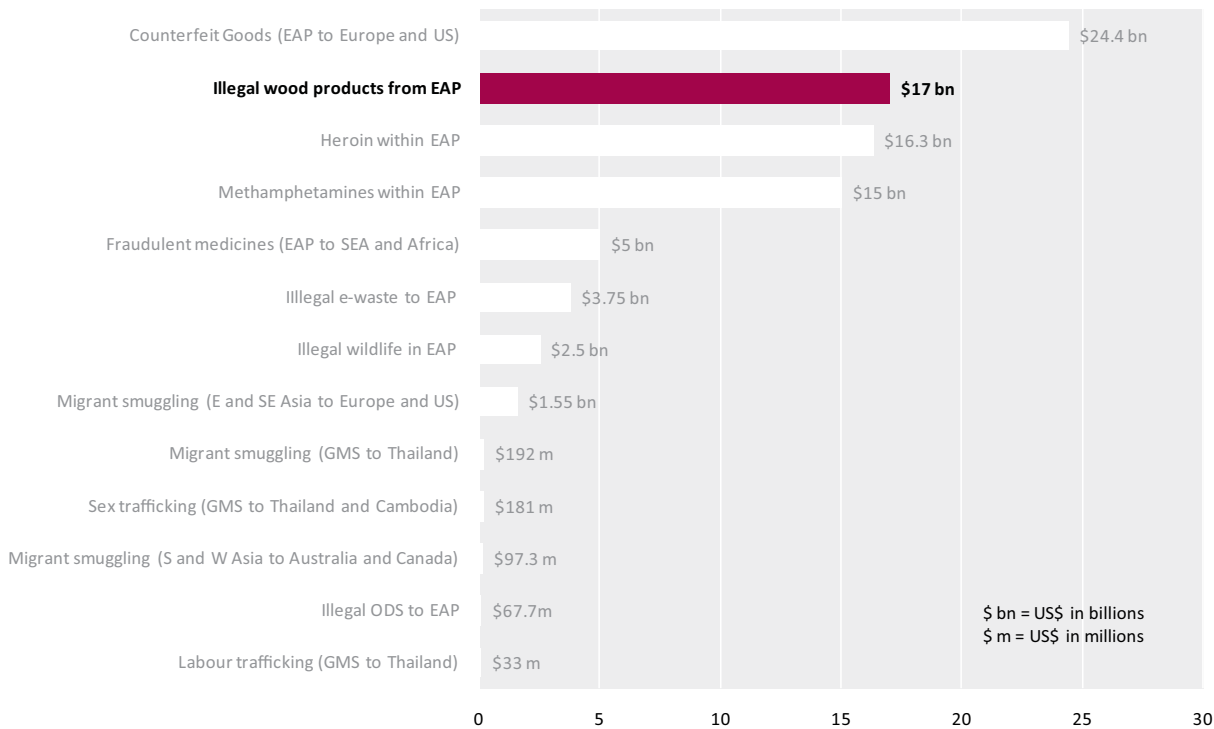


Chapter 8

Illicit trade in wood-based products from the region to the world



NATURE OF THE THREAT

<p>1. Severe forest loss: deforestation, degradation of forests, loss of biodiversity, flooding and soil erosion.</p>	<p>2. Emission of greenhouse gases: a significant percentage of CO₂ emissions come from deforestation.</p>
<p>3. Impoverishment of marginalized communities: rural poverty, loss of state revenues from legitimate trade.</p>	<p>4. Institutional corruption: endemic corruption in the forestry sector (complicity of individuals along the entire production chain, e.g., forest concessions, harvesting), political corruption, compromised justice system.</p>

1. What is the nature of the market?

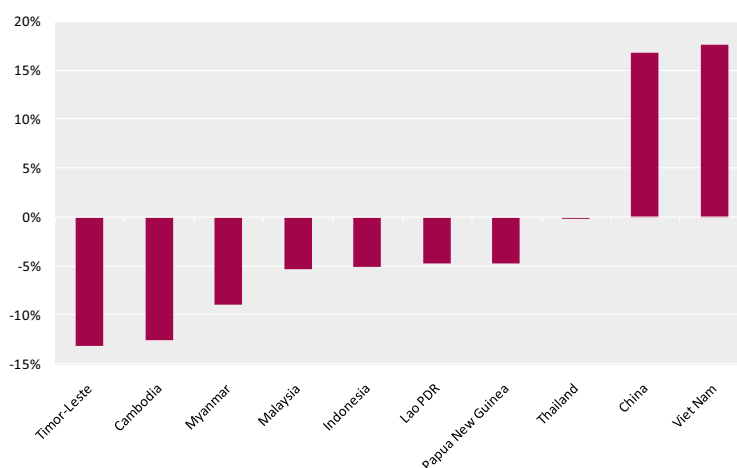
Economic growth and globalization have drawn immense amounts of resources from rural East Asia and the Pacific. Among these are wood-based products, including timber and paper. Since 2005, the annual global trade in wood-based products measures around 1.3 billion cubic meters, with an import value of around US\$350 billion per year.¹ About half (45%) of the value of the trade is in timber products (logs, plywood and furniture) and the remainder in paper products (wood chips, pulp and paper).²

The demand for wood-based products has led to extensive forest degradation in some countries. Large areas of mainland Southeast Asia, as well as Indonesia and the Philippines, have been logged to the extent of commercial exhaustion. Forests in Papua New Guinea and the Solomon Islands are being rapidly exhausted due to extensive and unsustainable logging activities.³ The key to re-establishing sustainable forest management in the region is good regulation (including reciprocal legislation in importing countries), good forest governance (including effective law enforcement) and pricing which reflects social and environmental costs (especially of production). Both approaches respect the rights of affected forest peoples and land management, prevent the loss of biodiversity and environmental services, the latter of which is central to sustainable forestry. Unfortunately, every regulation creates an opportunity for organized criminal networks to profit.

