvement of local forest communities in the certification of timber, and the provision of mechanisms through which they can report suspicious activity is an important step.

The laundering of timber is a process that touches every stage of the timber supply and demand chain. While this paper has highlighted some of the instances where it may occur, its message is that the whole chain needs to be transparent and effectively monitored to ensure the integrity of the system and stamp out the unsustainable trade in illegal logs.

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[14] Transparency International is producing a forthcoming working paper on how to reduce the unsustainable demand for timber and wood products by improving customs and procurement regulations in importing countries.

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