PREVENTING CORRUPTION AND REGULATORY FRAUD IN FISH AND FOREST MARKETS

Conference summary: Following the Proceeds of Environmental Crime: Fish, Forests and Filthy Lucre.
Centre for Transnational Crime Prevention, University of Wollongong, February 2010

Background
AusAID funded the ‘Following the Proceeds of Environmental Crime: Fish, Forests and Filthy Lucre’ international conference convened by agencies of the Australian Attorney-General’s Portfolio and the Centre for Transnational Crime Prevention at the University of Wollongong, Australia.
Conference participants included over one hundred fishing and forestry regulators and anti-money laundering practitioners from 23 Asia-Pacific economies, together with several universities and non-government organisations including the World Bank.
Conference presentations concentrated on the route that logs and fish took from the point of harvesting to retail distribution – pinpointing opportunities for corruption and fraud at each stage of production.

Impact on Development
The workshop highlighted the significant volumes of natural resources that are illegally harvested and their proceeds which are often laundered throughout international finance institutions. This not only fosters corruption and undermines environmental governance but it also results in billions of lost revenues for governments across the region.
The World Bank estimates that:
- more than $1 trillion is paid in bribes each year
- $10 billion per year is lost due to illegal logging
- The proceeds of corruption stolen from developing countries alone ranges from $20 billion to $40 billion per year
- 80 percent of timber harvested in countries like Cambodia, Papua New Guinea and Indonesia comes from illegal sources

Furthermore, Indonesia is estimated to have lost $2 billion in government revenues in 2006 due to illegal logging, corruption and mismanagement (Human Rights Watch 2009). The Human Rights Watch report further estimated that between 2003 and 2006, the annual revenue lost to corruption and mismanagement in the timber sector was equal to the entire health spending at national, provincial, and district levels combined.
The World Bank states that even a portion of recovered assets could provide much needed funding for social programs. Every $100 million recovered:
- Could fund full immunizations for 4 million children, or
- Provide water connections for some 250,000 households, or
- Fund treatment for over 600,000 people living with HIV/AIDS for a full year, or
- Fund 50 – 100 million drug treatments for malaria

Why is environmental crime important?
Conference participants noted the importance of using anti-money laundering and tainted asset recovery systems to prevent corruption and fraud in fish and forest markets, particularly due to:
• **Climate change:** deforestation is estimated to contribute **12–20% of annual greenhouse gas emissions** (Stern, 2007). Anti-money laundering systems may also be valuable in detecting corruption and regulatory fraud in carbon trading markets.

• **Food security:** global concern to prevent over-fishing. Almost **75% of coastal fisheries** in the Pacific region are not expected to meet forecasted food security needs (Hanich, 2010).

• **The global financial crisis:** Corruption and regulatory fraud substantially reduce government revenues. The **G20 has called for greater priority** in using anti-money laundering systems to prevent corruption and to recover stolen assets.

**Strategies to detect and disrupt corruption in fish and forest markets**

Two basic assumptions of the Fish, Forests and Filthy Lucre conference were that:

- there is potential for much **closer cooperation** anti-money laundering systems and the regulators of fishing and forestry markets – given their common interest in preventing and disrupting corruption and regulatory fraud
- fish and forest regulators could employ a powerful deterrent against high level organisers of illicit fish and forest markets by making **better use of asset tracing, restraint and forfeiture**

The conference concluded with a scenario-based exercise on practical cooperation between fish and forest regulators and officials responsible for anti-money laundering and asset restraint and forfeiture. Common strategies identified by country teams included:

- **Forming working groups** - including financial intelligence units, fish and forest regulators, law enforcement agencies, and consulting local NGOs
- **Risk assessment** – identifying risks for corruption and regulatory fraud, and financial intelligence techniques to monitor and manage such risks
- **Sharing intelligence** – between regulators, financial intelligence units, banks, and law enforcement
- **Improving private sector engagement** – (i) provide intelligence briefing for bank AML staff, particularly red flag indicators of forest and fisheries corruption and fraud, and (ii) provide guidance on customer due diligence and ongoing monitoring of politically exposed persons associated with fish or forest industries
- **Greater use of asset restraint and forfeiture** – noting its strong deterrent value, particularly as penalties for fish and forest crimes are sometimes relatively weak.

**Potential products to facilitate cooperation against illicit markets in fish and forest products**

There may be value in a good practice guide, potentially covering:

- A model Memorandum of Understanding (MOU) to facilitate cooperation between fish and forest regulators, anti-money laundering systems, and law enforcement agencies
- Intelligence sharing and typology development
- Cooperation with the private financial sector and NGOs
- Development of guidelines for banks – including ‘red flag’ indicators of fish or forest corruption and potential PEPs associated with these industries, drawing on risk assessment results
- Local and transnational cooperation to investigate and dismantle illicit networks
- The importance of asset restraint, asset management, and confiscation
- Environmental crimes as predicate offences for money laundering.

**Conference papers will be available shortly on the website of the Centre for Transnational Crime Prevention at the University of Wollongong.**