

**Money Laundering and Terrorist Financing**  
**Sectoral Risk Assessment**  
**Forestry Sector – Papua New Guinea**



**October 2020**



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WE, THE PEOPLE OF PAPUA NEW GUINEA

*declare our fourth goal to be for Papua New Guinea's natural resources and environment to be conserved and used for the collective benefit of us all, and be replenished for the benefit of future generations.*

WE ACCORDINGLY CALL FOR

- 1) *wise use to be made of our natural resources and the environment in and on the land or seabed, in the sea, under the land, and in the air, in the interests of our development and in trust for future generations; and*
- 2) *the conservation and replenishment, for the benefit of ourselves and posterity, of the environment and its sacred, scenic, and historical qualities; and*
- 3) *all necessary steps to be taken to give adequate protection to our valued birds, animals, fish, insects, plants and trees.*

**(Extract from the Constitution of the Independent State of Papua New Guinea)**

*“The overarching objectives of the 1991 Policy are twofold: one, to ensure the sustainability of our forests, that is to say, through proper management practices our forests may be used but are not “used up” and are retained as a renewable resource: and two, our forests are harvested in order to bring about economic growth, job creation, increased participation of Papua New Guineans in the forest industry and further downstream processing.”*

*“The Fourth Goal of the Constitution will be the cornerstone for forestry policies, which is to ensure that the forest resources of the country are used and replenished for the collective benefit of all Papua New Guineans now and for future generations.*

*As a consequence, two main and three supportive objectives have been identified in the forestry sub-sector to which the policies will be directed in order to comply with the Fourth Goal:*

*Main Objectives*

1. *Management and protection of the nation’s forest resources as a renewable natural asset. (See Part II- Forest Management)*
2. *Utilisation of the nation’s forest resources to achieve economic growth, employment creation, greater Papua New Guinea participation in industry and increased viable onshore processing. (See Part III- Forest Industry)”*

**(Extracts from the National Forest Policy 1991, pages ii and 2)**



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*“1.9 The Strategic Direction: Currently, our economy is dominated by the mining and energy sectors. These sectors contribute approximately 80 percent of our total export revenue.*

*1.9.1 The strategic direction for Vision 2050 is that, “Papua New Guinea will develop and grow the manufacturing, services, agriculture, forestry, fisheries and eco tourism sectors from 2010 to 2050”. This direction will enable economic growth by 2050 to be broad-based, ensuring that disposable household incomes will be much higher than at present. These initiatives will enhance our socioeconomic performance and improve our overall HDI ranking.*

*1.9.2 The challenge therefore is, ‘How do we shift an economy that is currently dominated by the mining and energy sectors, to one that is dominated by agriculture, forestry, fisheries, eco-tourism and manufacturing, between 2010 and 2050?’*

*12. Wealth Creation: Only ten percent of business activities are owned by Papua New Guineans. Entrepreneurial capacity development and skills training are non-existent and income generation is mainly concentrated in the non-renewable resources sector.*

*12.1 Vision 2050 will ensure that Papua New Guinea has a strong, dynamic and competitive economy by 2050. The focus is to develop manufacturing, agriculture, forestry, fisheries and tourism ventures to generate around 70 percent of GDP, with the balance coming from mining, petroleum and gas ventures in the non-renewable sector.”*

**(Extracts from the Papua New Guinea Vision 2050, pages 3 and 52)**



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## IMPORTANT NOTE

This sanitized version of the SRA, finalized in 2025, primarily summarizes the key findings of the original 2020 assessment. It maintains the integrity and substance of the original assessment while ensuring that any confidential or sensitive information has been appropriately redacted or restructured for public release. During the consultation process for this document, any concerns raised by the PNGFA regarding the original SRA have been duly noted and, where relevant, reflected in the footnotes or incorporated in the text.



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## *List of Acronyms*

<b>AML/CFT</b>	Anti-Money Laundering
<b>APG</b>	Asia-Pacific Group on Money Laundering
<b>CFT</b>	Counter Financing of Terrorism
<b>BPNG</b>	Bank of Papua New Guinea
<b>FASU</b>	Financial Analysis and Supervision Unit
<b>FATF</b>	Financial Action Task Force
<b>FCA</b>	Forest Clearing Authority
<b>FIA</b>	Forest Industries Association
<b>INTERPOL</b>	International Criminal Police Organization
<b>IMF</b>	International Monetary Fund
<b>ITIC</b>	OECD International Transport and Insurance Costs database
<b>LEAP</b>	Law Enforcement Assistance Programme
<b>ML</b>	Money Laundering
<b>NCC</b>	National Coordinating Committee
<b>NICFI</b>	Norway's International Climate and Forest Initiative
<b>NRA</b>	National Risk Assessment
<b>OECD</b>	Organization for Economic Cooperation and Development
<b>PNG</b>	Papua New Guinea
<b>PNGFA</b>	Papua New Guinea Forest Authority
<b>PRC</b>	People's Republic of China
<b>RPNGC</b>	Royal Papua New Guinea Constabulary
<b>SABL</b>	Special Agricultural Business Lease
<b>SGS</b>	Société Générale de Surveillance SA
<b>TA</b>	Technical Assistance
<b>TF</b>	Terrorist Financing
<b>TIP</b>	Office to Monitor and Combat the Trafficking in Persons of the Department of State, United State of America
<b>TVC</b>	Threats, Vulnerabilities and Consequences
<b>UNODC</b>	United Nations Office on Drugs and Crime
<b>AML/CFT</b>	Anti-Money Laundering
<b>APG</b>	Asia-Pacific Group on Money Laundering



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<b>CFT</b>	Counter Financing of Terrorism
<b>BPNG</b>	Bank of Papua New Guinea
<b>FASU</b>	Financial Analysis and Supervision Unit
<b>FATF</b>	Financial Action Task Force
<b>FCA</b>	Forest Clearing Authority
<b>FIA</b>	Forest Industries Association
<b>INTERPOL</b>	International Criminal Police Organization
<b>IMF</b>	International Monetary Fund
<b>ITIC</b>	OECD International Transport and Insurance Costs database
<b>LEAP</b>	Law Enforcement Assistance Programme
<b>ML</b>	Money Laundering
<b>NCC</b>	National Coordinating Committee
<b>NICFI</b>	Norway's International Climate and Forest Initiative
<b>NRA</b>	National Risk Assessment
<b>OECD</b>	Organization for Economic Cooperation and Development
<b>PNG</b>	Papua New Guinea
<b>PNGFA</b>	Papua New Guinea Forest Authority
<b>PRC</b>	People's Republic of China
<b>RPNGC</b>	Royal Papua New Guinea Constabulary
<b>SABL</b>	Special Agricultural Business Lease
<b>SGS</b>	Société Générale de Surveillance SA
<b>TF</b>	Terrorist Financing
<b>TIP</b>	Office to Monitor and Combat the Trafficking in Persons of the Department of State, United State of America
<b>TVC</b>	Threats, Vulnerabilities and Consequences
<b>UNODC</b>	United Nations Office on Drugs and Crime



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## Executive Summary

This is the first money laundering (ML) and terrorist financing (TF) sectoral risk assessment (SRA) for the forestry sector of Papua New Guinea (PNG). This publication is made pursuant to Section 72 of the *Anti-Money Laundering and Counter-Terrorist Financing (AML/CTF) Act 2015*.

In the absence of previous cases, either prosecuted or investigated, for ML or TF related to the forestry sector in PNG, this SRA has used quantitative and qualitative analysis of data retrieved from Société Générale de Surveillance SA<sup>1</sup> (SGS) reports, FASU's database, questionnaire, group discussions during in-country workshops held with the member agencies of the Anti-Money Laundering and Counter Terrorist Financing (AML/CTF) National Coordinating Committee (NCC) of PNG, civil society and the reporting entities. Desk research was also conducted to inform this SRA.

There are five (5) high risks factors identified for ML within the forestry sector deriving from: i) corruption of politically exposed persons (PEPs); ii) tax evasion with illegally accrued proceeds laundered through offshore jurisdictions; iii) misuse of transfer pricing for selling and/or buying goods and/or services; iv) investment from PEPs of funds derived from corruption; and v) logs harvested outside of logging concession areas.<sup>2</sup> The SRA also identified other nine (9) risks for ML which have been assessed as being medium-high, medium or medium-low.

Regarding TF, the SRA identified two (2) risks which are assessed to be medium-low. Though there are no high risks for TF, PNG authorities should be aware that funds to be used for terrorist activities outside of PNG might be legally generated within the country's forestry sector.

If only the trade with China is considered, in a period of six years between 2014 and 2019 a value ranging **between 2 and 2.1 billion USD** has been estimated to be lost as foreign currency inflow and possible taxable revenues. In addition, a further estimated loss from foreign currency inflow amounting to 800 million USD is recorded for the period 2014-2019. This observation is made by this report, based on a comparison of data from the SGS reports with the real incoming international transactions recorded by commercial banks in PNG.

SGS, in the months of December for the years between 2010 and 2019, detected and fixed discrepancies for volumes ranging from **0.05% to 1.03%** of the logs exported in the same months. However, it is not clear what actions have been taken against the reported major discrepancies accounting for thousands of percent of the volumes authorized on the log export permits or against shipments for which log export permits have not been granted.

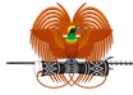
The sighted SGS reports for this SRA do not have information about annual export quotas.<sup>3</sup> The analysis of one case study shows that from a single project area, between 2013 and 2019, a total of **41,019 m3**

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<sup>1</sup> SGS is a Swiss [multinational company](#) headquartered in [Geneva, Switzerland](#) which provides [inspection, verification, testing](#) and [certification](#) services. It has more than 96,000 employees and operates over 2,600 offices and laboratories worldwide.