The news is not all bad. Some of the biggest consumers or suppliers of wood-based products, such as China and Viet Nam, are afforesting – with monoculture – at a rapid rate. In 2000, only 38% of

Viet Nam was under forest cover, but by 2010, 45% was under forest and tree cover. Between 2000 and 2010, China added almost 23 million hectares of tree plantation. Conversely, many countries lost upwards of 5% of their forest cover during that same period and much bio-diverse forest has been replaced by tree plantations.

Figure 1: Share of forest cover lost between 2000 and 2010



Source: FAO 2010⁴

Large quantities of wood-based products flow within countries from rural to urban areas. They also flow within the region, and outwards from East Asia. This trade is reflected in large volumes of exported timber and paper products. As in all industrial matters, China is both the largest importer of wood-based raw materials and the biggest exporter of wood-based products in the region. In 2010, China exported over US\$33 billion in wood-based products to various regions around the world.

Alongside the legal global trade in wood-based products comes illegal trade. The majority of the illegal trade is carried out by formal business enterprises operating through fraudulent methods. Corruption is often at play. The illegal trade in wood-based products differs significantly from some other forms of trafficking in illicit goods, consumers remain largely unaware of the illegal origins of what they are buying.

Illegal wood-based products largely originate in Southeast Asia, mainly Indonesia and Malaysia. Some move directly to consumer countries, both within and outside the region. Others are processed

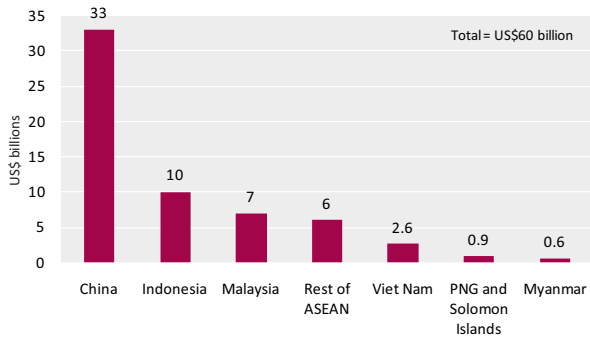
¹ Round wood equivalent (“RWE”) volume is a measure of the quantity of logs used in making a given volume of product. It has been estimated from source data by, for example, multiplying source data in units of volume by (in cubic metres per cubic metre): 1.8 for sawn wood and 2.3 for plywood, or source data in units of weight by (in cubic metres per tonne): 2.8 for wooden furniture, 3.5 for paper and 4.5 for wood-based pulp. The factors in cubic metres per cubic metre are similar to those used by the UN Food and Organisation and the International Tropical Timber Organisation.

² Based on data obtained from UN Comtrade 2012.

³ Shearman and others 2008

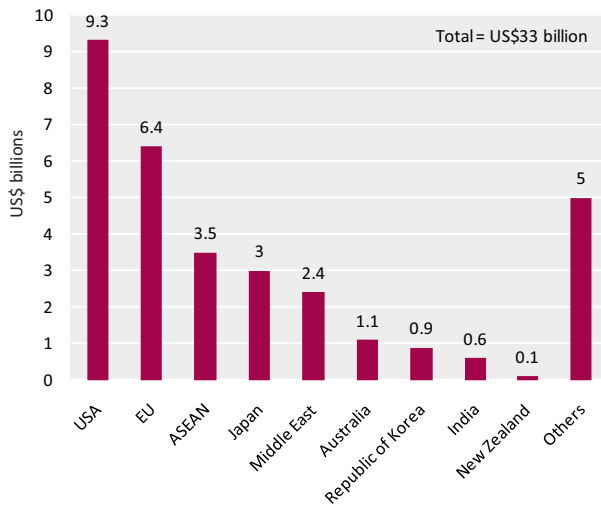
⁴ FAO 2010

Figure 2: Formal exports of wood-based products in 2010



Source: Official statistics of the exporting countries and UNODC

Figure 3: Formal exports of wood-based products from China in 2010



Source: Official statistics of the exporting countries and UNODC

further within the region, mainly in China and Viet Nam, before being exported. In addition to supplies from many countries outside the region, China imports large quantities of both legal and illegal timber from Myanmar, Papua New Guinea, Sarawak (Malaysia) and the Solomon Islands, as well as pulp and paper from Indonesia. Smaller but nevertheless substantial volumes of illegal logs or sawn wood are supplied to China and Viet Nam primarily from Cambodia, Lao PDR, Myanmar and Sarawak (Malaysia). The key point is that the legal trade might contain illegal wood-based products. The illegal trade is embedded within the legal trade.

Although the problem persists, progress is being made. China is importing a growing share of its wood-based products from relatively safe sources, including sources outside the region. In addition,

the Indonesian and Malaysian authorities have made efforts to reduce exports of timber through fraudulent documentation or via free trade zones. Finally, recent efforts by consumer countries, such as the US and the EU, to prohibit the supply of illegal wood-based products is anticipated to result in further progress.

