



THE MONEY BEHIND THE CHAINSAWS

HOW COMMERCIAL BANKS
SUPPORT DESTRUCTIVE LOGGING
IN PAPUA NEW GUINEA



ABOUT THIS REPORT

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Cover image: Logging truck in Vanimo © Hemis, Alamy Stock Photo

Act Now!

ACT NOW! is a community advocacy organisation based in Papua New Guinea. Its vision is for a 'gutpela sindaun blong olgeta' (a just and equitable society) that embraces PNG's rich and diverse cultural and biological heritage and is based on the principles of sharing, communal land ownership and environmental stewardship.

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Round log stockpile © Wagner T Cassimiro "Aranha"



Palm oil nursery in West Pomio © Paul Hilton, Greenpeace

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TABLE OF ABBREVIATIONS

AML	Anti-money laundering
ANCP	Australian National Contact Point
BSP	Bank of South Pacific
CTF	Counter Terrorism Financing
ESG	Environmental, social and governance
ESRM	Environmental and Social Risk Management
FASU	Financial Analysis and Supervision Unit
FSC	Forest Stewardship Council
ICRAF	Individual and Community Rights Advocacy Forum Inc
IFC	International Finance Corporation
IPA	Investment Promotion Authority
IRC	Internal Revenue Commission
NAB	National Australia Bank
OCBC Bank	Overseas Chinese Banking Corporation
PEFC	Program for the Endorsement of Forest Certification
PNG	Papua New Guinea
PNGFA	Papua New Guinea Forest Authority
PPSR	Personal Property Securities Register
SABL	Special Agricultural and Business Lease
WGTC	Wawoi Guavi Timber Co. Limited

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, Vanimo 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".¹

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.



RECOMMENDATIONS FOR COMMERCIAL BANKS

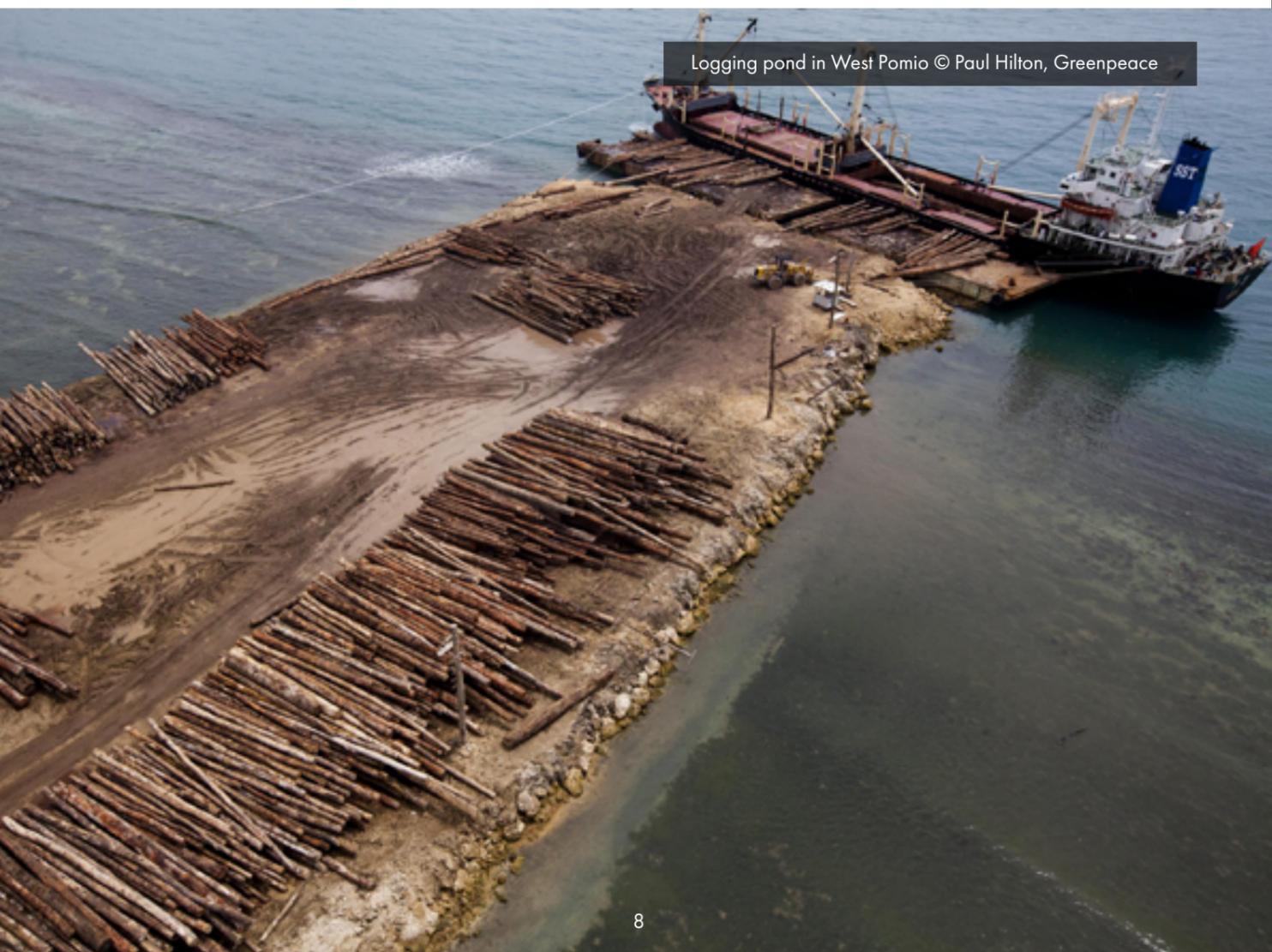
1. End all banking services to companies involved in large-scale tropical forest logging. This includes provision of loans, guarantees, transactional banking and any other banking or financing relationships.
2. Publish information on current banking relationships with PNG's logging sector and what steps 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.



Logging pond in West Pomio © Paul Hilton, Greenpeace

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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!

1. INTRODUCTION: THE THEFT OF ONE OF THE WORLD'S GREAT RAINFORESTS

The forests of Papua New Guinea, which cover more than 70% of PNG's land area, sustain the lives and livelihoods of millions of people and are home to a staggering range of animal and plant species. The forests also sustain complex ecosystems – from the soil, to the watershed to the reef.²

Their importance is global. The forests of PNG contribute to the region's high rainfall, and deforestation in PNG has the potential to impact local and regional weather patterns - and the global climate.³ Reducing deforestation is an essential component of the global plan to address climate change. Healthy forests absorb carbon dioxide, while around 10%

of global carbon emissions are caused by deforestation.⁴ It was estimated in 2004 that PNG's forests had capacity to store the equivalent of nearly 1.5 times the entire emissions from fossil-fuel power stations worldwide.⁵

But global efforts to curb deforestation are being hampered by a consistent flow of international financing that helps to fuel destructive logging industries. Globally, between 2013 and 2019, more than 300 banks and investors provided US\$44 billion in financing to agribusiness companies responsible for the destruction of rainforests.⁶

This report looks at the role that commercial banks in Papua New Guinea (PNG) are playing in this picture, and how they have helped to facilitate a massive timber resource grab that risks undermining both national and global climate goals.