<sup>2</sup> During the preparation of this sanitized version of SRA, PNGFA raised concern that this high-risk classification draws on National Court rulings that declared certain Forest Clearance Authorities and Timber Permits null and void; however, it has to be noted that the assessment did not establish whether these cases represented isolated anomalies or systemic practice, and part of the analysis relied on questionnaire responses and workshop discussions where the expertise and first-hand knowledge of respondents could not be fully verified. The finding should therefore be interpreted with caution, recognizing the methodological constraints of the assessment and the potential for overstatement relative to the available evidence.

<sup>3</sup> During the preparation of this sanitized version of SRA, PNGFA points out that Annual Harvest or Export Quotas are computed based on a Permit Year and not a calendar year. If in a Permit Year, the export quota is not realized, this can be



of logs have been exported in excess of the annual export quota and most likely received clearance from the relevant authorities, such as SGS, PNGFA and Customs.

There have been rulings from the National Court that declared contested Forest Clearance Authorities (FCA) and Timber Permits (TP) as void and null because they were granted in violation of the requirements of the Forestry Act 1991. Despite these rulings, the concerned FCA areas continued to suffer deforestation and export of logs continued.<sup>4</sup> In one instance, the declared null and void FCA related to a large area which suffered significant deforestation, even though there was no information of any timber exports from that FCA in the SGS reports.<sup>5</sup> In another instance, the FCA was declared null and void, but evidence shows that the exports of logs amounting to **11,041 m3** continued even after the ruling of the National Court. In a separate instance, TPs that had expired in 2007 and 2008 were extended to another company in 2017 which then exported logs amounting **2,550 m3** under these extended permits in violation of the Forestry Act 1991.

### ***Limitations of the SRA***

This SRA was developed based on information collected during the COVID-19 pandemic period in 2019/2020, which imposed significant constraints on the methods available for data gathering. Key limitations include:

- Inability to conduct regular meetings and consultations within the working group and with the relevant subject matter experts;
- Limited opportunities for field research or direct assessment, with information largely gathered through remote requests, discussions, and desk-based research using open-source materials that may not all have been independently verified; and
- Lack of official statistics on the links between money laundering, terrorist financing, and the forestry sector of PNG.

Given the methodological constraints described above, the PNGFA expressed reservations regarding the overall robustness of the SRA findings. Specifically, concerns have also been raised regarding the credibility of questionnaire respondents, including uncertainty as to whether the information provided reflected primary experience (based on direct involvement) or derived from secondary sources.<sup>6</sup> PNGFA further noted that as questionnaire responses did not always come from first-hand sources, there is a potential for bias, misunderstanding and misrepresentation in parts of the information that informed the SRA findings. As a result, the findings and conclusions of the SRA should be interpreted with caution and treated as a baseline assessment shaped by incomplete information, rather than as definitive evidence of systemic non-compliance or illegalities. Any decisions or actions informed by

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carried over into the next Permit Year irrespective of the calendar years. It is therefore inaccurate to say in the SRA that there are no records of export quotas given for project sites.

<sup>4</sup> During the preparation of this sanitized version of the SRA, PNGFA noted that FCAs are clearing authorities granted to facilitate agricultural and economic activities on the land after the forest is cleared and merchantable logs exported. The premise of an FCA is therefore not for conventional log exports. Refer to the definition of FCAs.

<sup>5</sup> During the preparation of this sanitized version of the SRA, PNGFA points out that despite instances of deforestation in FCA areas, FCAs are not the main drivers of deforestation in the country. A report published in 2023 titled "Forest and Land Use Change in Papua New Guinea 2000 – 2019" indicate that subsistence agriculture was the main driver of deforestation.

<sup>6</sup> The PNGFA raised reservations during the preparation of this sanitized version of the SRA for publication.



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this SRA should be undertaken in close consultation with the PNGFA, and a revised SRA should be prepared to provide more comprehensive and validated insights.<sup>7</sup>

### ***Work undertaken since this SRA***

It should be noted here that since the inquiries and preparation of this SRA in 2019/ 2020, the PNGFA has implemented a range of significant reforms and initiatives in the following areas which collectively contribute to strengthening its systems and processes to address sectoral illegalities, with particular relevance to mitigating ML and TF risks<sup>8</sup>:

- Moratorium on the grant of new Forest Clearing Authorities since December 2022
- Nationwide compliance audit into all Forest Clearing Authorities completed in mid - 2025
- Review of the *Forestry Act* 1991 now underway
- The creation of PNG Diwai Holdings Limited [1-134029], as the State Marketing Agency under Section 42 of the *Forestry Act* 1991 to carry out the functions under Section 43 of the *Forestry Act* 1991 (as amended).
- Economic modelling of the forestry sector underway since the signing of a Memorandum of Understanding with the European Forest Institute on 28 February 2024.
- Various bilateral agreements with international and regional partners for information sharing and cooperation over a wide range of areas, most notably the European Union-funded Forestry – Climate Change Biodiversity Programme for PNG (EU FCCB Programme)
- Memorandum of Understanding with the Internal Revenue Commission signed on 29 June 2023 for cooperation and information sharing, especially in relation to tax audits conducted into logging companies.
- Active participation in the National Coordination Committee on AML/CTF through the establishment of an internal Technical Working Group in 2022
- National Forest Development Programme (2023-2027), launched in 2023
- PNG Timber Legality Standard, launched in 2023
- Revised PNG Logging Code of Practice, launched in 2023
- National Downstream Processing Strategy launched in 2021
- National Reforestation and Afforestation 2025-2030 Programme approved by the National Forest Board in 2024
- Report published in 2023 titled: *Forest and Land Use Change in Papua New Guinea 2000 – 2019*
- Multipurpose National Forest Inventory, currently ongoing and captured in the National Forest Development Programme 2023-2027

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<sup>7</sup> Refer to page 27 for details of the next SRA.

<sup>8</sup> Refer to the PNGFA Annual Reports for 2019, 2020, 2021, 2022, 2023 and 2024



## 1. Background

The 2017 Money Laundering and Financing of Terrorism National Risk Assessment (NRA) of PNG identified strong indicators of large-scale corruption and illegal logging<sup>9</sup> in the country's forest sector. In line with the findings of the NRA, the 2017-2022 National Anti-Money Laundering and Counter Terrorist Financing Strategic Plan required the PNG Forest Authority (PNGFA) and/or the Bank of Papua New Guinea's Financial Analysis and Supervision Unit (FASU) to conduct a sectoral risk assessment (SRA).

The PNGFA and the BPNG/FASU led the work of this SRA with the support provided by the technical assistance from the United Nations Office of Drugs and Crime (UNODC) through the UNODC office in Hanoi, Viet Nam, responsible for the implementation of the AML/CFT technical assistance to PNG. This initiative was funded by the Norway's International Climate and Forest Initiative (NICFI) under the Law Enforcement Assistance Programme (LEAP)<sup>10</sup>. The SRA was conducted to determine:

- the extent of the problem of illegal logging;
- the values involved;
- the means by which this lost value might be recovered (including the use of the Proceeds of Crime Act 2005 and the Mutual Assistance in Criminal Matters Act 2005); and
- the ways that the problem can be mitigated in the future.

The initial intent of the SRA, as indicated by the PNGFA, was for a comprehensive review of the processes under the *Forestry Act* 1991 from acquisition of forest resources, the allocation of these resources for development, forestry operations, monitoring of operations, revenue generation and distribution. This SRA, although not accomplishing the initial intent of the SRA by the PNGFA and noting its significant limitations, nevertheless provides a preliminary groundwork assessment of potential money laundering (ML) and terrorist financing (TF) risks within the forestry sector. It aims to provide PNG's policy makers with an overview of these risks, and in response to the identified risks, sets out recommended mitigation measures that could help reduce or eliminate such risks and to support the development of a broader, more comprehensive risk assessment in the future.

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<sup>9</sup> The National Risk Assessment used the International Tropical Timber Organization's (ITTO) definition of illegal logging: "removal of logs in a manner that is against the provisions of relevant laws [...of a particular country]", which is the basis of determination of illegal logging under various international guidelines relating to prohibitions on the importation of illegal logs. The 2017 NRA's reference to "strong indicators" of corruption and illegal logging was drawn primarily from external sources, including NGO estimates, international studies such as the UNODC TOCTA (2013), and historical inquiries. These suggested that a significant share of logging activity may have involved irregularities, particularly with respect to landowner consent and enforcement of concessions. While PNGFA's position that its systems were robust was also noted, the assessment did not incorporate comprehensive field-based verification, and therefore the findings should be understood as reflecting perceived risks rather than conclusive evidence of systemic illegality.

<sup>10</sup> LEAP is a consortium composed by the UNODC, the International Criminal Police Organization (INTERPOL) and RHIPTO-Norwegian Center for Global Analyses. LEAP assists Member States by supporting law enforcement in key countries across Latin America, South East Asia and the Pacific [https://www.unodc.org/lpo-brazil/en/crime/leap.html#:~:text=Law%20Enforcement%20Assistance%20Programme%20to%20Reduce%20Tropical%20Deforestation%20\(LEAP\)&text=LEAP%20is%20a%20partnership%20between,illegal%20deforestation%20and%20related%20crimes](https://www.unodc.org/lpo-brazil/en/crime/leap.html#:~:text=Law%20Enforcement%20Assistance%20Programme%20to%20Reduce%20Tropical%20Deforestation%20(LEAP)&text=LEAP%20is%20a%20partnership%20between,illegal%20deforestation%20and%20related%20crimes).