2. How is the trafficking conducted?

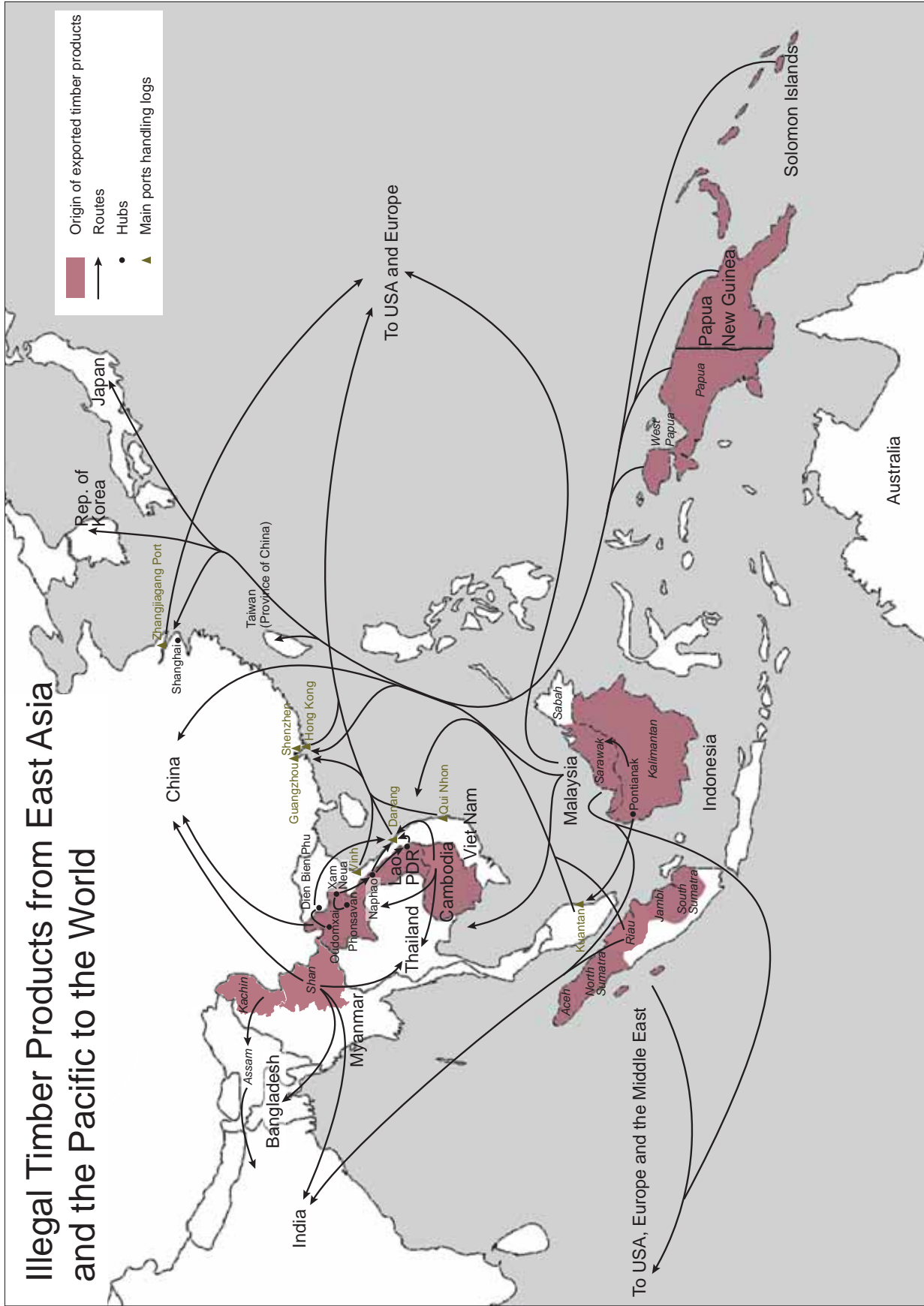
Because illegal timber and all other illegal wood-based products can be moved easily within the formal trade through corruption and fraudulent documentation, wood-based products are rarely moved in an entirely clandestine way. In Southeast Asia and the Pacific, the majority of illegal timber enters the formal trade in its country of origin before it is formally exported. Clandestine trade or smuggling of logs or sawn wood still occurs between some of the countries in the region, particularly in species which command high prices.

Given the limited infrastructure in many supplier countries, this movement is likely to take place through the same channels as the licit trade, along the same highways to the same seaports, often by the same transportation agents, and sometimes mixed with licit timber. To move sufficient volumes through the front door, corruption is almost always part of the process.

As a result, illegal logging is rarely done through shadowy chainsaw gangs. More often, the logging is conducted by companies with a public face, often with international shareholders, who are already involved in the licit trade. Logging becomes illegal when the permits are acquired through bribery, or where protected species are involved, or where the harvesting takes place outside the agreed concession. For example, in 2011 in Papua New Guinea, a Malaysian company was ordered by the National Court to pay almost US\$100 million to forest communities for extensively logging outside its concession area some years earlier.⁵ In Sarawak (Malaysia), it has been reported that concessionaires frequently ignore relevant laws in their logging operations.⁶

⁵ Hance 2011

⁶ Lawson 2010; Auditor General of Malaysia 2008: pp. 68-91.



The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.
Source: UNODC

Document fraud can also facilitate illegal logging. Logging and concession permits may be forged, or simply bought from corrupt officials, thus rendering any activity based on these authorizations illegal. Authorities may also issue documents to logging enterprises that are ineligible to receive them, such as those that do not submit proper forest management plans. Fraudulent paperwork can also be used to falsely certify the origin of timber, re-certifying the origin of logs from acceptable sources.

Logs can also be laundered from unauthorized logging areas to legal logging zones, or to mills that process logs from authorized areas. In some cases, illegal logs may be laundered transnationally.⁷

In addition to timber⁸, the production and trade of illegal pulp and paper has for several years been alleged to be associated with a wide range of illegalities. Much of this is supplied from Indonesia to China, perhaps made partly from legally produced pulp or pulpwood. Shipping companies are increasingly concerned about complicit association with the illegal trade.⁹

Transnational movement of illegal wood-based products may require bribery of port authorities to ensure passage of illegal shipments, or to avoid taxes. Enterprises and brokers exporting illegal wood-based products through formal supply chains may also use fraud to facilitate their business activities. For example, transfer pricing between enterprises and brokers enables wood-based products to be sold at below-market prices to minimize taxes and duties. Enterprises or brokers may also falsely declare products as “certified” or in line with technical standards.

The existence in this region of two large free trade ports like Hong Kong (China) and Singapore has also the effect of transferring the burden of the shipment inspection to the destination country, such as China. When shipments containing illegitimate wood products are received from the origin country with fraudulent documentation, ports authorities in the transit country often have little incentive to inspect the shipment if the container is only in

transit. As a result, if inspections at the origin are not duly conducted, a Free Trade Zone can become unknowingly a consolidation hub for legal and illegal timber. In such cases, the burden to interdict the illegitimate movement of such wood products will fall almost exclusively on the authorities in the destination country.