Figure 1 - Location of logging concessions in PNG

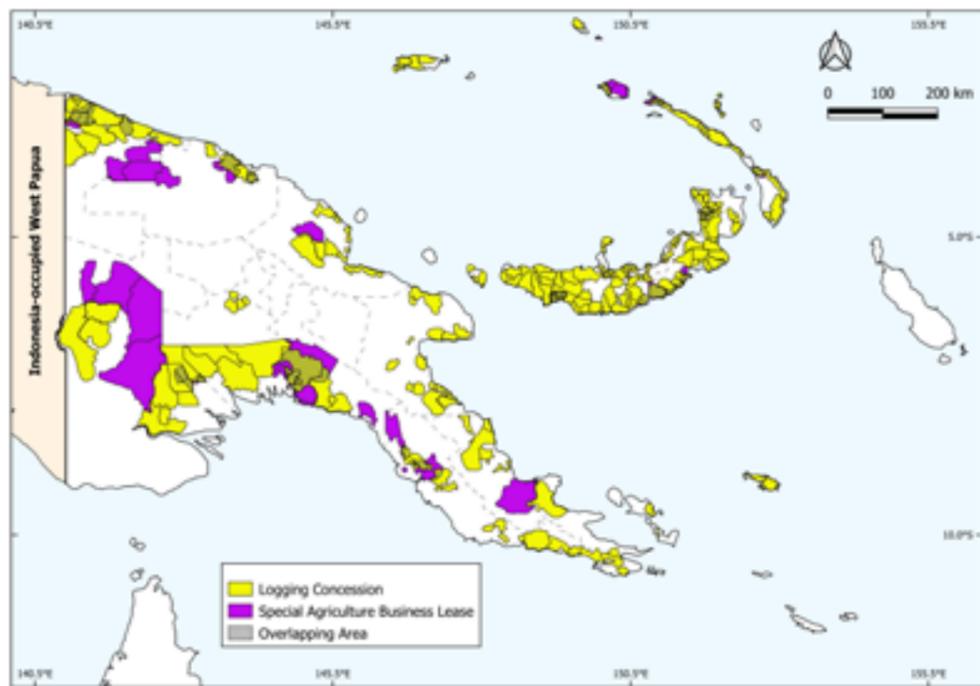
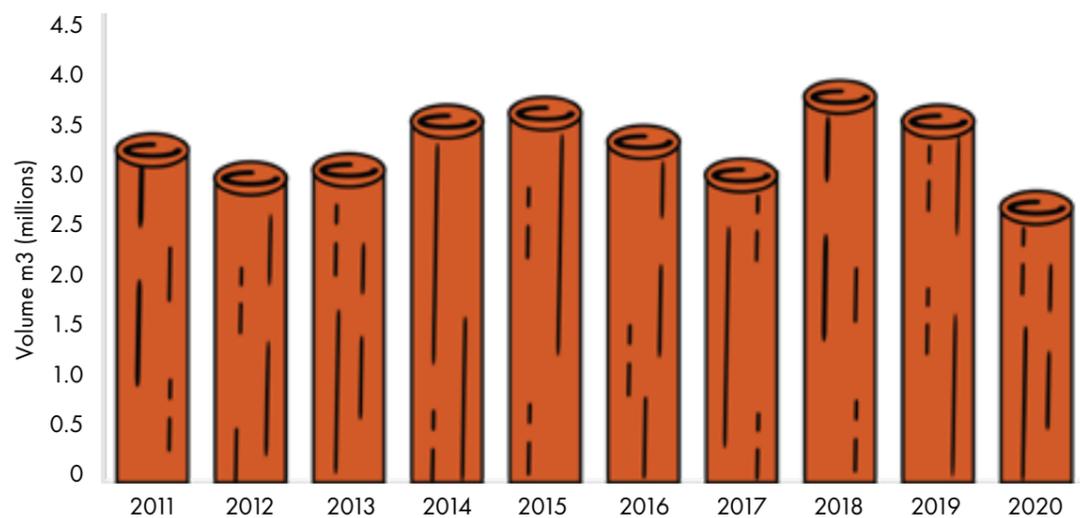
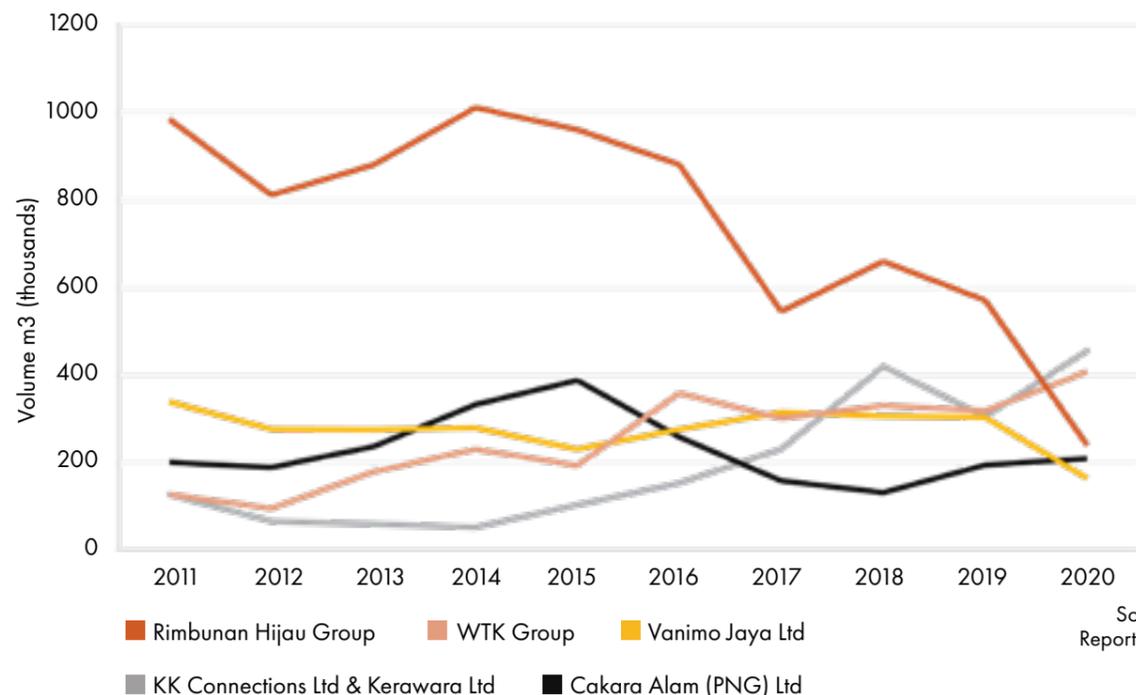


Figure 2 - Log export volumes by year (m³)



Source: Log Export Reports, SGS, 2011-20

Figure 3 - Top five log exporters by volume



Source: Log Export Reports, SGS, 2011-20

1.1 PNG's destructive logging boom

Despite the obvious and vital importance of PNG's forests, they have nevertheless been under threat from a decades-long logging boom that has seen the country become the

world's largest exporter of tropical round logs.⁷ This logging boom has seen billions of dollars' worth of unprocessed round logs sent out of the country with minimal returns, while damaging vitally important forest resources. Between 1972 and 2014, PNG lost 9 million hectares of primary rainforest – an area approximately the size of Portugal.⁸ This forest loss includes areas where the land has been completely cleared and areas where primary rainforest has been degraded through selective logging operations.