## 2. Methodology

This SRA was conducted using a methodology aligned with recommendations, publications, and guidance from the Financial Action Task Force (FATF)<sup>11</sup>, the UNODC SOCTA Handbook<sup>12</sup> and other methodologies applied for similar SRAs, adapted, where possible, to the PNG context.<sup>13</sup>

The working group (WG) established for this SRA comprises of the UNODC AML/CFT advisor and four (4) PNGFA staff members.<sup>14</sup> The WG collected and analyzed both qualitative and quantitative data to assess ML and TF in the forestry sector, and for drawing the appropriate mitigative actions. The analysis for this SRA considered the scope deriving from the NRA and the risks for the forestry sector itself to be:

- i) the source for illegal proceeds to be laundered;
- ii) used for laundering illegal proceeds deriving from other crimes; and
- iii) the source for funds to be used or intended to be used for terrorism financing.

The SRA faced challenges due to the COVID-19 pandemic, which limited fieldwork and in-person meetings. Therefore, most data were collected remotely, although one in-person WG meeting was held in Port Moresby on 30th January 2020, followed by two in-country workshops: on 27<sup>th</sup> February 2020 in Port Moresby<sup>15</sup> and on 3<sup>rd</sup> – 6<sup>th</sup> March 2020 in Kokopo, East New Britain Province<sup>16</sup>. These workshops helped to refine the list of threat, vulnerabilities, and consequences (TVC) related to illegal proceeds in the forestry sector, and to finalize a sector-specific questionnaire.

The questionnaire developed by the WG was distributed online to eighteen (18) NCC member agencies<sup>17</sup> and relevant local and international NGOs, including Global Witness and Wildlife Conservation Society.

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<sup>11</sup> The Financial Action Task Force (FATF) is an inter-governmental body established in 1989 to set international standards that aim to prevent money laundering, the financing of terrorism and the proliferation of weapons of mass destruction.

<sup>12</sup> "Guidance on the preparation and use of serious and organized crime threat assessments - The SOCTA Handbook", UNODC (2010).

<sup>13</sup> In particular, these include SRA of Money Laundering on Forestry Crimes from Indonesia (2020) and the Sectorial Assessment of Exposure to Money Laundering and Terrorist Financing Risks in the Peruvian Timber Sector (2018).

<sup>14</sup> It is unclear from the SRA (October 2020) as to how many FASU officials were members of this Working Group.

<sup>15</sup> A total of fifteen (15) participants attended this workshop, including the UNODC representatives (2), FASU staff (2), compliance teams from Bank of South Pacific (BSP) (2), ANZ (1), Kina Bank (5), and Westpac (1), FIA representative (1), and a representative from Partners With Melanesians Inc (a non-profit non-governmental organization incorporated in PNG) (1). Unfortunately, the WG members from the PNGFA were not able to attend this workshop.

<sup>16</sup> A total of sixteen (16) participants from the Public Prosecutor's Office, PNGFA, PNG Customs, FASU, BPNG, the Royal Papua New Guinea Constabulary (RPNGC - National Fraud and Anti-Corruption Department), IRC, and Immigration and Citizenship Services Authority (ICA) attended this workshop. The workshop was held in the framework of a training on financial disruption of illegal deforestation which was organized by UNODC under Programme LEAP and had the participation of experts from INTERPOL's Financial Crime Unit. During this workshop, several challenges concerning the forestry sector and some current illegal practices have been discussed.

<sup>17</sup> At the time of writing this report, 18 agencies are members of the NCC, which is co-chaired by the Governor of the BPNG and the Secretary of the Department of Justice and Attorney General: i) BPNG (with FASL functioning as the Secretariat for the NCC); ii) Department of Justice and Attorney General; iii) Department of Prime Minister and National Executive Council; iv) Department of Foreign Affairs; v) Department of Finance; vi) Department of Treasury; vii) National Gaming and Control Board; viii) Royal PNG Constabulary; ix) Office of the Public Prosecutor; x) PNG Customs Service; xi) Internal Revenue Commission; xii) Investment Promotion Authority; xiii) Securities Commission PNG; xiv) Office of the Insurance Commission; xv) PNG Immigration and Citizenship Authority; xvi) National Intelligence Organization; xvii) PNG National Fisheries Authority; xviii) PNG Forest Authority.



Data sources for this SRA included questionnaire responses, SGS reports, FASU's database analysis, literature review and desk research. These were used to apply the FATF, UNODC and other relevant methodologies to measure and understand the relevant risks in the forestry sector. Additionally, *ad hoc* interviews were conducted to increase the quantity and quality of information, as well as to supplement gaps caused by lack of official statistics on ML and TF.

The WG also engaged the private sector through the FIA. The FIA initially participated – attending the first in-country workshop hosted by UNODC and BPNG/FASU on 27 February 2020 in Port Moresby – but it later chose not to support the SRA. During the workshop, the FIA representative informed about the industry's perception on illegal logging, citing previous submissions to the Australian parliamentary inquiry on the Illegal Logging Prohibition Bill (2011)<sup>18</sup>. These submissions relied on 2010 Chatham House research noting reductions in illegal logging in other countries - Indonesia, Brazil, and Cameroon. However, the 2014 Chatham House report specifically on PNG, concluded that illegal practices remained widespread in PNG's forestry sector, with majority of timber production likely involving some form of illegality.<sup>19</sup>

Finally, it must be noted that for the purposes of this SRA, the term “illegal logging” means any of the activities within PNG directly or indirectly connected with: (a) harvesting or processing timber or rattan; or (b) buying unprocessed timber or rattan for processing or export; or (c) selling or, on behalf of another person or other persons, arranging or procuring the sale or purchase of, timber or rattan (whether unprocessed or processed but not including manufactured items made from timber or rattan materials), in violation of the PNG Forestry Act 1991 or other relevant laws and which constitute a predicate offence for ML<sup>20</sup>.

### 3. The extent of the problem of illegal logging and the values involved

As with most illegal activities, it is inherently challenging to accurately estimate the financial scale of illegal logging. Nevertheless, by analyzing data from the SGS<sup>21</sup> reports, official statistics provided by the General Administration of Customs of the People's Republic of China, the Organization for Economic Cooperation and Development's (OECD) International Transport and Insurance Costs database (ITIC), and other reliable studies, this SRA provides an informed estimate of the potential value of illegally traded timber originating from PNG, as detailed below.

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<sup>18</sup> Available at

[file:///C:/Users/fabri/Documents/temporary/http\\_www.aphref.aph.gov.au\\_house\\_committee\\_ifadt\\_loggingbill2011\\_subs\\_sub10.pdf](file:///C:/Users/fabri/Documents/temporary/http_www.aphref.aph.gov.au_house_committee_ifadt_loggingbill2011_subs_sub10.pdf)

<sup>19</sup> Available at

[https://www.chathamhouse.org/sites/default/files/home/chatham/public\\_html/sites/default/files/20140400LoggingPapuaNewGuineaLawson.pdf](https://www.chathamhouse.org/sites/default/files/home/chatham/public_html/sites/default/files/20140400LoggingPapuaNewGuineaLawson.pdf)

<sup>20</sup> According to Section 508A of the Criminal Code (Money Laundering and Terrorist Financing (Amendment) Act 2015, any criminal conduct which is punishable with at least six (6) months imprisonment constitutes a predicate offence for ML (). Hence, any property deriving from such predicate offence is considered criminal property.

<sup>21</sup> Société Générale de Surveillance SA (SGS), is a company contracted since 1994 by the Government of Papua New Guinea for monitoring the export of logs.



### 3.1. Discrepancies from the SGS reports

For better estimating the values involved, the WG thoroughly examined the data from SGS reports for the month of December in the years from 2010 until 2019. The monthly SGS reports also provide figures concerning detected serious discrepancies.<sup>22</sup>

Based on SGS inspections between 2010 and 2019, the undeclared logs typically do not exceed 1% of the exported volume. The only exception was in December 2012, when the detected discrepancy slightly exceeded this threshold at 1.03%; in all other instances, it remained below 1%. For such discrepancies, SGS reported that corrective actions were taken, which requires the concerned exporters to provide supplementary declarations to ensure the State obtained its full financial benefits.

The analysis of SGS reports also revealed more serious discrepancies (as listed in Report n. 19 every month) concerning the volumes of logs loaded for export compared to the volumes authorized under the issued log export permits to the exporters. The analysis of a sample of monthly reports, which include December monthly reports from 2016 until 2018, October 2019 and January 2020, show that these discrepancies range between 27,499.68 m<sup>3</sup> and 42,920.64 m<sup>3</sup>. When compared to the total volume of exported logs for the same months, these substantial discrepancies range between 8% and 11% of the total volume of the exported logs. Further in-depth analysis of the SGS reports reveal that the substantial discrepancies in the given months significantly differ for each concerned exporter. In fact, it is noted that for the analyzed months, there are instances of exported species for which export permits were not granted or the quantities significantly exceeded the export permits volumes.

### 3.2. Annual export quotas

In addition, the SGS reports consistently note the absence of official annual log export quotas for projects from the relevant authorities, limiting effective monitoring of any potential breaches of quotas.<sup>23</sup> However, desk research for this SRA identified a 2010 PNG Institute of National Affairs publication<sup>24</sup> that provided some indication of annual logs export quotas. This publication cited annual export quota of 80,000 m<sup>3</sup> for a specific Project Area Y whereas SGS reports indicated that the exporter had exceeded this annual quota by 5% to 19% between 2013 to 2019 (see [Table 1](#))

**Table 1: Annual exports of logs for a Specific Project Area Y exceeding the annual export quota.**  
Source: SGS reports

Year	Exported m <sup>3</sup>	Exported in excess of export quota (>80,000 m <sup>3</sup> )
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<sup>22</sup> The SGS inspections are conducted in accordance with the guidelines/rules set out in the PNGFA's "Procedures for exporting logs". According to these guidelines, discrepancies can be identified at two different stages: a) pre-shipment; and b) final ship clearance. However, during the preparation of this sanitized version of the SRA, PNGFA highlighted that reliance on SGS reports and questionnaire responses was subject to limitations. Corrective actions taken before shipment were not always recorded, creating the impression of unresolved discrepancies. Discrepancies reflected legal commercial decisions, rather than illegality. Refer to the definition of "discrepancies".