3. *Who are the traffickers?*

The production and trade of illegal wood-based products involves a wide range of actors and enterprises along the supply chain from source forests to consumer markets. Small-scale loggers, national and multinational logging and wood-processing enterprises, brokers with related white-collar agents, and shipping companies play different roles in the illegal production and trade, often through their licit commercial activities.

In the region’s tropical forests, small-scale loggers require no more than a chainsaw, transport and connections to a market. While large-scale logging enterprises account for most of the logging in the some countries of the region, small-scale loggers have been prominent in countries such as Indonesia and the Solomon Islands, where forest is largely exhausted. Generally, small-scale loggers will work for cash on behalf of individual businesses, or even state officials, who have established connections to bigger markets. There are some cases in which forest communities have sold trees to small-scale illegal loggers for immediate income, in anticipation of entire community forests being illegally logged by large-scale loggers without offering compensation. In 2011, Cambodian forest communities reportedly set fire to illegally cut logs in protest of the economic consequence on their forest-based livelihoods of large-scale illegal logging.¹⁰

Large-scale enterprises involved in illegal logging, timber processing, paper and pulp manufacture operate at all levels of the formal trade. Many transnational logging and timber processing enterprises in East Asia and the Pacific depend on illegal activities, such as the illegal exploitation of concessions or forest conversion, to conduct their operations. Some of these timber enterprises and

⁷ Global Witness 2003: pp. 64-65.

⁸ This refers to non-manufactured wood-based products (not processed furniture etc.).

⁹ See for example Maersk 2011; Landrot and Lo 2007.

¹⁰ Al Jazeera 2011, “Cambodians fight illegal logging”, *Al Jazeera Asia-Pacific News*, 12 November 2011

their associates have diversified into palm oil,¹¹ which has caused concern about the legality of the large volumes of timber which derive from forests converted into other land uses, such as palm plantations, particularly in Indonesia and Sarawak (Malaysia). Less established enterprises also pursue lucrative opportunities in logging and forest conversion, but given their lack of experience in logging, concerns have been raised about the legality of some of their activities.¹²

In Sarawak, for example, a few large-scale logging enterprises dominate the timber industry, which mainly exports timber to China, India, Japan, Republic of Korea and Taiwan (Province of China). Weak forest governance and corruption related to Sarawak's timber industry has been widely criticised.¹³ Several of these Sarawak-based enterprises also have international timber business interests in Papua New Guinea and the Solomon Islands, and as far afield as Africa and South America.

Regional brokers are used by enterprises to act as intermediaries in the chain of ownership of timber between exporting and destination countries. These brokers have been known to operate from the main trading hubs in the region such as Hong Kong (China) and Singapore.¹⁴ In the early 2000s, before Indonesia stepped up its efforts to combat the illegal logging trade, Indonesian illegal timber entered Singapore to be laundered through Free Trade Zones for formal transportation to China, India and Malaysia.¹⁵ One watchdog agency reported at that time that Singaporean businesses including traders, shipping agents and banks, were directly involved in the laundering of timber.¹⁶ The role of these intermediaries was said to include bribery and falsification of documents.¹⁷ Since 2005, the activities of such brokers have declined due to decreasing levels of illegal trafficking of logs and sawn wood from Indonesia.

Official corruption plays a central role in the supply of illegal wood-based products from East Asia and the Pacific to consumer markets. In the

Solomon Islands, for example, collusion between state officials and the timber industry has resulted in the blurring of legal and illegal trade in relation to formal export-oriented log production. According to Transparency International, Government ministers continue to have substantial discretion over logging activities with limited accountability.¹⁸ In some cases, senior ministers have direct interests in logging concessions.¹⁹ Parts of the logging industry may not strictly follow government policy or laws related to forest governance in such circumstances.²⁰ Law enforcement remains ineffective against this alliance between the logging industry and politicians.

Similarly, Papua New Guinea's logging industry is associated with widespread corruption. High-level officials allegedly have personal interests in specific enterprises in the country's export-oriented logging industry, which primarily supplies exports to China. In 2004, one of the logging companies operating in Papua New Guinea was expelled from the New Zealand Timber Importers Association due to its complicity in illegal logging and unsustainable forest management.²¹ In 2006, the Government commissioned a review of the logging industry and it concluded that none of the operations evaluated complied with national laws or regulations.²²

Available data from prosecution cases in Indonesia show the nature of the complicity between the timber and pulp industries and government officials in the past. In 2007, the Governor of East Kalimantan Province, along with two government officials and the executive of a logging company, were convicted for authorizing illegal logging. An Indonesian parliamentarian received an eight-year sentence for accepting bribes for the approval of forest conversion in designated "protected" zones in South Sumatra and Riau in 2008.²³ In 2008, the Government Regent in Pelalawan district (Riau Province) received an 11-year sentence. The Head of the Forestry Official in Riau received a five-year sentence for issuing logging concessions permits to 15 logging companies that conducted illegal logging activities between 2002 and 2003.

¹¹ For example, KTS, Rimbanan Hijau, Samling, Shin Yang, Ta Ann, and WTK, which are all based in Sarawak. See Faeh 2011, and also Colchester and Chao 2011.

¹² Colchester and Chao 2011: p. 14.

¹³ Lawson 2010; Auditor General of Malaysia 2008: pp. 68-91.

¹⁴ EIA/Telapak 2005: pp. 10 and 19.

¹⁵ EIA/Telapak 2003: p. 6.

¹⁶ EIA/Telapak 2005: pp. 10 and 19.

¹⁷ EIA 2003: p. 1.

¹⁸ Transparency International 2011: p. 4.

¹⁹ Transparency International 2009: para. 11-12. See also, Fraenkel 2008: p. 155.