While some of this forest loss has been due to agriculture, roads and housing, logging is a significant contributor, responsible for close to half of the forest loss from 1972 to 2002. From 2002-2014, while the overall rate of forest loss slowed, logging was a greater contributor: responsible for 81% of forest loss over this time.⁹ PNG's logging concessions cover a vast area of the country – in 2014 there were 298 current or proposed logging concessions covering 14.9 million hectares of rainforest.¹⁰ Most concessions are leased and operated by foreign companies – primarily from Malaysia.

Most of the timber harvested from these logging operations is shipped out of the country as unprocessed round logs, nearly 90% of which go to China.¹¹ Over the last decade, round log exports reached record highs. Between 2011 and 2020, PNG exported an average of 3.52 million cubic metres of logs each year, a 35% increase from the preceding decade.¹² The log export volumes reached their peak in 2018 with 4.04 million cubic metres of logs exported in that year alone. This is enough logs to fill more than 122,000 shipping containers – or to fill the Melbourne Cricket Ground 2.5 times over.

Log export volumes peaked in 2018 at 4.04 million m³/year - enough logs to fill more than 122,000 shipping containers - or to fill the Melbourne Cricket Ground 2.5 times over

Exporting the bulk of its timber as unprocessed round logs means that PNG derives less economic benefit from its timber resources than if the logs were processed domestically and exported as sawn timber, ply, veneer or wood products like furniture. While other countries in the region have put in place various kinds of log export bans – including Indonesia, Thailand, the Philippines, Lao PDR, and Cambodia, PNG has expanded its exports.¹³ First mooted in the 1990s, PNG's leaders have repeatedly expressed an intention to ban round log exports but changes have failed to materialise. The current target for log exports to cease is 2025.¹⁴ Shifting PNG's forest industry from round log exports to a smaller but higher-value industry would go some way towards reducing overall logging rates.

Further exacerbating the economic losses, customary landowners receive only a fraction of the benefits of the logs felled on their land - an average of US\$6 per m³ or around 6% of total log export revenues.¹⁵ In many cases, the impact is doubly felt, as logging operations often damage the forest resources and waterways that customary landowners rely on for food and income.

In 2020, there were 43 companies, some with multiple subsidiaries or related parties, exporting tropical logs from PNG.¹⁶ Over the past decade, over half of all log exports have come from operations linked to five companies: Rimbunan Hijau (PNG) Limited, Cakara Alam (PNG) Limited, WTK Realty Limited, Vanimo Jaya Limited and KK Connections Limited.¹⁷ For several of those corporate groups, logging operations first began in Sarawak, Malaysia before expanding into the Pacific following the depletion of forest resources in Borneo.¹⁸ Ironically, Sarawak now has restrictions on log exports.¹⁹

1.2 Illegality in PNG's logging industry

The logging industry in PNG is associated with widespread illegality and human rights abuses, in turn threatening biodiversity, livelihoods and carbon stocks. While almost all logging in PNG is licenced in some way, there are frequent breaches of the law in the granting and extension of logging permits and licences, and the way logging operations are conducted. For this reason, all of PNG's tropical forest log and timber exports should be considered at risk of resulting from illegal logging.

Illegal issuing, extension and use of licences and permits

While PNG's forestry laws and regulations are detailed and relatively strong, implementation is weak and breaches of the law are common, including:

- licences granted without permission of customary landowners as required by law (see below);
- licences being issued, extended or renewed in contravention of laws and statutory processes;²⁰
- misuse of Forest Clearance Authorities for logging rather than agricultural projects;²¹
- logging companies breaching contractual obligations (such as commitments to build roads, schools, hospitals or wood processing facilities);²²
- breaches of harvesting regulations, logging in prohibited areas and buffer zones around waterways;²³ and
- exporting log volumes in excess of those permitted to be logged.²⁴

A synthesis report by Forest Trends in 2006 concluded that, while virtually all timber harvested from natural forests is done under a licence, widespread non-compliance with legal requirements meant "the majority of forestry operations cannot credibly be characterised as complying with national laws and regulations and are therefore 'unlawful'".²⁵ A Chatham House study in 2014 also concluded that "the majority of timber production in PNG

is illegal in some way".²⁶

Logging concessions are also frequently granted without landowner consent in breach of PNG and international law. 97% of PNG's land area is under customary ownership, and PNG law requires the consent of landowners for logging undertaken on customary land.²⁷ Papua New Guinea should be rightly proud of this legal framework that recognises the importance of customary land. International law also recognises the rights of Indigenous peoples to give their Free, Prior and Informed consent to development that affects their land. Despite this, government reviews in 2001 - 2004 found that in general, logging operations were going ahead without this consent.²⁸ Research conducted since that time has also repeatedly found instances of logging operations taking place without informed consent from landowners.²⁹ Several court cases have found logging agreements to lack genuine landowner consent.³⁰ In particular, a government Commission of Inquiry found 90% of Special Agricultural and Business Leases it examined did not have genuine landowner consent (see box, next page).

Tax evasion and avoidance

In 2021, PNG's Internal Revenue Commissioner announced that 20 logging companies were being audited by the tax office, with more expected to be added to the list. The announcement called the logging industry "one of the most delinquent sectors insofar as tax compliance is concerned" and indicated preliminary observations revealed "an entrenched level of tax evasion" and "egregious incidents of transfer pricing and under-declaration of income".³¹

This follows on from research by the Oakland Institute in 2016 that found that most logging companies in PNG appear to declare little to no profit from the export of tropical logs and generally do not pay the 30% income tax on profit required by national laws. The declared export price for PNG tropical logs is significantly lower than other tropical log exporting countries, and goods and services are often purchased from sister companies, creating a real opportunity for transfer mispricing. The report alleged that this tax evasion and financial misreporting in the sector had cost PNG more than US\$100 million per year.³²

After the publication of that report, the PNG government announced an agreement with the Organisation for Economic Cooperation and Development (OECD) to send auditors PNG under its Tax Inspectors Without Borders program, to work with officials from the Finance Department and Internal Revenue Commission with a focus on natural resource extraction industries.³³

Bribery and corruption

The 2013 SABL Commission of Inquiry described a range of allegations of corruption relating to logging and agriculture, implicating members of Parliament and government bureaucrats involved in the permit-granting process. It found evidence of corruption, mismanagement and lack of coordination in the departments of Lands and Physical Planning, Environment and Conservation, Agriculture and Livestock, Provincial Affairs and Local Level Government, Investment Promotion Authority, and the PNG Forest Authority.³⁴ This confirmed an industry culture of corruption that was documented as far back as the Barnett Commission of Inquiry of 1989.³⁵

...landowner companies, developers and people with vested interests have hijacked the SABL process to suit their own ends. Greed and corruption at all levels; political, government bureaucracy, landowner agents /representatives, and developers have tainted a noble landowner empowerment initiative.