<sup>23</sup> During the preparation of this sanitized version of the SRA, PNGFA points out that Annual Harvest or Export Quotas are computed based on a Permit Year and not a calendar year. If in a Permit Year, the export quota is not realized, this can be carried over into the next Permit Year irrespective of the calendar years. It is therefore inaccurate to say that there are no records of "annual" export quotas given for project sites or to review or assess quotas based on a calendar year or to use the term "annual log export quotas" when the quotas are not given based on a calendar year.

<sup>24</sup> PNG Institute of National Affairs, "Opening up opportunities for agriculture and rural development" (2010). Available at [http://www.inapng.com/pdf\\_files/NDF\\_2009\\_Final.pdf](http://www.inapng.com/pdf_files/NDF_2009_Final.pdf)



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2013	85,530	5,530	6%
2014	84,470	4,470	5%
2015	88,884	8,884	10%
2018	98,279	18,279	19%
2019	83,856	3,856	5%
<b>Total</b>		<b>41,019</b>	

### 3.3. National Court rulings on null and void Forest Clearance Authorities and Timber Permits

Desk research of the National court's rulings about the granting of Forest Clearance Authorities (FCA) and Timber Permits (TPs), highlighted the following civil litigations<sup>25</sup> in which FCAs and TPs have been declared null or void because they were granted against the requirements of the *Forestry Act 1991*:

- i) *Bewani Oil Palm Plantations Ltd v Dotaona* [2019] PGNC 51; N7761 (22 February 2019): The National Court declared the FCA 10-08 granted in 2017 to two companies null and void in 2019. The area subject to FCA 10-08, Portion 163C in Sandaun Province, covered 31,430 hectares. Despite significant deforestation, the SGS reports indicated no exports of logs under FCA 10-08.
- ii) *Simakade Holdings Ltd v National Forest Board* [2019] PGNC 18; N7703 (22 February 2019): The National Court ruled that the FCA 15-10, granted in 2016 to a company to carry out a large-scale forest clearance for commercial agricultural or other land use development in Inland Lasul, Baining LLG, East New Britain Province, was invalid or void. The company engaged two contractors for the forest clearance, one of whom exported logs from the area. Despite the court's ruling, the contractor continued exporting logs, totaling 11,041 m<sup>3</sup> in March and April 2019.
- iii) *Dengnenge Resources Development Ltd v Vanimo Jaya Ltd* [2019] PGNC 332; N7950 (14 August 2019): The National Court declared TPs 15-50 and 15-53 null and void due to their extension to another company as extensions of existing permits, which had expired in 2007 and 2008. The court ruled the new company had no right to request or obtain extensions. The new company exported logs under TRP in 2018 for a volume of 2,550 m<sup>3</sup> and a value of 418,638.42 PNG Kina.

### 3.4. China's imports of logs from PNG

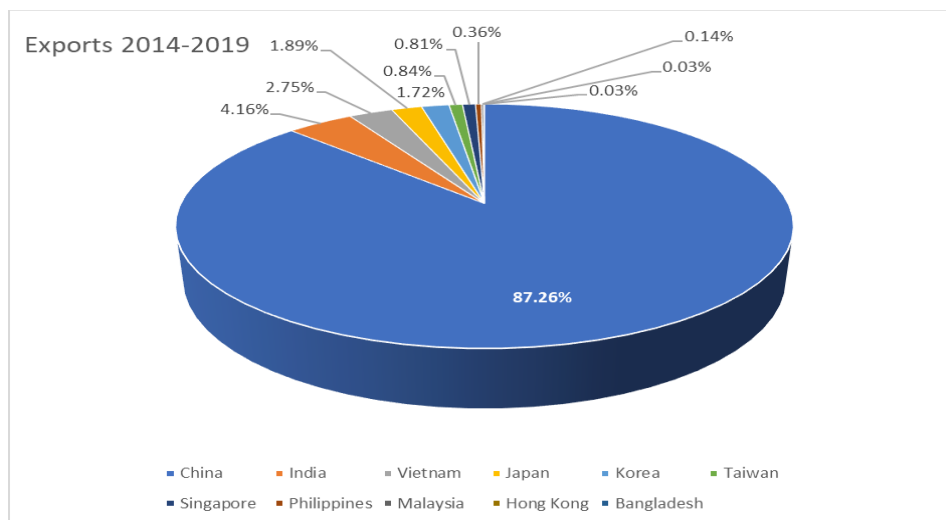
Between 2010 and 2019, SGS data indicated that China was the predominant destination for exports of timber from PNG. Specifically, from 2014 to 2019, 87.26% of all exported logs from PNG were shipped to China. Other major country destinations include India (4.16%), Vietnam (2.75%), Japan (1.89%), and Korea (1.72%) (see [Figure 1](#)).

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<sup>25</sup> Available at [www.paclii.org](http://www.paclii.org)



**Figure 1: Exports of logs in the period 2014-2019 by destinations. Source: SGS**



Taking into consideration that China represents the major market for PNG exports of logs, the WG compared the data from the SGS reports on exports from PNG to China with official statistics provided by the General Administration of Customs of the People's Republic of China (PRC) on imports in China from PNG for sample period from 2014 to 2019. A comprehensive analysis concerning the differences in trade statistics related to export of logs from PNG to China, as reported by the two partner countries, was deemed necessary for this SRA. The analysis compares volumes and monetary values reported by both countries and assesses the potential causes and implications of these differences. Particular attention was given to the methodological challenges in comparing international trade data, specifically the distinction between Free on Board (FOB) and Cost, Insurance, and Freight (CIF) valuation methods.

The difference in reported trade volumes of logs between PNG and China over the sample period of six years (2014 to 2019) is relatively minor. PNG's export records show a total excess of 91,165 m3 compared to China's recorded imports, equating to a discrepancy of only 0.47% of total reported exports. This difference is considered statistically negligible and may be attributed to timing lags in data reporting (e.g., end-of-year shipments recorded in different periods in PNG and China e.g., end of year in PNG and at the beginning of the following year in China). Such discrepancies fall within the acceptable range identified in the existing literature<sup>26</sup> and in the absence of more detailed data – such as quarterly figures and shipment durations, which are recommended for deeper analysis - this SRA considered 0.47% difference in trade volume as negligible (i.e., close to zero) and therefore, regarded it as normal. However, this observation does not take into consideration the unaccounted shipments which left PNG undetected. Discussions held during the workshops in relation to this SRA suggests that given PNG's vast borders and lack of capacity to effectively maintain border controls along the remote parts, the unaccounted shipments remain a challenge.<sup>27</sup>

<sup>26</sup> Liu et al., "Sustainable Timber Trade: A Study on Discrepancies in Chinese Logs and Lumber Trade Statistics (2020).

<sup>27</sup> During the preparation of this sanitized version of the SRA, the PNGFA raised concerns regarding the lack of a clear definition of "unaccounted shipments" and the absence of identified data sources supporting such instances. The PNGFA noted that it is highly unlikely that log shipments could leave PNG completely undetected by government regulatory agencies, including PNGFA, Customs and SGS, and emphasized the need for further data validation to dispel negative stereotypes and generalisations.



Notwithstanding the close to normal discrepancies in the volume data, the discrepancy in reported trade values by two countries is substantial. Between 2014 and 2019, PNG reported log exports worth approximately USD 1.8 billion, while China recorded imports from PNG valued at approximately USD 4.1 billion. This results in a discrepancy of USD 2.3 billion, representing a 128% difference over the FOB values reported by the PNG. This variation in reported values cannot be explained by differences in volume alone and suggests significant issues in valuation reporting and data harmonization between the two countries.

This SRA notes that one of the primary contributors to the discrepancy in value might be the differing valuation methods<sup>28</sup>: PNG reports exports using FOB values, while China records imports on a CIF basis, which includes freight and insurance costs. Due to the absence of CIF value data from PNG and incomplete information from Chinese customs authorities, the SRA applies international estimation methodologies to approximate adjusted FOB values. Using the International Monetary Fund's (IMF) standard<sup>29</sup> 6% CIF/FOB adjustment, PNG's estimated export value for the period rises to USD 3.9 billion, narrowing the gap to USD 2.1 billion in six years, or 117% of the originally reported FOB value by SGS. However, a more conservative adjustment based on a regional OECD average margin of 9.1%<sup>30</sup> yields an estimated export value of USD 3.8 billion, corresponding to a discrepancy of USD 2.0 billion, or 111% of the SGS-reported figure.

On the basis of above analysis, it can be estimated that there is a discrepancy in the value declared at export for logs shipped from PNG to China, ranging between 111% and 117% of the reported FOB. Over the six-year period from 2014 to 2019, it is estimated that PNG has likely lost on potential revenue, including related taxes and foreign currency remittances, amounting to between USD 2 and 2.1 billion.