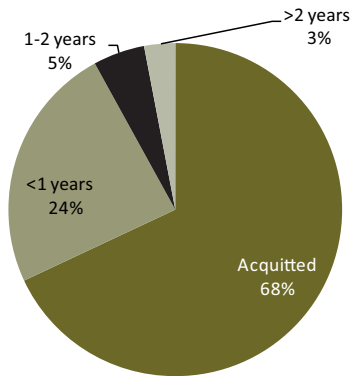
²⁰ 20% of production should be transformed prior to export. See Gay 2009: p. 211.

²¹ NZGP 2004

²² Forest Trends 2006: pp. 30 and 33.

²³ Wardany 2009

Figure 4: Verdicts (in prison terms) for illegal logging cases in Indonesia, 2005-2008



Source: Indonesian Corruption Watch 2008²⁴

Despite recent strong law enforcement efforts in Indonesia, very few of those involved in the past have received substantial sentences. Of the 49 government officials and high-level timber entrepreneurs charged between 2005 and 2008, as many as 35 or around 71% were acquitted.²⁵ The high rate of acquittal led the Indonesian President's task force on judicial corruption to re-open a number of high-profile cases in 2010.²⁶

Corruption and collusion linked to the illegal timber trade is not limited to politicians and state officials in the region. In recent years, official businesses involving military officials from countries in the region are reported to have been associated with illegal logging. In fact, in some countries, the state or state officials, particularly military officials, are party to logging enterprises. The Indonesian military had formal business interests in timber and pulp production for many years.²⁷ Despite strong efforts by the Cambodian authorities to minimize illegal logging, individual Cambodian politicians and military officers reportedly continue to be involved in illegal logging activities.²⁸ Furthermore, in Cambodia the level of violence associated to the illegal trade of timber seems to have escalated in April 2012 when a renowned environmental activist was shot dead by – allegedly – a military police officer, while

investigating a case of illegal logging.²⁹ In Viet Nam, state-owned and military enterprises are allegedly involved in the illegal supply of timber, and have links to high-level state officials, including military officers, in Cambodia and Lao PDR.³⁰

4. How big is the flow?

Many of the countries in East Asia and the Pacific play prominent roles in the vast global trade in illegal wood-based products. Nonetheless, due to the important role that corruption plays in timber trafficking, very little illicit wood or wood-based products are seized. For example, in 2008, Malaysian authorities reported seizures of only 80,000 cubic metres of illegal logs,³¹ while in 2007 Indonesian authorities reported seizures of only 20,000 cubic metres of sawn wood.³² These seizures represent only a fraction of a percent of the wood-based products that Malaysia and Indonesia formally export.³³

Since nearly all illicit timber is introduced into the licit commercial stream, any estimate of the illicit trade must be based on the declared trade statistics. Official assessments of the illegal trade may also underestimate the scope of the illegality. In general, official trade assessments confine the meaning of “illegality” to criteria such as the diameter or species of the tree, whether the tree was felled in an authorised area or whether quotas were exceeded. Such official assessments generally estimate illicit timber to comprise 1% or 2% of the formal trade.

There have been independent assessments of the proportion of illegal wood-based products for several countries in the region. These include estimates in 2004 by Seneca Creek and Wood Resources International³⁴ and research conducted in 2005 for the New Zealand government.³⁵ Both these only considered logs, sawn wood and plywood. The proportions of illegality suggested in these reports

²⁹ See David Boyle and May Titthara, “Slain activist Chut Wutty's death still a mystery”, Phnom Penh Post, 27 July 2012. Accessed on 8 August 2012 at: <http://www.phnompenhpost.com/index.php/2012072757667/National-news/the-chut-wutty-mystery.html>.

³⁰ EIA 2008: p.15 ; EIA 2011: p. 9.

³¹ FAO 2012a

³² FAO 2012b

³³ Lawson and MacFaul 2010: pp. 34 and 37.

³⁴ Seneca Creek / WRI 2004. Although the research method used a narrow range of low-value wood-based products, these estimates have been widely accepted as reliable in relation to illegality in the timber industry, including the World Bank and Interpol. See Interpol 2010b.

³⁵ Turner and others 2007: p. 23.

²⁴ Indonesian Corruption Watch 2008: pp. 5-6.

²⁵ Indonesian Corruption Watch 2008: pp. 5-6.

²⁶ EIA/Telapak 2010: p. 1.

²⁷ HRW 2006: pp. 64-65; HRW 2010b: pp. 7 and 13; Also see, EIA/Telapak 2005: p. 8.

²⁸ Global Witness 2010

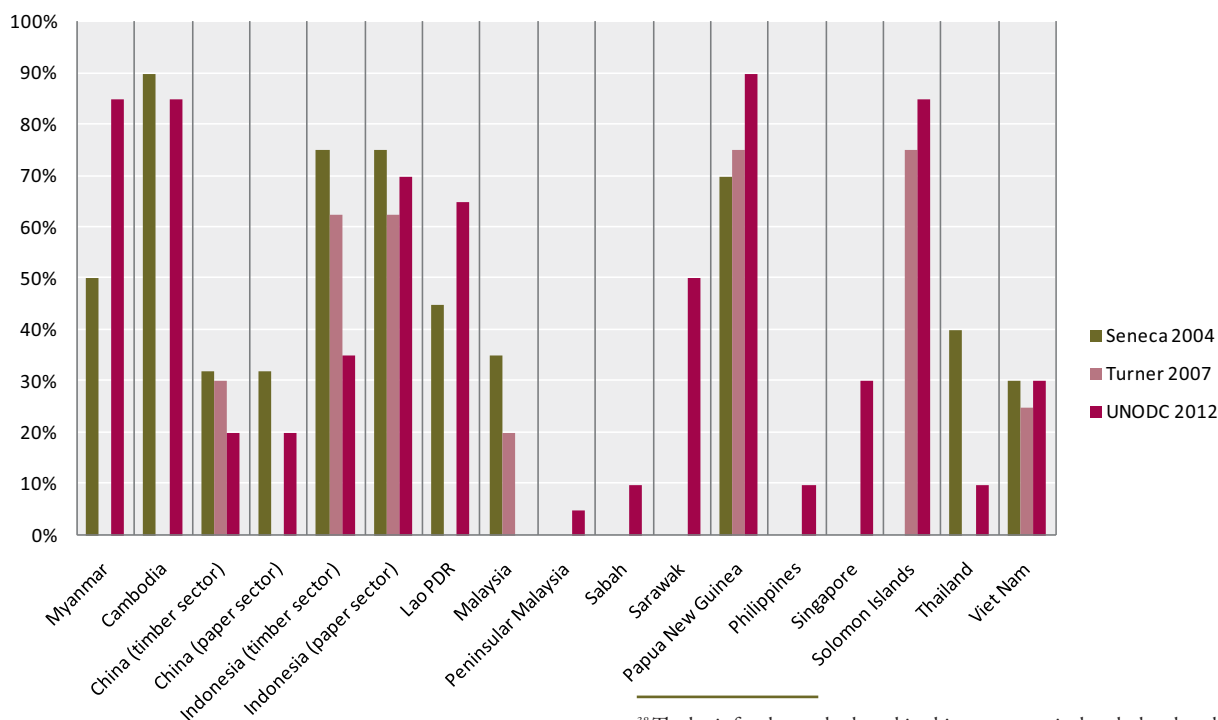
might now be out of date, but few similar efforts have been made since.³⁶ They thus serve as a basis for comparable estimates today.

