



EXECUTIVE SUMMARY

# THE MONEY BEHIND THE CHAINSaws

HOW COMMERCIAL BANKS  
SUPPORT DESTRUCTIVE LOGGING  
IN PAPUA NEW GUINEA



## EXECUTIVE SUMMARY

The forests of Papua New Guinea, which cover more than 70% of the country, sustain the lives and livelihoods of millions of people and are home to a staggering range of animal and plant species. Their role in rainfall patterns and carbon storage means they are of global importance, including in the fight against climate change. But efforts to curb deforestation are being hampered by a consistent flow of international financing that helps to fuel destructive logging industries.

This report looks at the role that commercial banks in Papua New Guinea (PNG), including PNG-based banks and subsidiaries of Australian banks, are playing in this picture.

Over the past 20 years, the forests of PNG have been the site of a resource grab on a massive scale that has seen billions of dollars' worth of valuable tropical hardwood logs shipped out of the country, with minimal returns.

This report explores how PNG's four commercial banks have facilitated, and in some cases are still facilitating, this resource grab by providing credit, guarantees and transactional banking services to the logging companies.

### Logging in PNG

PNG's forests have been under threat for decades as a result of a logging boom that has seen the country become the world's largest exporter of tropical round logs. Between 1972 and 2014, PNG lost 9 million hectares of primary rainforest— an area approximately the size of Portugal. While some of this forest loss has been due to agriculture, roads and housing, logging is a significant contributor, responsible for 81% of forest loss between 2002 and 2014.

According to export data, five log exporting companies, each with links to overseas corporate groups, were responsible for over half of all round log exports from PNG in the last decade: Rimbunan Hijau (PNG) Limited, Cakara Alam (PNG) Limited, WTK Realty Limited, Vaimo Jaya Limited and KK Connections Limited.

The tropical logging industry in PNG is not just a threat to biodiversity, livelihoods and carbon stocks – it has also been implicated in illegality and human rights abuses. While almost all logging in PNG is licenced in some way, there are frequent breaches of the law in the granting of permits and permit extensions, and in the course of companies' logging operations.

Legal and human rights concerns that have been raised in government inquiries, academic literature, court decisions and non-government investigations in relation to PNG's logging sector include:

- Logging without the free, prior and informed consent of customary landowners, which is required by law;
- Illegal issuing, extension and use of licences and permits, including over-logging, logging in prohibited areas and unsustainable logging;
- Transfer mispricing and tax avoidance by logging companies;
- Bribery of officials;
- Co-opting police as private security; and
- Cultural harms and violence against women.

For these reasons, all of PNG's tropical hardwood timber exports should be considered at risk of being derived from illegal logging.

### Commercial banks' role in supporting logging

There are four commercial banks that operate in PNG – Bank of South Pacific (BSP), Kina Securities Limited (which trades as Kina Bank), ANZ PNG and Westpac PNG. ANZ PNG and Westpac PNG are subsidiaries of Australian banks, while BSP and Kina Bank are headquartered in PNG.

PNG's banking system plays an important role in enabling its logging industry to continue to operate by providing credit facilities (such as loans and lines of credit), transactional banking services (such as bank accounts) and bank guarantees.

Bank charges and financial statements available through PNG's online company filings reveal that PNG's commercial banks have provided **at least K300 million (AU\$144 million)** in available credit to the top five log exporting companies since 2000. Because nearly two-thirds of the registered financing transactions are for an unspecified amount, and the top five exporters only account for 52% of total log exports, the total credit made available to the whole logging industry could reasonably be more than three times this amount.

Currently, PNG's largest bank, BSP, is providing credit of up to **K64.77 million (AU\$26.55 million)** to seven companies in the Rimbunan Hijau group. Some of these credit facilities are not due to expire until 2051.

Historically, all four banks have provided credit facilities to the five major logging companies:

- BSP has historically provided credit to WTK Realty and Cakara Alam.
- Kina Bank appears to have had an open line of credit with Rimbunan Hijau Timber Processing from 2018 until October this year, and it (or banks it acquired) have previous financing links with WTK Realty and Cakara Alam.
- ANZ PNG historically provided credit to WTK Realty and Rimbunan Hijau, while Westpac had open lines of credit with WTK Realty up until at least 2000.
- Non-bank lender Heduru Moni has also provided Rimbunan Hijau, KK Connections and related companies with an estimated **K13 million (AUD\$4.9 million)** in vehicle financing as well as one credit facility secured by land.

This financing came over the period in which unsustainable logging decimated PNG's forests. Over this period, multiple government and non-government reviews pointed to high risks of illegal logging and human rights abuses in the industry. But banks continued to offer support to the industry for years.