Chief Commissioner John Numapo³⁶

The Special Agricultural and Business Lease scandal

PNG's Special Agricultural and Business Lease (SABL) scheme was designed to facilitate small-scale agricultural development on customary land. The scheme allowed customary landowners to lease a small part of their land to the State, who would then lease it back to a nominated person or group of their choosing. This, in theory, would give customary landowners a legal title they could use to enter into agricultural projects. In practice, the leases were issued over large tracts of customary land and more than two thirds were subleased directly to private companies for 99 years leaving no residual rights for landowners.⁴⁵ The companies were then able to obtain a Forest Clearance Authority to clear forest land ostensibly under the guise of planting oil palm or other crops. The scheme saw more than 12% of PNG's total land area – more than 5 million hectares – pass out of the hands of customary owners and into the control of foreign enterprises, often the PNG-based subsidiaries of Malaysian logging and oil palm companies.⁴⁶

Following widespread reports of abuses of the SABL scheme, in 2011, the Government of PNG appointed a Commission of Inquiry to investigate it. Two of the three Commissioners issued final reports in 2013, covering 42 SABLs (the third Commissioner never submitted a report). The Commissioners found that 38 of the 42 SABLs demonstrated a lack of landowner consent. They found numerous instances of landowner consent being fraudulently obtained through misrepresentation, resulting in SABL leases issued directly to foreign companies with landowners in the dark about the legal owners of their customary land.⁴⁷ They documented a system captured by the foreign enterprises who paid for almost every stage of the process, resulting in leases with no genuine consent, incorrect land boundaries and benefit-sharing agreements that left landowners out in the cold.⁴⁸ Despite commitments from the then Prime Minister of PNG to cancel the leases, timber is still being exported from SABL areas.⁴⁹

With corrupt government officials from implementing agencies riding shotgun for them, opportunistic loggers masquerading as agro-forestry developers are prowling our countryside, scoping opportunities to take advantage of gullible landowners and desperate for cash clan leaders.

Commissioner Numapo, SABL Commission of Inquiry Final Report⁵⁰

A ship waiting to load logs in Turubu Bay, East Sepik © The Oakland Institute

2. THE IMPORTANCE OF COMMERCIAL BANKS IN PNG TO THE OPERATION OF THE LOGGING SECTOR

2.1 The PNG banking system

There are four commercial banks that operate in PNG – Bank of South Pacific (BSP), Kina Securities Limited (which trades as Kina Bank), ANZ Banking Group and Westpac PNG. BSP is the largest of these, with 44 branches and a 71% market share of deposits.⁵¹ Kina Bank and Westpac PNG offer banking services to individuals and corporates, while ANZ only offers corporate and institutional banking.⁵² PNG also has 13 smaller non-bank licenced financial institutions. PNG's central bank, the Bank of Papua New Guinea, is responsible for regulating and supervising all banks and financial service providers in PNG.⁵³

Historically, PNG's banking system was dominated by Australian banks, reflecting Australia's colonial presence. Each of Australia's "Big Four" were present in PNG before the country's independence in 1975. The Commonwealth Bank of Australia, then an Australian government-owned bank, was the first to leave PNG with the Bank of PNG taking over its assets in 1974.⁵⁴ National Australia Bank (NAB) sold its interests in 1993 to a local consortium, leading to the formation of Bank of South Pacific. ANZ and Westpac continue to have a presence in PNG.

2.2 The role commercial banks play in supporting logging

The export of PNG's tropical logs is a global business. The vast majority of buyers of PNG's logs are in China, while many of the largest log exporters are linked back to corporate networks in Malaysia.⁵⁵ While the financing structures behind PNG's logging companies are opaque and difficult to trace, it seems likely that some of the money made from the sale of PNG's logs will be banked and spent overseas, although some may be returned to PNG to fund logging operations (eg: salaries, equipment, fuel etc) and other investments. Previous investigations have also identified international financing flowing to corporate groups active in logging in PNG.⁵⁶ The commercial banks in PNG are therefore likely to represent only part of the overall picture when it comes to the financing of logging in PNG.

However, there are clear indications that the banking system in PNG plays several important roles in contributing to the continuation of its logging sector. In particular, there appear to be three main kinds of services for which logging companies in PNG are likely to rely on local commercial banks: financing (such as loans and credit), provision of bank guarantees, and transactional banking services (ie: bank accounts). Much of this report focuses on the first of these—the provision of finance—as this was the service for which there is the most publicly available data. Nevertheless, all three are potentially important.

Financing and credit

There is ample evidence of PNG's banks providing financing, in the form of lines of credit, to logging companies over the last two decades. A line of credit allows a company to borrow money up to a maximum amount as needed over a period of time. This credit is often secured

by the company giving the bank a charge over property or assets. In PNG, charges given by a company to secure credit are reported in company filings with the Investment Promotion Authority (IPA). Before 2016, companies were required to lodge charges with the IPA and report on any amounts owing against these lines of credit in their annual reporting. Since 2016, companies have registered charges on the Personal Property Securities Register (PPSR).⁵⁷

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.

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Historically, all four banks have provided credit facilities to major logging companies over the last 20 years:

- 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 Rimbunan Hijau, 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 and subsidiaries until at least 2000.

Annual reports show that the logging companies were drawing on these credit facilities from time to time, suggesting that this money was being used in companies' logging operations. However, the documentation available gives little information about what exactly the banks were providing credit for or how the companies were using it.

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.⁵⁸ But banks continued to offer support to the industry for years.

On top of this, since the PPSR became active in 2016 it has become clear that PNG's logging companies are making use of PNG's non-bank lending sector, with Heduru Moni and First Investment Finance providing loans secured by vehicles to multiple logging companies. Logging equipment company Hastings Deering also holds multiple charges over vehicles from Kerawara Limited, Cakara Alam (PNG) Limited, WTK Realty Limited and related companies.

Bank guarantees and transactional banking

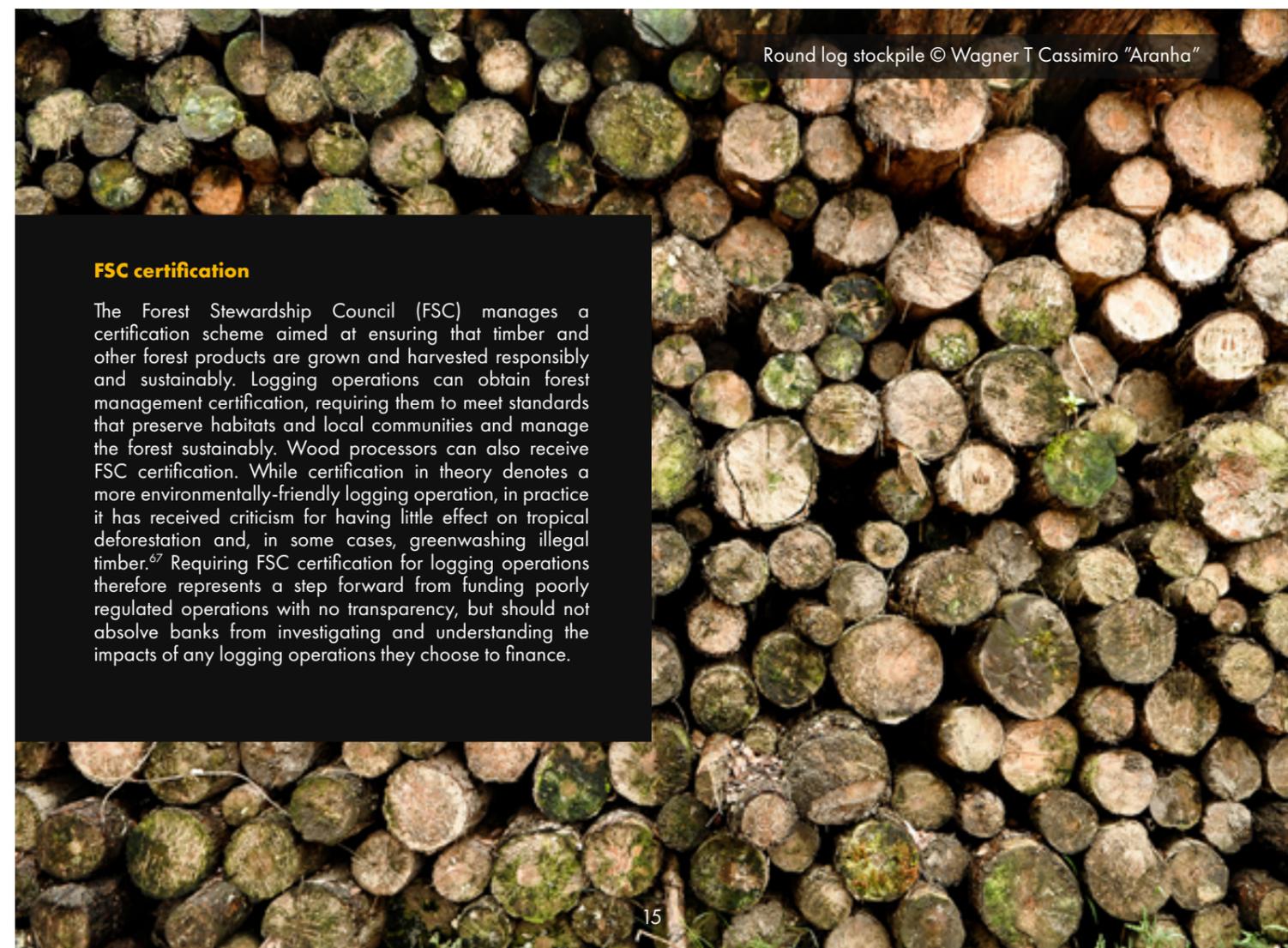
PNG's commercial banks are also likely to be involved in providing bank guarantees, as logging companies require these in order to obtain a logging permit. The *Forestry Act 1991* requires a company applying for a logging licence or permit to provide a performance bond that the PNG Forest Authority (PNGFA) can draw upon if the company fails to comply with the conditions of its licence.⁵⁹ That