In 2010, UNODC provided an assessment of the volume and value of illicit timber exported from Southeast Asia to the EU and the rest of Asia.³⁷ It was estimated that around 10 million cubic meters were exported, with a value of some US\$3.5 billion. The current assessment differs from most earlier estimates in that, furniture, paper and pulp are considered.

Looking at bilateral trade flows for each type of wood-based product and estimating the illegal

share for each flow, a new estimate for 2010 can be produced (see the figure below – showing this UNODC TOCTA's new estimate of the proportion of illegality in value terms for East Asia and the Pacific).³⁸ Overall, it is estimated that the export value of illegal trade from and within the region in timber sector products is equal to approximately US\$11 billion, while the export value for paper and pulp products is equal to US\$6 billion. Based on these estimates, 30-40% of the total quantity and export value of wood-based products exported from the region in 2010 derive from illegal sources. This is in keeping with previous estimates of the share of the market that involves illegally sourced wood.³⁹

Figure 5: Recent estimates of the proportion of illegality in the formal trade of wood-based products from regional countries in East Asia and the Pacific



Source: Seneca 2004; Turner 2007; UNODC estimates 2012

³⁸ The basis for the method used in this assessment is that declared trade is not necessarily legal. Consequently, realistic estimates of the proportion of illegal products in the formal trade are needed to calculate volumes and values. The estimates used take into account illegality in the minor clandestine trade but also the sustainable management of logging concessions, land-use designation, corruption and fraudulent methods. In the processing of wood-based products, the practice of combining illegal imported wood materials with legal wood materials that renders subsequent export products illegal is also factored in to production estimates in relevant source and processing countries. The proportions of illegal trade in this assessment derive from the totals of bilateral trade in specific products. The data presented for 2010 is a UNODC estimate based on the export value in US dollars.

³⁹ It has been estimated that 20% to 40% of global timber comes from illegal sources. In 2008, the World Wildlife Fund estimated that 40% of the wood-based products entering the EU from Southeast Asia and China were from illegal sources. The World Wildlife Fund has also placed the illegal timber content of China's imports at between 30% and 45%. See WWF 2008: p. 17 and WWF 2010.

³⁶ Lawson and MacFaul 2010: pp. 34 and 37.

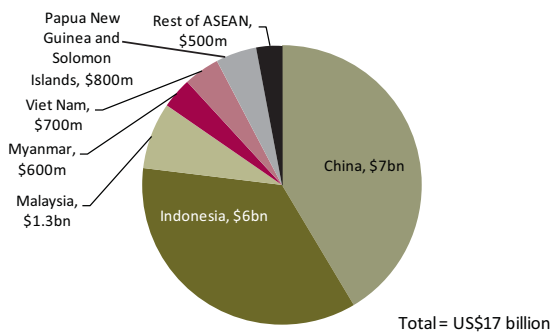
³⁷ UNODC 2010: pp. 161-169.

The estimates above suggest that approximately 58 million cubic metres of illegal wood-based products were exported from and within the region in 2010. Such quantities translate into an estimated export value of illegal trade close to US\$17 billion for 2010. The total includes around US\$2.4 billion that was imported by the US, around US\$2.3 billion by the EU, around US\$2 billion by Japan, and around US\$2 billion by ASEAN countries.

Wooden furniture and paper together account for almost 50% of the export value of illegal wood-based products from and within East Asia and the Pacific.

As one might be expect, the data indicates that the major flows of illegal wood-based products from the region are from China, Indonesia and Malaysia to the EU, the US, and Japan. The illegality associated with much of those exports from China derives from imported wood-based raw material, particularly from Indonesia. China is the leading destination for most of the illegal logs exported from many countries around the world, including Papua New Guinea and the Solomon Islands. Viet Nam imports a smaller quantity of illegal timber from the region,

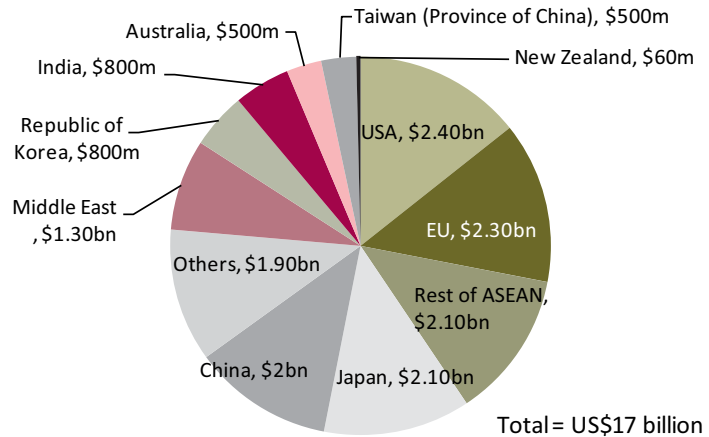
Figure 6: Exports of illegal wood-based products within and from East Asia and the Pacific