These discrepancies in reported trade values between two countries suggest the involvement of offshore intermediaries; however, studies indicate that importers of logs from PNG into China have long standing direct relationships with PNG exporters and purchase logs without third-party involvement.<sup>31</sup> This implies that the declared import values in China is most likely the actual amount paid to PNG exporters. Furthermore, discussions during one of the in-country workshops for this SRA revealed that some PNG exporters, though directing shipments to Chinese clients, may be selling their timber to offshore companies controlled by the same shareholders and/or directors of the exporting companies themselves, potentially inflating trade values without legitimate intermediary activity.

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<sup>28</sup> [https://wits.worldbank.org/wits/wits/witshelp/Content/Data\\_Retrieval/T/Intro/B2.Imports\\_Exports\\_and\\_Mirror.htm](https://wits.worldbank.org/wits/wits/witshelp/Content/Data_Retrieval/T/Intro/B2.Imports_Exports_and_Mirror.htm)

<sup>29</sup> International Monetary Fund (IMF), "New Estimates for Direction of Trade Statistics" (IMF Working Paper, 2018) suggests that "Exports and imports of non-reporting countries are estimated based on the assumption of symmetry with the values of imports and exports, respectively, declared by their counterpart countries. A CIF/FOB adjustment of 6 percent is used for non-reporting countries. The value of exports is equal to the value of imports from a partner divided by 1.06; the value of imports is equal to the value of exports multiplied by 1.06."

<sup>30</sup> The OECD maintains the International Transport and Insurance Costs (ITIC) database (available at: [https://stats.oecd.org/Index.aspx?DataSetCode=CIF\\_FOB\\_ITIC](https://stats.oecd.org/Index.aspx?DataSetCode=CIF_FOB_ITIC)), which contains data about CIF-FOB margins of reporting countries. As the database only contains data on trade between PNG and China for the year 2012, reporting a margin of 9.3%, this SRA calculated the average margin reported by other countries in the region for trade with China involving the same commodity during the same commodity in order to give a good estimate.

<sup>31</sup> Bin X. et al, "An empirical analysis of the legality and traceability of Chinese imports of Papua New Guinea timber" (2019).



### 3.5. International transfer of funds into bank accounts held in PNG by companies operating in the forestry sector

According to the 2018 Annual Report of the BPNG<sup>32</sup>, the forestry sector contributed to inflows of foreign currency equivalent to PNGK 893.7 million in 2017 and to PNGK 1,255.9 million in 2018.

Based on the questionnaire responses from four commercial banks, the top ten countries for incoming financial transactions recorded from the forestry sector customers' bank accounts in the sample period from 2014 to 2019 were (listed in order): i) Singapore; ii) Malaysia; iii) Hong Kong; iv) Australia; v) China; vi) Japan; vii) Taiwan; viii) USA; ix) Vietnam; and x) Philippines. On the other hand, the top ten countries for outgoing financial transactions recorded from the forestry sector customers' bank accounts include (listed in order): i) Australia; ii) Malaysia; iii) Singapore; iv) Japan; v) USA; vi) China; vii) Hong Kong; viii) Philippines; ix) India; and x) Denmark.<sup>33</sup>

Based on the SGS reports for the period 2014-2019, the total value of exports of logs is approximately 2.2 billion USD, and the top destinations for exported logs, ranked by export value, were: i) China; ii) India; iii) Vietnam; iv) Japan; v) Korea; vi) Taiwan; vii) Singapore; viii) Philippines; ix) Malaysia; and x) Hong Kong.

The data collected from commercial banks and SGS reports revealed differences between the total value of exported logs (USD 2.2 billion) and the incoming international transactions recorded by the commercial banks. According to the BPNG requirements, exporters are required to repatriate proceeds generated from exporting goods within three months from the shipment date of export. However, even accounting for the allowable repatriation period – including the final three months of 2019 into early 2020 – these discrepancies are difficult to be justified.

Over the period 2014-2019, this discrepancy is estimated at approximately USD 800 million. Combined with the losses identified through the analysis of CIF-FOB margins and discrepancies with China, this amount represents a shortfall in foreign currency inflows that the BPNG would have expected to receive, based on the periodic reports and data provided by SGS.

The information from the commercial banks also revealed that the customers operating in the forestry sector did not record significant outgoing international financial transactions. This implies that all the repatriated proceeds have either remained in PNG or have been exported in cash.

According to Scudder M.G. et al (2019), as reported in the article "*Timber royalty reform to improve the livelihoods of forest resource owners in Papua New Guinea*", the logging companies are able to retain on average 51.6% of FOB values as residual return for cost/profit, with 48.4% (on average) of FOB values are split between forest resource owner royalty payments and PNG government (with the latter obtaining on average 27.8% as customs duties and 14.6% as levy payments). If those figures are considered, it can be argued that for the period 2014-2019, where the total FOB values amounted to USD 2.2 billion, the logging companies have possibly repatriated only those amounts needed to cover the estimated 48.4% and other expenses.

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<sup>32</sup> Available at [https://www.bankpng.gov.pg/sites/default/files/2024-07/Annual%20Report%202018\\_0.pdf](https://www.bankpng.gov.pg/sites/default/files/2024-07/Annual%20Report%202018_0.pdf)

<sup>33</sup> During the preparation of the sanitized version of the SRA, PNGFA explains that logs are not exported to Australia and the United States, therefore transactions from these countries would be for processed wood products, such as plywood and balsa wood. Furthermore, logs are not exported to Singapore and Hong Kong but usually buyer addresses would be stated as either Singapore, Hong Kong and Malaysia.



## 4. Threats, Vulnerabilities and Consequences – Assessing ML and TF risks

### 4.1. List of Threats, Vulnerabilities and Consequences

According to the FATF methodology, “risk” is considered as a “function of threat, vulnerability and consequence.” Accordingly, to understand the ML and TF risk for the forestry sector in PNG, the WG agreed to first identify the threats, vulnerabilities, and related consequences (TVC) concerning the ways illegal proceeds are raised, used, moved, or stored within or in connection with the forestry sector in PNG. A targeted questionnaire was then developed to gather the perceptions and knowledge experts<sup>134</sup> identified by the WG on the identified TVC to assess the risk. The process also allowed participants to add any relevant TVCs not previously identified by the WG, based on their expertise. The WG drafted the following initial list of TVC, identified as being relevant for the SRA:

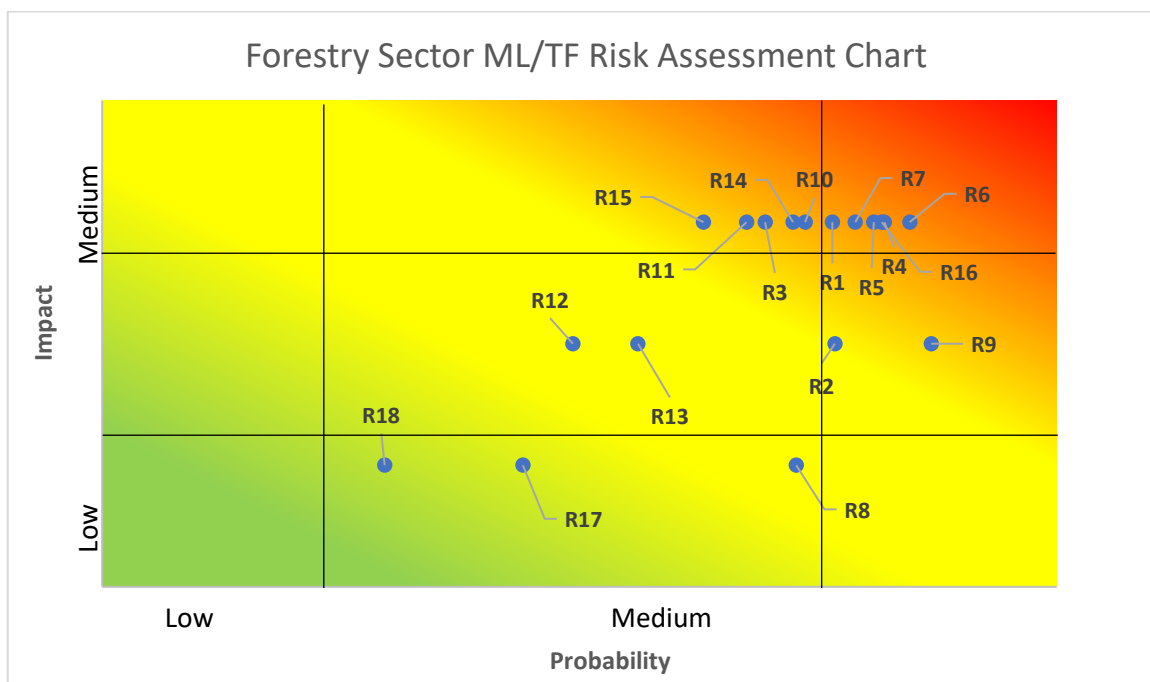
**Figure 2: Initial draft list of TVCs. Source: SRA-WG.**

Threats	Vulnerabilities	Consequences
<ul style="list-style-type: none"> <li>- Harvesting outside of concessions;</li> <li>- Undetected misdeclaration of species and quantities;</li> <li>- Unaccounted shipments;</li> <li>- Misuse of transfer pricing;</li> <li>- Corruption of politically exposed persons which reinvest in logging operations;</li> <li>- Misuse of SABLs;</li> <li>- Illegal funds used as capital investments in logging companies;</li> <li>- Porous border with Indonesia;</li> <li>- Logging operations continuing after licenses expired;</li> <li>- Cash payments to foreign employees;</li> <li>- Tax evasion</li> </ul>	<ul style="list-style-type: none"> <li>- Weak inter-agency cooperation;</li> <li>- Lack of clear instructions for financial institutions;</li> <li>- Lack of knowledge on costs related to shipments;</li> <li>- Corruption of officials;</li> <li>- Obsolete legislation;</li> <li>- Logging companies allowed to report systematic losses;</li> <li>- Lack of identification of beneficial ownership for companies incorporated in tax havens;</li> <li>- Unstructured negotiation of penalties;</li> <li>- Legislative gaps for enforcement;</li> <li>- Lack of AML/CFT training for PNGFA officers;</li> <li>- Lengthy procedures to extend expired licenses;</li> <li>- Lack of IT equipment in field offices for a centralized Decision Support System;</li> <li>- PNGFA understaffed and underbudgeted</li> </ul>	<ul style="list-style-type: none"> <li>- Unsustainable exploitation of forest resources;</li> <li>- Loss of biodiversity;</li> <li>- Pollution;</li> <li>- Loss of revenues for the State;</li> <li>- Further reinvestments in illegal activities and expansion of criminal networks;</li> <li>- More funds available for corruption;</li> <li>- Contribution to social instability;</li> <li>- Increase in criminality;</li> <li>- Distortion of the market value;</li> <li>- Destabilization of the financial system</li> </ul>

### 4.2. Assessing the risks of ML and TF

Based on the analysis of the questionnaire responses, the WG developed the assessment chart. This chart considers the relationship between threats, vulnerabilities, and consequences. It identifies risks by calculating the probability of threats occurring when vulnerabilities are exploited and their possible impacts. The risks are then categorized as low, medium-low, medium, medium-high, and high.