performance bond can be either an open-ended bank guarantee with an approved commercial bank, or a cash deposit in the account of a commercial bank in PNG.⁶⁰ A review of PNG's logging sector by a government-sponsored Review Team in 2003-4 found that, at that time, it was industry practice to arrange the performance bonds in the form of a bank guarantee with a one-year term that the PNGFA could draw on. However, while all companies had lodged a performance bond at the time their permit was issued, over time fewer and fewer companies had arranged for renewal of these bonds. At the time of the review, there were no current performance bonds in place for any logging operations – all had expired.⁶¹ While some company filings with PNG's Investment Promotion Authority (IPA) from 2001-2012 mention that the company has given a bank guarantee to the PNGFA, we have not been able to verify whether each of the logging companies discussed in this report has provided a current bank guarantee to the PNGFA and which banks have acted as guarantors.⁶²

While harder to track, some of PNG's commercial banks are also likely to be providing transaction accounts and daily banking services to logging companies. Information about transaction accounts is generally not available, but without such accounts it would be challenging for logging companies to operate in the PNG economy. In particular, the Rimbunan Hijau group has a vast network of commercial interests across PNG – from supermarkets, to media, to real estate and hospitality. The company presumably relies on transactional banking services to move money between arms of its operation, manage payroll and other transfers and make retail sales. These services are likely being provided by one or more of PNG's commercial banks.

Act Now! and Jubilee Australia wrote to PNG's four commercial banks to ask about their banking services to the logging sector. Westpac 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 FSC or PEFC standards.⁶³ ANZ 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.⁶⁴ BSP advised it had no facilities due or owing to several specific companies named in this report, but did not confirm whether or not it provides financing or other banking services to the sector more broadly (although see its policies in section 3.2 below).⁶⁵ Kina Bank advised it does not provide financing to Rimbunan Hijau and does not fulfil the role of security agent, but did not confirm whether it provides transactional banking services to the company or whether it provides banking services of any kind to the other logging companies named in this report.⁶⁶

The sections of this report below discuss each bank's connection to the logging sector, based on the evidence available, with a focus on credit financing. There are several limitations to this data, discussed in more detail in Annex A, including incomplete information about charges, failures to update filings when credit facilities have closed and the complexity of some of the instruments. Customer confidentiality and an overall lack of transparency in the banking system (as in other banking systems globally) means that the information below is likely to be incomplete as it is based on publicly available records.



Round log stockpile © Wagner T Cassimiro "Aranha"

FSC certification

The Forest Stewardship Council (FSC) manages a certification scheme aimed at ensuring that timber and other forest products are grown and harvested responsibly and sustainably. Logging operations can obtain forest management certification, requiring them to meet standards that preserve habitats and local communities and manage the forest sustainably. Wood processors can also receive FSC certification. While certification in theory denotes a more environmentally-friendly logging operation, in practice it has received criticism for having little effect on tropical deforestation and, in some cases, greenwashing illegal timber.⁶⁷ Requiring FSC certification for logging operations therefore represents a step forward from funding poorly regulated operations with no transparency, but should not absolve banks from investigating and understanding the impacts of any logging operations they choose to finance.

3. BANK OF SOUTH PACIFIC

BSP was formed in 1993 as PNG's first locally owned private bank, taking on some of NAB's assets. It later purchased a significant portion of the PNG Banking Corporation, giving it a large network of branches across the country.⁶⁸ It has made a number of other acquisitions, including acquiring Westpac's business in Cook Islands, Solomon Islands, Samoa, Tonga and Vanuatu in 2015 and 2016. BSP also has a presence in Laos, Cambodia and Fiji.⁶⁹ As a bank headquartered in the Pacific, BSP heralds its 'Melanesian uniqueness' and commitment to the Pacific region. This makes it well placed to understand the importance of protecting customary land and resources to PNG's self-determination and economic wellbeing.

BSP's largest shareholders are also Pacific-based. This includes PNG state-owned entities Kumul Consolidated Holdings, the holding company for nine PNG state-owned enterprises, and Petroleum Resources Kutubu Limited, which holds the government and landowner interests in the Kutubu Petroleum Project. Two of PNG's largest superannuation funds -Nambawan Super and NASFUND are major shareholders as well as Fiji National Provident Fund, Fiji's largest financial institution.⁷⁰

As at December 2020, the International Finance Corporation, an arm of the World Bank Group, also held a small but significant shareholding (0.9%) in BSP.⁷¹

BSP listed on the Australian Stock Exchange in May 2021, but to date has maintained primarily PNG and Fiji based shareholders. Since it listed it has been subject to regulatory action by the Bank of PNG's Financial Analysis and Supervision Unit (FASU) in relation to what FASU defined as failures of its Anti Money Laundering/Counter Terrorist Financing (AML/CTF) program (see below).⁷²

BSP has correspondent banking relationships with NAB and Commonwealth Bank, allowing clients to more easily transfer funds between PNG and Australia using the Australian banks as a portal.⁷³ This signals that any risks arising from BSP's provision of services linked to illegal logging will also be of concern to its international banking partners.

3.1 BSP's financing of the logging industry

Based on company filings, BSP is currently providing subsidiaries of Rimbunan Hijau with up to **K64.77 million (AU\$26.55 million)** in credit.⁷⁴

Rimbunan Hijau is a multi-industry Malaysian company operated by the Tiong family who are based in Sarawak. It

is one of the largest timber groups in Southeast Asia.⁷⁵ Its operations span 15 different countries including Australia and New Zealand.⁷⁶ Rimbunan Hijau has a variety of interests in PNG including mining, oil palm, retail, hospitality and *The National* newspaper. There are 60 or more companies in PNG identified as being owned and controlled by the Tiong family, of which 30 are connected to logging businesses.⁷⁷ As outlined above, Rimbunan Hijau was by far PNG's largest log exporter for most of the past decade.