In 2021, Act Now! and Jubilee Australia wrote to PNG's four commercial banks and to non-bank lender Heduru Moni to ask about their banking services to the logging sector.

The responses of BSP and Kina Bank were a major cause for concern. BSP advised that all logging activities including production or trade in wood and other wood products sourced from unsustainably managed forest are considered excluded activities, but did not deny having a financing relationship with Rimbunan Hijau, which suggests a gap between rhetoric and reality. Kina Bank has advised it has no financing relationship with Rimbunan Hijau but has not ruled out other banking relationships with that company, or with other companies involved in the logging industry. Heduru Moni did not respond.

Westpac PNG indicated that it had ceased, or started closure activity, for any banking relationship (including transaction services) with entities involved in the logging/timber industry who do not meet Forest Stewardship Council (FSC) or Programme for the Endorsement of Forest Certification (PEFC) standards. ANZ PNG also indicated it had reviewed its exposure to the sector and now only has a banking relationship with one customer involved in logging, which holds FSC certification.

### A “significant money laundering threat”

The logging sector clearly poses an environmental, social and governance (ESG) risk for PNG's four banks and the financial institutions that are connected to them. It also poses a significant risk for banks' compliance with anti-money laundering (AML) regulations.

Money laundering occurs where property generated through criminal activities, including illegal resource extraction and tax evasion, is disguised or cleaned in order to be incorporated into the legal economy – including where money is passed through the banking system.

Laws place a responsibility on banks, lawyers, accountants, and corporate service providers to monitor these risks, apply appropriate levels of due diligence, identify suspicious activity and report it. Failure to comply with AML requirements can result in disciplinary measures, or even criminal prosecution.

In 2017, a Bank of PNG *National Risk Assessment* concluded that illegal logging poses a significant money laundering threat. The assessment argued that “there are strong indicators of large-scale corruption and illegal logging in the forestry sector in PNG, which result in high levels of

proceeds of crime”, and that “it is widely accepted that the problem is widespread and the lost revenue is extensive”.

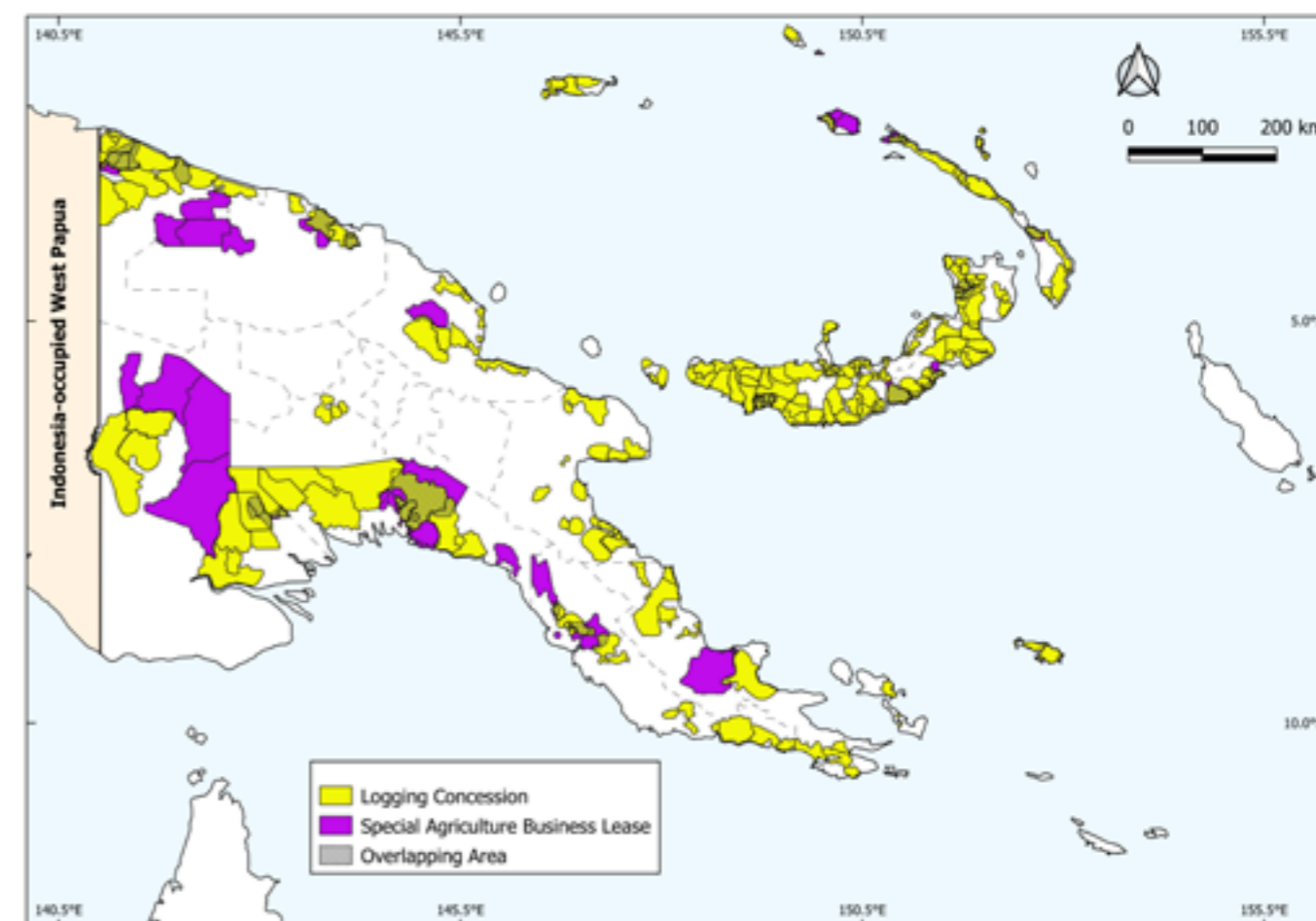
### The need for stronger policies and swifter action