<sup>34</sup> It should be noted that during the preparation of this sanitized version of the SRA, PNGFA has raised concerns regarding the expertise of questionnaire respondents, including uncertainty as to whether the information provided reflected primary experience (based on direct involvement) or secondary sources.



**Table 2** below describes the identified ML/TF risks related to forestry sector.

**Table 2: ML/TF Risks related to the Forestry Sector**

<b>Money Laundering risks related to illegal proceeds deriving from:</b>	
<b>R1:</b> logs harvested outside of logging concession areas	<b>R9:</b> misuse of Forest Clearing Authority on Lands under Special Agricultural Business Leases (SABL) and Customary Ownership
<b>R2:</b> mis-declared species and quantities of logs	<b>R10:</b> criminal activities committed abroad and related illicit funds are used as capital investments in logging companies in PNG
<b>R3:</b> unaccounted shipments	<b>R11:</b> criminal activities committed abroad and related illicit funds are used as capital investments in palm oil companies in PNG
<b>R4:</b> misuse of transfer pricing for purchasing goods and/or services	<b>R12:</b> smuggling illegal logs from Indonesia through porous borders
<b>R5:</b> misuse of transfer pricing for selling goods and/or services	<b>R13:</b> smuggling illegal logs into Indonesia through porous borders
<b>R6:</b> corruption of politically exposed persons	<b>R14:</b> logging operations illegally continuing after concessions expired
<b>R7:</b> investments from PEPs of funds derived from corruption	<b>R15:</b> use of foreign employees as cash couriers to smuggle currency outside of PNG
<b>R8:</b> use of fraudulent documents	<b>R16:</b> tax evasion with illegally accrued proceeds laundered through offshore jurisdictions
<b>Terrorist Financing risks related to:</b>	



**R17:** cash payments to foreign employees reused for terrorist financing out of PNG

**R18:** cash payments to Papua New Guinean employees reused for terrorist financing either in PNG or abroad

## 5. The major risks for money laundering

This SRA identified the following five major risks for ML in the forestry sector in PNG:

### 5.1. Corruption of PEPs<sup>35</sup>. Risk level = HIGH

Corruption has been a significant issue in the forestry sector of PNG, as evidenced by the 1989 Barnett Inquiry<sup>36</sup>, which revealed that the then PNG Minister for Forests received illicit benefits (corruption) in exchange of improper permits granted to logging companies.<sup>37</sup> In 1999, a research from the Asia-Pacific School of Economics and Management of the Australian National University also revealed that in 1997 the Sandaun Provincial Governor accepted bribes from a Malaysian logging company.<sup>38</sup> In 2013, the Commission of Inquiry into the Special Agriculture and Business Lease (SABL) reported that scrupulous individuals and corrupt government officials abused the SABL process.<sup>39</sup> In 2019, an article by the Asia Pacific Journal of Environmental Law<sup>40</sup> highlighted the ongoing corruption in PNG's forestry industry.

Additionally, the Department of State of the United States of America's Office to Monitor and Combat Trafficking in Persons (TIP) has identified corruption in the forestry sector in PNG, which may lead to forced labor among loggers and sex trafficking in communities near logging sites. The report also noted that some officials accept bribes to issue logging permits in violation of environmental standards and land ownership rights, causing displacement and concomitant loss of livelihood, making some communities more vulnerable to exploitation.<sup>41</sup>

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<sup>35</sup> In line with the PNG AML/CFT Act 2015, a 'politically exposed person (PEP)' for this SRA means: (a) a person who is or has been entrusted in a foreign country with prominent public functions, including but not limited to, a Head of State or the head of a government, a senior politician, a senior government official, a senior judicial official or a senior military official; or (b) a person who is or has been a senior executive in a foreign country of a state-owned company of that foreign country; or (c) a person who is or has been a senior political party official in a foreign country; or (d) a person who is or has been entrusted with a prominent function by an international organization, including but not limited to directors, deputy directors and members of the board or equivalent positions; or (e) a person who is or has been entrusted in Papua New Guinea with prominent public functions, including but not limited to a Head of State, a politician, a senior political party official, a senior government official, a senior judicial official, a senior military official or any person who is or has been a senior executive of a State-owned company; or (f) any person who is a family member or close associate of a person mentioned in Paragraphs (a) to (e).

<sup>36</sup> In 1987 a Commission of Inquiry (Col) into aspects of the forest industry was established. The Col was chaired by Judge Thomas Barnett and popularly renamed the Barnett Inquiry.

<sup>37</sup> Barnett, T., "Commission of Inquiry into aspects of the forestry industry - Volumes I and II", 1989, available at <https://pngforests.files.wordpress.com/2013/05/final-report-vol-1.pdf> and <https://pngforests.files.wordpress.com/2013/05/final-report-vol-2-jul-89.pdf> (Accessed on 07 July 2020).

<sup>38</sup> <https://core.ac.uk/download/pdf/156616963.pdf>

<sup>39</sup> Numapo J., "Commission of Inquiry Into the Special Agriculture and Business Lease (SABL) - Final Report", 2013.

<sup>40</sup> Harris H., "Corruption and the forestry industry in Papua New Guinea: transnational actors, local dynamics and environmental impact", 2019, published in Asia Pacific Journal of Environmental Law, Vol. 2 No. 1, 2019, pp. 48-65

<sup>41</sup> Ibid.



In PNG, there have been no prosecutions of criminal cases relating to corruption of PEPs and the forestry sector. However, corruption is perceived as a major driver enabling illegal practices in the forest industry. The questionnaire responses for this SRA highlighted the PNGFA, PNG Customs Services and Royal Papua New Guinea Constabulary as among the agencies most vulnerable to corruption. Given their critical role in enforcing law against illegal activities in the forestry sector – and the potential of corruption in their operations – illegally generated proceeds within the forest industry may go undetected and are likely to be laundered domestically or abroad.

## **5.2. Tax evasion with illegally accrued proceeds laundered through offshore jurisdictions. Risk level = HIGH**

This SRA highlights strong indications that the logging industry in PNG is accruing significant amounts, without being taxed in PNG. Data from SGS, commercial banks and Customs of China, along with discussions held with PNG officials, reveal a substantial gap in the real value of logs exported from PNG.

Between 2014 and 2019, PNG missed out on potential revenue, including taxes and foreign currency remittances, amounting to USD 2 and 2.1 billion. The flow of financial transactions against exported timber suggests that illegal proceeds are being laundered through Singapore, Hong Kong, Malaysia, and domestically.

## **5.3. Misuse of transfer pricing for selling and/or buying goods and/or services. Risk level = HIGH**

At the PNG Forestry Summit, themed "*Harnessing Inclusive Opportunities and Greater Economic Potential of the Forestry Sector*", held on 9-11 October 2019, the then Acting Commissioner of the IRC presented a case study highlighting transfer pricing practices in the forestry sector. The analysis revealed that a company exported 1.5 million m<sup>3</sup> over an 18-years period, declaring a selling price of USD 110/m<sup>3</sup> in PNG, while the overseas selling price was USD500/m<sup>3</sup>, revealing a discrepancy of approximately USD 585 million in unaccounted revenue.<sup>42</sup>

The case study presented by the IRC Acting Commissioner aligns with the findings of this SRA, reinforcing earlier concerns regarding the use of transfer pricing to facilitate tax evasion and laundering of illegal proceeds within the forestry sector.

## **5.4. Investments from PEPs of funds derived from corruption. Risk level = HIGH**

As previously highlighted, the corruption of PEPs presents a high risk for ML. Discussions during the in-country workshops indicated that PEPs are actively engaged in partnerships and business activities alongside shareholders and officers operating within the logging industry.

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<sup>42</sup>During the preparation of this sanitized version of the SRA, PNGFA expressed reservations against this conclusion in the absence of the citation of source documentation to confirm the findings of this case study. As the data is indicated to have come from a case study, a complete reference should be included to allow for independent verification and maintain transparency. Without appropriate sourcing, there is risk that information may be selectively used to support a particular perception, rather than reflect objective evidence.



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## 5.5. Logs harvested outside of logging concession areas. Risk level = HIGH

As identified in the analysis of National Court rulings, there have been cases in which FCAs, and extension of TPs were declared null and void due to the violation of the requirements of the Forestry Act 1991. These rulings indicate that certain forestry sector activities may have been conducted without appropriate legal authorizations – such as valid timber permits, timber authority, forest clearance authority, or licenses – and, consequently, outside the assigned logging concession areas.