BSP is has lines of credit open covering seven companies in the Rimbunan Hijau group:

- Rimbunan Hijau (PNG) Ltd
- Gilford Limited
- Monarch Investments Limited
- Niugini Lumber Merchants Ltd
- Rimbunan Hijau Timber Processing Ltd
- Timbers PNG Limited
- Wawoi Guavi Timber Co. Limited

Details of these charges is set out in Annex B. By the time BSP began providing finance to Rimbunan Hijau, serious concerns about Rimbunan Hijau's logging operations had already been raised in government reports, non-government reports and in the courts.⁷⁸ These concerns should have raised red flags for PNG's largest bank.

It is also notable that BSP provided four of these lines of credit in March 2011 to companies that had discharged equitable mortgages with ANZ in the preceding six months.⁷⁹ This suggests that BSP may have taken over some of the banking services previously provided to the conglomerate by ANZ.

BSP also historically held a financing relationship with two other logging groups: the WTK Group and Cakara Alam (PNG) Limited. Since 2001, BSP has provided WTK and its subsidiaries with up to K152.29 million (AU\$65.37) in credit. Founded in 1940, WTK owns and manages millions of hectares of forest concessions around the world.⁸⁰ The most recent financing relationship was entered into in 2013, with Amanab Forest Products Limited. From 2001-2005 BSP entered into financing arrangements with WTK Realty Ltd, Vanimo Forest Products Ltd, Vanimo Timber Company Ltd and Madang Timbers Ltd. BSP has advised that it has no facilities due or owing to any of the above companies and discharges were registered for all of these facilities in November 2021, after we reached out to BSP about them.⁸¹

According to company filings, BSP provided Cakara Alam with a line of credit up to K2.5 million (AU\$1.1 million) in 2006. BSP advised Act Now! and Jubilee Australia for this report that there are no facilities due or owing to Cakara Alam and a discharge was registered in November 2021.⁸²

Table 1: BSP top 10 shareholders (as at July 2021)

Shareholder	Proportion held
1 Kumul Consolidated Holdings	18.2%
2 Nambawan Super Limited	11.8%
3 Petroleum Resources Kutubu Limited	9.9%
4 NASFUND	9.7%
5 Fiji National Provident Fund	8.7%
6 Credit Corporation (PNG) Limited	7.1%
7 Motor Vehicle Insurance Limited	6.7%
8 PNG Sustainable Development Program Ltd	5.0%
9 Teachers Savings and Loans Society	3.3%
10 Comrade Trustee Services Limited	2.7%

Source: BSP Investor Presentation, First Half 2021

Wawoi Guavi Timber Co. Limited and Rimbunan Hijau Timber Processing Ltd

Wawoi Guavi Timber Co. Limited (WGTC) holds a 488,280 hectare logging concession in Western Province known as Wawoi Guavi Blocks 1-3.⁸³ The Timber Rights Purchase areas were established between 1981 and 1989 and the first Timber Permit granted in 1992.⁸⁴ More than 4 million cubic metres of logs have been exported from the Wawoi Guavi Blocks 1-3 concession since its establishment.⁸⁵

Created under an old legal regime, the various permits enabling the concession to continue have been renewed several times, with questions raised about the legal basis of these renewals.⁸⁶ In 2004, a government-sponsored Review of Ongoing Forestry Projects argued that the logging operations in the concession had "no legal basis" due to irregularities in the renewal of the timber licence in the concession.⁸⁷ Despite this, the Review Team stopped short of recommending the operation be shut down and a later amendment to the Forestry Act retrospectively legalized extensions of permits granted under the old scheme.⁸⁸

There have also been several reports of police intimidation of landowners in the Wawoi Guavi concession. In 2004, an Interagency Review Team commissioned by the PNG Government prepared a Report into the Operations of the Royal PNG Constabulary. This report found, in relation to the Wawoi Guavi Concession, that "[t]he use of physical force by the Police Task Force to intimidate employees and landowners was one of the major issues raised by all members of the community".⁸⁹ Police brutality in Wawoi Guavi, and its connection to the logging company, were also the subject of an investigation in 2004 by Australian current affairs program *Dateline*. In response, Rimbunan Hijau denied condoning or encouraging police brutality and stated that if individual policemen or commanders use violence they should be disciplined.⁹⁰

A Greenpeace investigation also found serious environmental degradation to the Wawoi Guavi Region as a result of the logging concession.⁹¹ This included damage to cultural sites, watersheds and waterways being deleteriously affected, soil erosion, point source pollution of fuel and toxic chemicals from log camps and significant collateral damage to surrounding vegetation of logging areas.⁹²

A 2018 Global Witness investigation that used satellite imagery to assess compliance with logging regulations observed multiple apparent violations of the *Forestry Act 1991* in the concession and concluded that "the Wawoi Guavi TRP appears to be operated in frequent violation of the law and that the timber it exports should be considered illegal or highly likely to be illegal."⁹³ In response, Rimbunan Hijau rejected these allegations and stated that it abides by all relevant laws and regulations and take environmental regulations seriously.⁹⁴

WGTC currently has a K6 million (AU\$2.23 million) line of credit with BSP, which was signed in 2011, renewed in 2021 and is set to expire in 2051.⁹⁵ Much of the above material was available at the time that BSP granted an initial line of credit to WGTC in 2011, and all of it available by the time this line of credit was extended in 2021.

The Wawoi Guavi concession also feeds the Panakawa veneer plant, which exports sawn timber and plywood. Panakawa is run by Rimbunan Hijau Timber Processing Ltd, another member of Rimbunan Hijau's corporate family. Rimbunan Hijau Timber Processing was the beneficiary of a K12.03 million (AU\$5.86 million) line of credit from BSP in 2015. While there are gaps in the paper trail relating to this charge, it appears likely this charge is still outstanding and not set to expire until 2036 (see Annex B).

Madang Timbers Limited

Madang Timbers Limited holds licences over six concessions in Madang Province, from which they have exported over 500,000 cubic metres of logs since 1993. While their most active concession, Middle Ramu Block 1, exported more than 100,000 cubic metres of logs in each of 2016 and 2017, the company recorded no log exports in 2020.⁹⁶

In 2020, Madang Timbers was found guilty in the National Court of PNG of breaching the human rights of eleven security guards employed by the company. The court found the company had deprived the men of the paid overtime and bonuses they had previously been entitled to, and then dismissed them when they complained.⁹⁷

In 2001, the PNG Forestry Review Team also found problems with Madang Timbers' Middle Ramu Block 1 concession, including that the net loggable area of the concession had been overestimated by 47,000 ha. While there had been significant landowner awareness, the Review Team also found there was incomplete information recording Incorporated Landowner Groups in the project area.⁹⁸

A 2018 report by Global Witness, based on satellite imagery, found several breaches of requirements of the PNG Logging Code of Practice and Forestry Act relating to the Middle Ramu 1 concession, including: instances of logging/road building in buffer zones, roads built more than 40km wide, and that the annual logged area was more than 1/35th of the total permitted logging area. It concluded, in relation to this and the other concessions it considered, that "[t]he timber they produce should be considered illegal."⁹⁹

3.2 BSP's policies on logging

Act Now! and Jubilee Australia wrote to BSP to ask about its policies on logging. The PNG banking giant advised that it has an Environmental and Social Risk Management policy (ESRM) with established risk-based assessment, screening and monitoring procedures, and that 'BSP's due diligence confirms requirements and adherence to all applicable PNG Environment and Social Laws and Regulations'.