Each of the commercial banks operating in PNG has policies to address ESG and human rights issues, as well as AML risks – although we were not able to obtain all these policies for review. Some of these policies appear to be driving change in the way banks engage with logging companies. In other cases, these policies have clearly been insufficient. A lack of robust policies leaves banks at risk and is also a risk for their investors – including Australian custodian firms, PNG superannuation funds, the Asian Development Bank and the International Finance Corporation.

While Westpac and ANZ have taken positive steps to move away from the logging sector, continued due diligence is vital, including scrutinising banking relationships with companies in the same corporate family as the logging companies. History shows that it has taken the major banks too long to exit relationships with logging companies, with financing flowing to logging operations (and banks pocketing the revenue from those transactions) after local communities, government-funded reviews and NGOs had raised significant concerns.

For BSP and Kina Bank, the way forward is clear: to avoid complicity in human rights abuses, and the potential risk of handling proceeds of crime, these banks need to stop financing the logging industry. It is essential that both banks immediately cut all ties—including transactional banking relationships— with companies involved in large-scale tropical forest logging and rule out future financing to the sector.

Figure 1 – Location of logging concessions in PNG



### RECOMMENDATIONS FOR COMMERCIAL BANKS

1. End all banking services to companies involved in large-scale tropical forest logging. This includes provision of loans, guarantees, transactional banking and any other banking or financing relationships.
2. Publish information on current banking relationships with PNG's logging sector and what steps they are taking to exit relationships with companies linked to illegal logging, to ensure transparency and accountability.
3. Develop, and publicly release, policies detailing how due diligence and screening of logging companies will be undertaken to ensure that companies do not use the PNG banking system to facilitate illegal activity. Policies should cover information sharing between branches of banks and with correspondent banks, to tackle the multinational reach of illegal logging.
4. Commit to providing redress and remedy to communities affected by logging operations, where the banks have caused, contributed to, or been directly or indirectly linked to human rights abuses through their business relationships.

### RECOMMENDATIONS FOR THE PNG FORESTRY AUTHORITY (PNGFA)

1. Immediately implement the recommendations of the 2017 Anti-Money Laundering and Counter Terrorism Financing National Risk Assessment and accompanying Strategic Plan, including:
  - a. Conducting a risk assessment to identify key vulnerabilities in the registration and compliance of logging companies
  - b. Establishing a strategy for mitigating the most serious risks, and
  - c. Demonstrating progress in conducting compliance activities and undertaking enforcement action.
2. Work cooperatively to support the work of FASU and the Internal Revenue Commission to investigate money laundering threats and other illegal activity associated with the logging sector.

### RECOMMENDATIONS FOR FINANCIAL ANALYSIS AND SUPERVISION UNIT (FASU) AND THE INTERNAL REVENUE COMMISSION (IRC)

1. Continue to investigate potential money laundering threats and other illegal activity associated with PNG's commercial banks and the logging sector.
2. Make the findings of these audits publicly available.
3. Take appropriate enforcement action to penalise commercial banks and logging companies when legal breaches are identified.



For decades there has been overwhelming evidence of widespread illegalities in the logging sector in PNG. It is completely unacceptable that high street banks should be facilitating and profiting from the destruction of vital tropical forest resources.

**EDDIE TANAGO**

CAMPAIGN MANAGER, ACT NOW!

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