In addition, as previously reported, there are instances where forestry activities, including exports, continued under an FCA that had already been declared null and void by the National Court.

## 6. Medium/High, Medium and Medium/Low risks for money laundering

Based on the analysis of questionnaire responses and insights from the in-country workshop discussions, the following risks have been assessed as medium/high, medium, or medium/low. Notably, none of the identified risks for ML risks were evaluated below the medium/low level.

### 6.1. Criminal activities committed abroad and related illicit funds are used as capital investments in logging companies in PNG. Risk level = MEDIUM/HIGH

This risk is assessed as medium/high, based on the findings from the questionnaire and the discussions held during the workshops. However, for the period 2014-2019, there is no significant evidence of foreign funds being transferred via the financial system. If the proceeds of crime generated abroad were invested in logging companies operating in PNG, it is most likely that such funds were invested prior to 2014 or that the funds entered PNG without using bank accounts of logging companies.

### 6.2. Logging operations illegally continuing after concessions expired. Risk level = MEDIUM/HIGH

During the in-country workshops, participants raised concerns about ongoing logging operations beyond the expiry of relevant concessions. It was noted that delays in the procedures for renewing or extending expired concessions may be exploited to allow continued harvesting and export of logs without valid authorization.

### 6.3. Unaccounted shipments. Risk level = MEDIUM/HIGH

Among the topics covered during the workshops were the instances where unaccounted shipments of logs left PNG without proper clearance from the relevant agency, such as SGS, Customs, or PNGFA. The risk of tugboats and barges being abused to transport logs outside of official/authorized ports is assessed as medium/high.<sup>43</sup>

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<sup>43</sup> During the preparation of this sanitized version of the SRA, the PNGFA raised strong concerns regarding the lack of a clear definition of “unaccounted shipments” and the absence of identified data sources supporting such instances to justify the categorization of this risk as Medium/High. PNGFA noted that it is highly unlikely that log shipments could leave PNG completely undetected by government regulatory agencies, including PNGFA, Customs and SGS, and emphasized the need for further data validation. PNGFA further explained that the use of tugboats and barges in harvesting and export operations may have been mistakenly perceived as “unaccounted shipments”. There are three common instances where tug boats and barges are used: a) when log ponds are located upstream of rivers and are inaccessible to ocean-going log ships, in which



#### **6.4. Criminal activities committed abroad and related illicit funds are used as capital investments in palm oil companies in PNG. Risk level = MEDIUM/HIGH**

This risk is assessed as medium/high, based on the findings from the questionnaire and the discussions held during the workshops, especially the ones with financial institutions, the private sector, and local NGO. However, as previously indicated, in the period 2014-2019, there is no significant evidence of foreign funds being transferred via the financial system. If the proceeds of crime generated abroad were invested in palm oil companies operating in PNG, it is most likely that such funds were invested prior to 2014 or that the funds entered PNG without using bank accounts of companies operating in the forestry sector.

#### **6.5. Use of foreign employees as cash couriers to smuggle currency outside of PNG. Risk level = MEDIUM/HIGH**

In discussions with FASU, it was highlighted that there has been a case involving foreigners associated with a logging company who were intercepted at the border while attempting to smuggle cash out of PNG.

While this risk aligns with the data provided by commercial banks, which showed limited significant outgoing international transactions and may suggest the potential for cross-border cash movements, it was also observed that the difficulty to exchange PNG Kina abroad presents a practical barrier against high risks of cash smuggling.

#### **6.6. Misuse of Forest Clearing Authority on Lands under Special Agricultural Business Leases (SABL) and Customary Ownership. Risk level = MEDIUM/HIGH**

Besides the previously noted concerns regarding FCAs being issued in violation of the Forestry Act 1991, it has been observed that no agricultural, economic, or other land use activities were developed on the areas cleared under these permits.<sup>44</sup> Once harvested logs/timber are shipped abroad, the companies abandon the logged areas.

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case tug boats and barges are used to transport logs at the log ponds upstream and downriver to waiting ships for loading (for example: at Paia Inlet for Western and Gulf Projects); b) when sand banks and reefs located near log ponds prevent ships from anchoring close to shore, requiring tugboats and barges to transport logs to vessels anchored offshore; and c) in some offshore log pond operations, where ships that reach a critical or unsafe loading threshold near shore move to deeper waters to complete loading, with additional logs transferred via barges and tugboats. According to PNGFA, these instances may be wrongly perceived as “unaccounted” or a “shipment” and this may not be the case.

<sup>44</sup> During the preparation of this sanitized version of the SRA, PNGFA expressed strong concerns about the conclusion that no agricultural, economic, or other land use activities were developed on the areas cleared under these permits, especially in the absence of actual site visits. PNGFA noted that the Report on the Inquiry into SABLs provides details on the FCAs issued on SABLs and their compliance status at that time. It also highlighted that more recently, PNGFA has also completed compliance audits into all FCA projects and made recommendations to the Forest Board for cancellation of only those FCAs which have been non-compliant. PNGFA emphasized that to generally say that no agricultural, economic or other land use activities were developed on these FCAs without any actual site visits would be misleading.



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### 6.7. Mis-declared species and quantities of logs. Risk level = MEDIUM/HIGH

The analysis of SGS reports reveals recurring instances of misdeclaration related to species and quantities of logs. While the proportion of incorrectly declared or undeclared logs identified and corrected by SGS prior to shipment during the sample period (as discussed in this report earlier) rarely amounted to 1% of monthly exported logs, there were other cases where logs were loaded without any export permits or with discrepancies reaching thousands of percent when compared to quantities authorized in the corresponding export permits. For these later discrepancies, the SGS reports do not provide information on any corrective actions taken to address them.

### 6.8. Smuggling illegal logs from or into Indonesia through porous borders. Risk level =MEDIUM

Based on the findings from the questionnaires and discussions held during the workshops, it was assessed that criminal proceeds are generated by illegally harvesting trees from PNG and shipping the logs from West Papua/Papua (Indonesia), or trees are illegally harvested in Indonesia and shipped from PNG. Consequently, the smuggling of illegal logs across porous borders between PNG and Indonesia is assessed as medium risk.<sup>45</sup>

### 6.9. Use of fraudulent documents. Risk level = MEDIUM/LOW

Fake documents are used to deceive officials at various stages of the logs/timber trade in order to avoid detection of illegally harvested logs.<sup>46</sup>

## 7. Risks for Terrorist Financing

In line with the findings of the NRA, TF does not appear to present a major risk. However, while NRA assessed the TF risk as low, this SRA has assigned it a medium-low for forestry sector.

The WG identified two possible TF-related risk scenarios: i) cash payments to foreign employees that may be reused for TF purposes outside of PNG; and ii) cash payments to PNG employees that may be reused for TF either in PNG or abroad.

The joint operations led by the Immigration and Citizenship Services Authority and the National Fraud and Anti-Corruption Directorate within the framework of *Operation Restorim Kaiva* resulted in the arrest of several illegal immigrant workers employed in logging camps. The arrested illegal workers originated from different countries, such as Malaysia, Philippines and Indonesia, which might present comparatively higher levels of TF risk than PNG. As a result, and despite the NRA's findings that PNG lacks communities likely to support terrorist activities or foster 'homegrown' or 'lone wolf'

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<sup>45</sup> During the preparation of this sanitized version of the SRA, PNGFA noted that the SRA relied on questionnaire responses and workshop discussions, yet the credibility of respondents was not established as subject matter experts or first-hand sources. The conclusion should therefore be regarded as a perception of risk rather than verified evidence of systematic cross-border smuggling. Furthermore, PNGFA queried whether the questionnaires and discussions also included Non-Timber Forest Products (NTFPs) and the risk of these products being smuggled into Indonesia or vice versa. In any case, this can be looked at in the next more comprehensive Sector Risk Assessment.

<sup>46</sup> During the preparation of this sanitized version of the SRA, PNGFA reiterated its earlier concern (see footnote 45) regarding the lack of independently verified source materials to substantiate or validate this finding.



activities/actors, the exposure of the forestry sector to TF risk has been assessed as medium-low in this SRA.

## 8. Mitigation Strategy

Considering the outcomes of this SRA, PNG should take the following actions in order to mitigate the identified risks for ML and TF:

- Conduct corruption risk assessments<sup>47</sup> to identify, mitigate, and prevent internal/external corruption vulnerabilities. **Each government agency having responsibilities over the forestry sector** should conduct the corruption risk assessment. However, the following agencies are required to conduct it: 1) **PNGFA**; 2) **PNG Customs Service**; and 3) **Royal PNG Constabulary**.
- Establish a multi-disciplinary and coordinated approach for the criminal investigations of offences of ML and related predicate offences from the forestry sector, with utilization of financial investigations as recommended by FATF with the publication "*Operational issues – Financial Investigations Guidance*"<sup>48</sup>. *Responsible agencies* (within the framework of the AML/CFT NCC): 1) **FASU**; 2) **Royal PNG Constabulary**; 3) **IRC**; 4) **PNG Customs Service**; 5) **PNGFA**; 6) **Office of the Public Prosecutor**. This approach will be coordinated by the NCC.
- Enforcement of the Proceeds of Crime Act for the seizure and confiscation of illegal proceeds generated via predicate offences for money laundering in the forestry sector. *Responsible agencies*: 1) **Royal PNG Constabulary**; 2) **Office of the Public Prosecutor**.
- Application of provisions from the Mutual Assistance in Criminal Matters Act and United Nations Convention Against Corruption (UNCAC) for requesting assistance (especially regarding proceeds of crime, taking evidence and production of documents) to foreign countries in ongoing criminal investigations against predicate offences for money laundering from the forestry sector. *Responsible agencies*: 1) **Department of Justice & Attorney General**; 2) **Office of the Public Prosecutor**; 3) **Royal PNG Constabulary**.
- Increase and optimize the exchange of financial intelligence related to the forestry sector at national and international level. At international level, the exchange should occur with Financial Intelligence Units in strategic countries, including China, Singapore, Hong Kong, Malaysia and Australia. *Responsible agency*: **FASU**.
- SGS to be provided with annual export quotas for each project site which will be included in its monthly reports.<sup>49</sup> *Responsible agency*: **PNGFA**.
- SGS monthly reports to be provided to the commercial banks for their due diligence related to customers operating in the forest industry. *Responsible agency*: **FASU**.
- Conduct yearly comparative analysis of FOB values reported by SGS and repatriation of funds recorded by the commercial banks. *Responsible agency*: **BPNG**.