While BSP did not provide a copy of this policy on request, it advised that:

...[a]ll logging activities including production or trade in wood and other wood products sourced from unsustainable managed forest are considered excluded activities.

BSP's minimum screening benchmark used for logging industry are firstly compliance to Forest Stewardship Council (FSC) Certification and Programme for the Endorsement of Forest Certification (PEFC), local permits/licenses/approvals and any applicable and recognized local/international best practices and standards.

Policy exceptions are considered only in cases where entities are FSC or PEFC certified with regular audits, are legally permitted/licensed by local laws and regulations and are diligently practicing sustainable logging and or sourcing timber from sustainably managed plantation forests and there have been no adverse finding recorded against the entity under consideration.¹⁰⁶

Cakara Alam

Cakara Alam was first registered in PNG in 1988. Since 2000, it has been wholly owned by C.A. Investments Limited, a company registered in Labuan in Malaysia, a tax haven.¹⁰⁰ In 2020, Cakara Alam or its subsidiaries exported logs from five logging concessions, one in East New Britain Province and four in West New Britain Province.¹⁰¹

Cakara Alam has been linked to multiple violations of the Forestry Act in relation to its Rottok Bay Consolidated concession, including overlogging and logging in prohibited and environmentally sensitive areas, all of which it has denied.¹⁰² In 2001, a government-sponsored Review Team raised concerns about inadequate landowner consultation in Rottok Bay, noting that "Landowner companies some with dubious history from previous projects, such as Rottok Bay TRP, are the main promoters of the project. The grass roots are simply carried along to benefit or suffer as it unfolds."¹⁰³

Like several other companies discussed above, Cakara Alam has also been implicated in police brutality: in 2018, the National Court found a plain clothes police officer guilty of violently assaulting the chairman of a landowner company after he had made a deal with a rival logger. The police officer was accompanied by a lawyer for Cakara Alam.¹⁰⁴

The same filings show a historical charge for a line of credit from Maybank PNG, which was discharged in 2001.¹⁰⁵ This occurred before Kina Bank acquired Maybank's PNG business.

BSP advised that all existing customers on its loan portfolio book have been screened and are subject to annual reviews. Where a customer is non-compliant, BSP may implement a customer 'Environmental and Social Action Plan (ESAP)' to remediate areas of compliance. Where there are reports of adverse incidents, 'further due diligence assessments are conducted to justify whether to exit customer or initiate close supervision and monitoring of compliance performance.' These assessments may be undertaken by an independent consultant.

Regarding AML risks, BSP advised that it designates all logging companies as high risk customers, and that enhanced customer due diligence is required for all high risk customers prior to onboarding and on an annual basis. It advised that it has a Transaction Monitoring Program to identify suspicious matters, which are then reported to FASU. It advised it continues to exit customers who do not meet its policy requirements.

It is positive to see that BSP has identified logging as an excluded sector, and that its minimum benchmarks require FSC and PEFC certification. However, its current financing of multiple Rimbunan Hijau subsidiaries appears inconsistent with this policy commitment. An ESRM policy that continues to allow investment in companies that have been the subject of credible allegations of unsustainable logging, habitat destruction, lack of respect for FPIC and police brutality deserves closer scrutiny. If these companies have passed enhanced due diligence processes, this raises questions over the rigour of these due diligence processes. There are also questions about what a company is required to do under an Environmental and Social Action Plan (ESAP), and whether these plans are making a genuine impact on customer behaviour.

4. KINA BANK

Kina Securities Limited (now branded Kina Bank) was established in 1985 as a financial services company.¹⁰⁷ In 2015 it acquired Maybank PNG, the PNG subsidiary of Malaysian bank Malayan Banking Berhad and listed on the Australian and PNG stock exchanges.¹⁰⁸ With the public launch, Kina Securities established two business divisions: Kina Bank and Kina Wealth Management. A company linked to logging giant Rimbunan Hijau was the dominant early shareholder in Kina Bank (see box below).

In 2019, Kina Bank Limited acquired ANZ's retail and commercial/SME businesses in PNG. The acquisition gave Kina Bank access to ANZ's retail branches, ATMs and EFTPOS terminals, substantially increasing its footprint.¹⁰⁹

Kina Securities Limited's Top 20 shareholders include several major Australian custodian firms¹¹⁰ (HSBC Custody Nominees (Australia) Limited, J P Morgan Nominees Australia Pty Limited, Citicorp Nominees Pty Limited and National Nominees Limited), with HSBC Custody Nominees holding 20.77% of the company's shares. The Asian Development Bank is Kina Securities Limited's second-largest shareholder with a 3.75% holding. One director of Rimbunan Hijau (PNG) Limited and one former director of Cakara Alam Limited and current director of non-bank lender Heduru Moni, each hold a shareholding of less than 1%.¹¹¹

4.1 Kina Bank's financing of the logging industry

Records show that Kina Bank has previously provided a loan and vehicle financing to Rimbunan Hijau Timber Processing Limited. On top of this, with its acquisition of Maybank PNG in 2015, it may have inherited two credit facilities provided by that bank to Rimbunan Hijau subsidiaries in 2011 and 2012. One of these was a credit facility with a maximum liability of **US\$300 million (AU\$291 million)** – the largest such facility we encountered in our research – provided by Maybank PNG as the security agent for a consortium of banks including Overseas Chinese Banking Corporation (OCBC Bank) and Malaysian RHB Bank Berhad. There is no satisfaction of charge registered for either of the two Maybank facilities. In October 2021, Kina Bank advised NGO Global Witness that it had no financing arrangements with Rimbunan Hijau, but did not respond as to whether the 2012 Maybank agreement with Rimbunan Hijau had matured before or after Kina Bank acquired Maybank's business.¹¹²

At the time of the Global Witness report, the PPSR showed a current charge in favour of Kina Bank from Rimbunan Hijau Timber Processing relating to financing of 19 motor vehicles. In response to questions for this report, Kina Bank advised Act Now! and Jubilee Australia that it does not have any financing relationships with RH Group, nor does it act as a security agent, but did not confirm when this vehicle financing charge had been discharged.¹¹³ The charge no longer appears on the PPSR.

Kina Bank also did not respond to questions on whether it has any current or historical banking relationships with the other logging companies discussed in this report.

The lack of publicly available information about Kina Bank's approach to financing the logging sector is a cause for concern.

4.2 Kina Bank's policies on logging

Act Now! and Jubilee Australia wrote to Kina Bank to ask about its policies on logging. Kina Bank advised that:

Our ESG and human rights policies are available online and can be referred to in our Annual Report and Corporate Disclosure Statement. The Asian Development Bank as a major shareholder conducted a detailed ESG audit of all the issues you raise in your letter prior to investing, to ensure the business complied with the highest standards in this regard.