Source: UNODC estimates

mostly from Cambodia, Lao PDR and Myanmar.⁴⁰ Japan imports most of the illegal plywood which is exported from Indonesia. China and Indonesia are

Figure 7: Imports of illegal wood-based products from East Asia and the Pacific

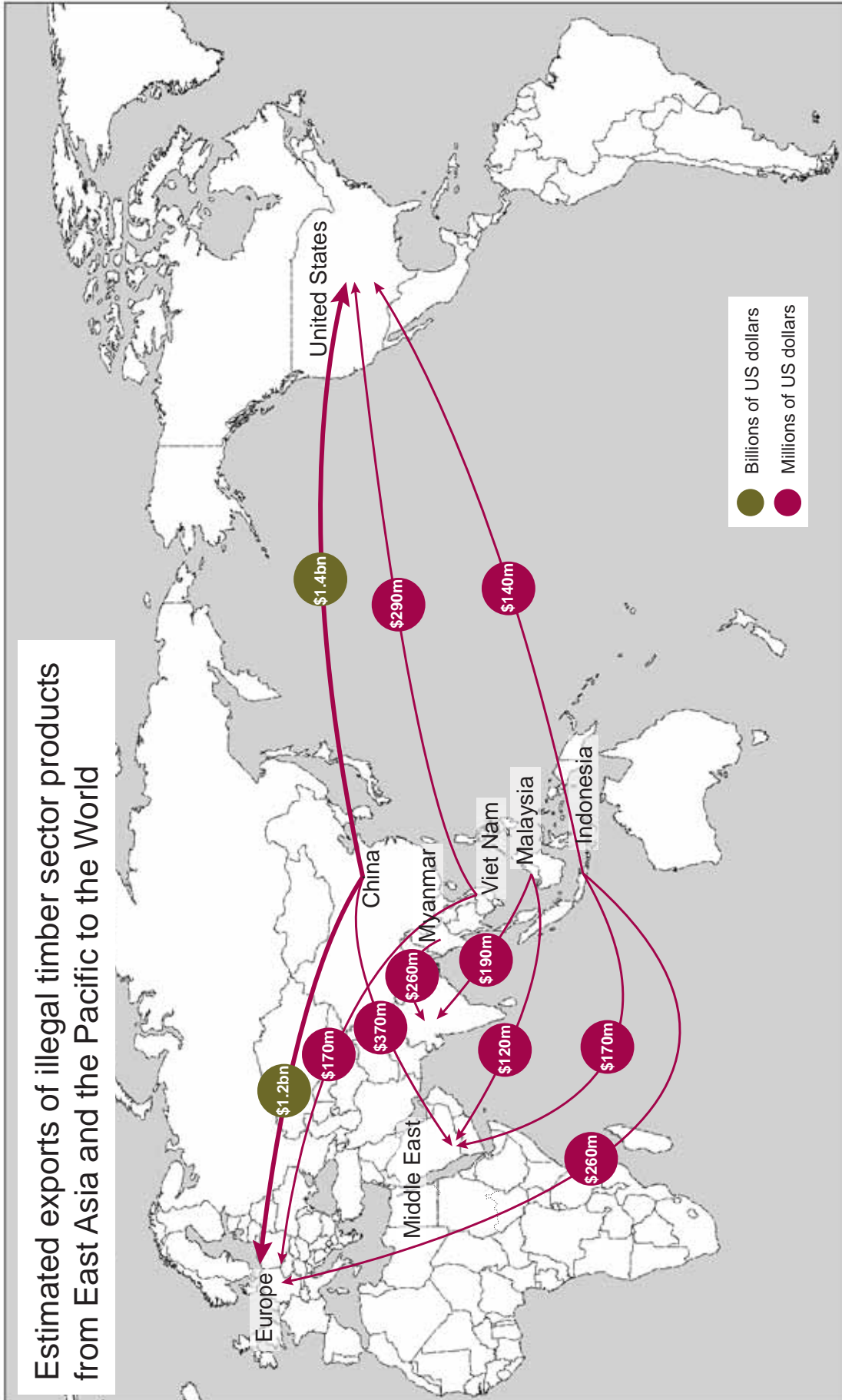


Source: UNODC estimates

the only suppliers of illegal paper sector products in the region.