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<sup>47</sup> The corruption risk assessments can be self-conducted following the guidance from the UNODC practical guide "*State of Integrity: A guide on conducting corruption risk assessments in public organizations*". Available at <https://www.unodc.org/unodc/en/frontpage/2020/August/unodc-launches-state-of-integrity--a-guide-on-conducting-corruption-risk-assessments-in-public-organizations.html>

<sup>48</sup> Available at [https://www.fatf-gafi.org/media/fatf/documents/reports/Operational%20Issues\\_Financial%20investigations%20Guidance.pdf](https://www.fatf-gafi.org/media/fatf/documents/reports/Operational%20Issues_Financial%20investigations%20Guidance.pdf)

<sup>49</sup> Reiterate footnote 22 above.



- Full implementation of the requirements of the Foreign Exchange (FE) Notice n. 6 - Exports from Papua New Guinea in relation to onshore repatriation of proceeds from exports of logs. *Responsible agency: BPNG.* The **FASU** should include the requirement of FE Notice n. 6 - Exports from Papua New Guinea in its onsite AML/CFT inspections of financial institutions, given the risks for money laundering in the forestry sector.
- Establish risk analysis processes and increase inspections of imports and exports related to companies and individuals operating in the forest industry based on the results of such risk analysis processes. *Responsible agency: PNG Customs Service.*
- Increase the exchange of intelligence with Customs in strategic partner countries (China, India, Vietnam, Malaysia, Singapore). *Responsible agency: PNG Customs Service.*
- Increase the exchange of information on request for tax purposes with tax authorities in strategic countries (Singapore, Hong Kong, Malaysia, Australia, China). *Responsible agency: IRC.*
- Extension of *Operation Restorim Kaiva* to other provinces and enlargement of the taskforce to maximize the disruption of illegalities in the forestry sector. *Responsible agencies: 1) Immigration and Citizenship Service Authority; 2) Royal PNG Constabulary; 3) FASU; 4) IRC; 5) PNGFA.*
- Provision of access to updated data and information for the public regarding logging concessions. *Responsible agency: PNGFA.*
- Delivery of trainings on AML/CFT related to forestry for reporting entities and law enforcement agencies. *Responsible agency: FASU.*
- Establishment of internal policies for the handling and protection of the confidentiality of intelligence and requests for information shared within the framework of the Memorandum of Understanding (MoU) signed with FASU. *Responsible agency: PNGFA.*

For the PNGFA, these mitigation actions would be in combination with the reforms and initiatives already underway since this SRA, as outlined in pages 10 and 11.

### 8.1. Date of next Forestry Sector Risk Assessment

A comprehensive Forestry Sector Risk Assessment will be conducted commencing in 2027.



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## 9. GLOSSARY

**Criminal proceeds** refers to any property, money, or benefit – tangible or intangible, movable or immovable – wholly or partly derived or realized, directly or indirectly, from the commission of an offence and includes property into which such proceeds, wholly or partly, have been converted, transformed or intermingled, as well as income, capital or other economic gains derived or realised from that property since the offence.

**Discrepancies** refer to documented variations in log measurement and between the declared log shipment details such as the volume, species under a PNG Forest Authority (**PNGFA**) approved Price Endorsement and Export Permit Volume and the final verified shipment details at point of loading. These discrepancies or variations do not constitute illegality, irregularities or non-compliance or intentional concealment by exporters. Rather, they reflect operational and commercial adjustments that occur in the normal course of business including buyer driven on site selection of logs, species mis-identification or volume adjustments due to trimming, paper cut, damage, or removal and addition of logs. All these deviations are sorted in a transparent liaison between the Exporter, PNGFA and SGS.

**Export quotas** refers to the maximum volume of logs that can be exported by an exporter in a permit year. If a company does not realise the whole export quota for a particular permit year that volume can be carried over to the following permit year.

**Forest Clearing Authority (FCAs)** refers to clearing authorities granted under section 90 (B) (8) of the *Forestry Act 1991* for purposes of facilitating a large-scale conversion of forest to agricultural or other land use like roads. Under an FCA, after merchantable forests are cleared, the project proponent carries out the desired agricultural or economic activity on the land. The premise of an FCA is not for conventional log exports but for the facilitation of economic and agricultural activity on the land.<sup>50</sup>

**Forest Management Agreement (FMA)** means the agreement entered into in accordance with Division III.4 of the *Forestry Act 1991* signed between customary landowners and the PNGFA wherein the PNGFA obtains consent from the landowners to acquire their timber rights over their customary land for further utilisation.<sup>51</sup>

**Illegal Logging and Associated Trade** refers to timber harvested in contravention of the national laws and regulations of Papua New Guinea (the country in which they are harvested).

**Money laundering** is the process of hiding the illegal origin of money and making it appear to have come from legitimate sources. It usually happens in three stages: (1) Placement – putting the illegal money into the financial system, (2) Layering – moving it around through different transactions to hide

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<sup>50</sup> Refer to section 2 and sections 90A-90E of the *Forestry Act 1991*(as amended)

<sup>51</sup> Refer to sections 2 and 55-58 of the *Forestry Act 1991* (as amended)



its origin, and (3) Integration – bringing it back into the economy as “clean” money that looks legitimate. Money laundering is criminalised under Section 508B of PNG’s *Criminal Code*. Under the *Criminal Code*, money laundering is committed by a person who deals with property which the offender knows or reasonably ought to know to be “criminal property” (s.508A and s.508B Criminal Code), which includes the concealment, disguise, conversion, transfer, removal, bringing into PNG, receipt, acquisition, use or possession of property (s.508B(3)(a)–(j) Criminal Code). Concealment and disguise of property includes that of concealing and disguising the property’s nature, source, location, disposition, movement, ownership or any right thereto (s.508B(4) Criminal Code).

***Procedure for Exporting Logs*** refers to the Manual on Procedures for Exporting Logs published in 1996 which outlines the steps required by all exporters to obtain price approvals and Export Permits as well as the Log Export Monitoring and Control steps implemented by SGS (PNG) Ltd.

***Terrorist financing*** is providing or collecting property by any means, directly or indirectly, to finance terrorist activities, individual terrorists or terrorist organisations. Section 508J of the Criminal Code criminalises terrorist financing in PNG. Under the Criminal Code, it is prohibited to provide or collect property by any means, directly or indirectly, with the intention that the property should be used, or in the knowledge that it is to be used, in whole or in part: (a) in order to carry out a terrorist act; or (b) by a terrorist organisation (s.508J(1) Criminal Code). Section 508J(2) of the Criminal Code includes that a person who by any means, directly or indirectly, provides or collects property, with the intention that the property should be used, or in the knowledge that it is to be used, in whole or in part by a terrorist is guilty of an offence.

***Timber Authority (TA)*** means a timber authority granted under section 87 of the *Forestry Act* 1991 and includes an authority granted under the *Forestry Act* (Chapter 216) (repealed) and continued by virtue of Section 137.<sup>52</sup> The amount of timber to be harvested annually from under TAs does not exceed 5, 000 cubic metres and the timber is for domestic processing only. TAs are granted to allow for removal of trees on areas designated for agricultural or other land use which would result in clearance of less than 50 hectares of trees or if clearance is on areas designated for roads, the roadline must not exceed 12.5km outside the area covered by a Forest Management Agreement. TAs are also granted for the harvesting of other forest produce and for the harvesting of forest plantations.<sup>53</sup>

***Timber Rights Purchase Areas (TRPA)*** means an area of customary land over which the State has acquired the rights of felling, cutting, removing and disposing of timber under Section 8 of the *Forestry Act* (Chapter 216) (repealed).<sup>54</sup>

***Transfer pricing*** means the pricing of inter-company loans, or transfer of goods or services such that– (a) in respect of the Company receiving the loans, goods or services, the interest or other monies paid or payable by the Company for such loans, goods or services is higher than the value received by the Company; and (b) in respect of the Company providing the loans, goods or services, the interest or

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<sup>52</sup> Refer to section 2 of the *Forestry Act* 1991 (as amended)

<sup>53</sup> Refer to section 87 of the *Forestry Act* 1991 (as amended)

<sup>54</sup> Refer to section 2 of the *Forestry Act* 1991 (as amended). When the *Forestry Act* 1991 came into force, the old TRPAs were initially saved under Part X of the *Forestry Act* 1991 and then expired when their terms lapsed.



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other moneys received or receivable by the Company for such loans, goods or services is lower than the value received by the other party.<sup>55</sup>

***Proliferation financing*** is the act of providing funds or financial services which are used, whole or in part, for the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biochemical weapons and their means of delivery and related materials (including both technologies and dual-use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations.

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<sup>55</sup> Section 221 of the *Forestry Regulations* 1998