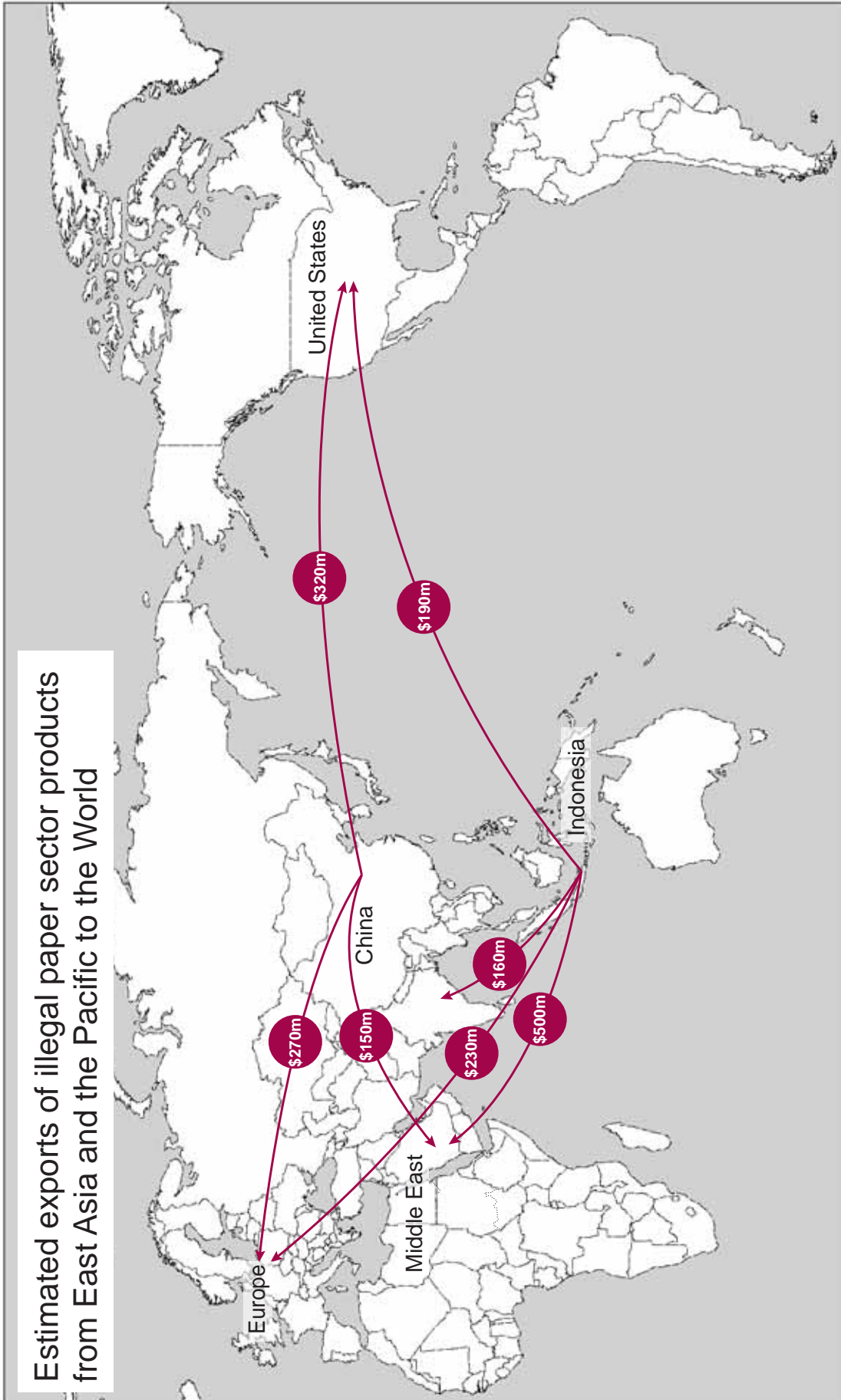
The assessment of available data leads to the conclusion that the regions of East Asia and the Pacific account for approximately 70% of the global illegal timber exports reaching the markets either in the form of tropical timber products or other wood-based products. The alarming estimation conveys a regional specificity demanding that any sustainable solution to reduce the size of the global illegal trade in wood products must urgently address regional forestry authorities and the institutions of the criminal justice system.

⁴⁰ This assessment assumes that all the illegal logs and sawn wood that are imported into Viet Nam are either re-exported or exported subsequent to transformation.



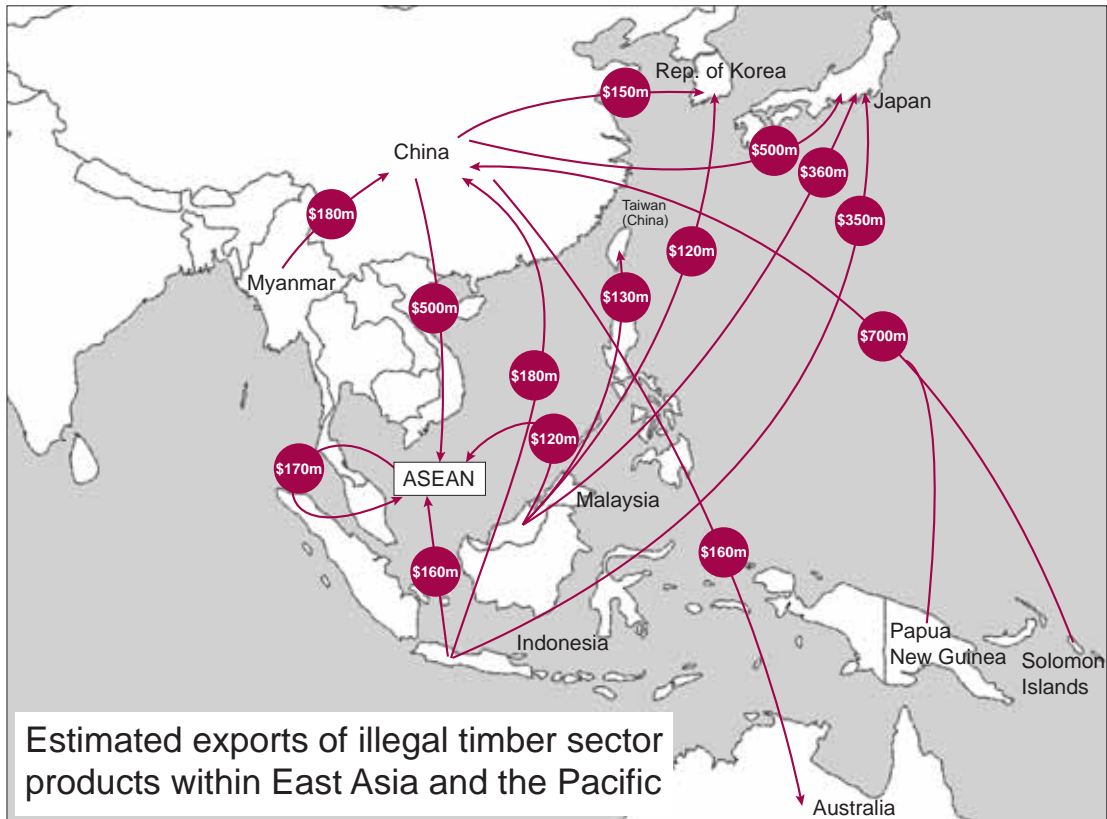
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Source: UNODC estimates



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