A search of Kina Bank's website does not reveal any publicly available sensitive sector or ESG policy. Kina Bank's 2020 Annual Report states that it has a "Total Societal Impact Strategy", which also does not appear to be on its website. It also states that the bank has started developing Environmental Social Governance Principles, in partnership with the ADB, to be completed in 2021.¹¹⁴ KSL received technical assistance from the ADB in 2019 for the development of an environmental and social management system, among other things.¹¹⁵

In 2019, the Asian Development Bank made a US \$10 million equity investment into KSL. According to the project documentation for that investment, Kina Bank had confirmed that it had not provided loans for business activities on the ADB's prohibited investment activity list.¹¹⁶ The list of prohibited activities includes "commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests".¹¹⁷ Kina Bank's 2018-2021 financing of 19 vehicles for Rimbunan Hijau Timber Processing raises questions about the accuracy of this. It is arguable that a sawmill operation that exists primarily to process the logs coming from tropical moist forests should be considered part of a "commercial logging operation", particularly where it is part of the same corporate family as the logging operations that feed it.

In its letter to Act Now! and Jubilee Australia, Kina Bank also advised that it does not have any current financing arrangement with Rimbunan Hijau, nor does it fulfil the role of security agent. However, it did not confirm or deny financing relationships with the other companies named in this report, nor did it answer our questions about whether it has any broader banking relationships with logging companies.

The lack of publicly available information about Kina Bank's approach to financing the logging sector is a cause for concern. Given well known money laundering risks associated with this sector (see below), it would be expected that a major commercial bank in PNG should have specific policies around this sector and these should be front and centre. Kina Bank advised us it has ESG and human rights policies available online, but did not share the names of those policies or copies of them when we asked for them. As far as we can discern, there is nothing preventing Kina Bank from financing logging operations in the future. This should raise red flags for Kina Bank's current and future investors.



RIMBUNAN HIJAU – KINA BANK’S SKELETON IN THE CLOSET

While the name Rimbunan Hijau does not feature prominently in Kina Bank’s promotional materials, individuals close to the logging giant have historically played a major role in Kina’s business in PNG.

As recently as 2015, prior to its IPO, Kina Securities Limited’s major shareholder was a Hong Kong company called Fu Shan Investment Limited, which held 89.5% of the company’s shares.¹¹⁸ Kina Securities Limited’s 2015 IPO prospectus noted “Fu Shan is an investment company incorporated in Hong Kong. It is controlled by Madam Ho Lay Puay, a Singaporean national resident in Hong Kong. Madam Ho is a private investor with investments principally in the property, mining and resources sector”.¹¹⁹

Madam Ho Lay Puay was married to Kiu King Tiong, brother of Rimbunan Hijau founder Hiew King Tiong.¹²⁰ (Kiu King Tiong passed away in 2012.) In 2015, Fu Shan Investment Limited had one shareholder, Flensburg Inc, registered in Liberia.¹²¹ Liberia is a tax haven and has been called “the seventh most secretive country in the world”.¹²² Individuals associated with Rimbunan Hijau have also been directors of Kina Securities Limited in the past.¹²³

Fu Shan remained a substantial shareholder in Kina Securities Limited following the IPO, reducing its stake to 35%. It sold its shareholding on 28 June 2018, three days after Kina Bank announced its acquisition of ANZ’s retail and commercial business.¹²⁴ Currently, one director of Rimbunan Hijau (PNG) Limited retains a small shareholding in Kina Securities Limited.¹²⁵

“Fu Shan have been a longstanding investor and partner. They have been with us every step of the way since 1985 and I would like to put on the record our appreciation of their input, expertise and insight. Kina would not be what it is today without their valued contribution.

Kina Bank CEO, 28 June 2018¹²⁶

GILFORD LIMITED IN WEST POMIO

In West Pomio, East New Britain Province, Rimbunan Hijau subsidiary Gilford Limited operates the Sigite Mukus Integrated Rural Development Project which covers an area of 42,400 hectares.¹²⁷ The concession covers three SABLs issued in 2008 and then subleased to Gilford Limited, who received a licence to clear the land for agriculture.

Customary landowners have reported that the SABLs were granted without the consent of the majority of landowners in the area, were based on the endorsement of only a handful of individuals purporting to represent the whole community and in some cases, based on use of forged signatures.¹²⁸

The company has faced opposition from the local community, including in the courts, and has, according to reports, responded with violence and intimidation. A 2013 fact-finding mission made up of government and NGO representatives concluded that Gilford had hired police officers and used them to thwart local attempts to stop the logging operation. It found police had assaulted men in raids on the villages using weapons such as trees and shrub branches, coconut branches, a fan belt and guns, describing the violence used as “grossly excessive”.¹²⁹ In 2016, Act Now! published further reports of police intimidation at the site.¹³⁰ Rimbunan Hijau disputed the findings of the fact-finding mission and stated that a March 2017 police investigation found no evidence of malpractice at the sites.¹³¹

A 2021 report by Global Witness shared an incident reported by two Pomio landowners in which sixty five Pomio residents were allegedly taken by armed police and held tightly packed in a shipping container during the heat of the day for five to six hours without access to water or toilet facilities, after members of the group had tried to photograph company operations.¹³²

Since the SABLs were granted, tropical forests within the Pomio SABL have been devastated by logging. Estimates in 2021 based on satellite imagery have reported 24,000 hectares has been cleared and 1.3 million cubic metres of logs shipped out of the concession. A 2018 community-led damage assessment estimated the economic damage caused by logging and oil palm planting at K2.4 billion – including damage that had already occurred and future losses that will accrue to 2110 if the leases run their course.¹³³

BSP provided a line of credit to Gilford Limited in 2018 that is listed as set to expire in 2048. The amount available under this line of credit is unknown. While Maybank’s US\$300 million credit facility, provided to Gilford in 2012, is reportedly closed, it is likely to have supported the continued operation of this concession during the events described above.

5. WESTPAC AND ANZ

Westpac Bank PNG Limited is a subsidiary of Australian “Big Four” bank, Westpac Banking Corporation. It opened its first branch (under the name Bank of NSW Limited) in Port Moresby in 1910. Westpac Banking Corporation owns 89.91% of Westpac Bank PNG Limited, with Nambawan Super Limited the other major shareholder, holding 8.73%.¹³⁴

In December 2020, Westpac Banking Corporation announced it had sold its stake in Westpac PNG and Westpac Fiji to Kina Securities Limited. The announcement stated that Westpac had made a strategic decision to focus on consumer, business and institutional banking in Australia and New Zealand.¹³⁵ However, PNG’s Consumer and Competition Watchdog issued a determination in September 2021 declining authorisation for the sale, citing concerns about market concentration, reduction of competition and the potential for negative impacts on consumers.¹³⁶ It is unclear what Westpac’s plans are following this determination, and whether it will stay in PNG or seek another buyer.

Australia and New Zealand Banking Group (PNG) Limited (ANZ PNG) is a wholly-owned subsidiary of Australian bank Australia and New Zealand Banking Group Limited (ANZ).¹³⁷ Like Westpac, ANZ PNG was established in 1910. ANZ PNG sold its retail and commercial/small-to-medium enterprise (SME) business to Kina Bank in 2018-19 and now only services institutional and large corporate clients.¹³⁸ In layperson’s terms, this means that it is no longer providing banking services to everyday people or small business in PNG – but is continuing to provide services to large companies.

Both Westpac and ANZ PNG had historical financing relationships with large logging companies.

5.1 Westpac’s and ANZ’s financing of the logging sector

Both Westpac PNG and ANZ PNG have historically provided credit to logging companies in PNG, although neither appears to have done so for some time. Neither bank appears to hold a current financing relationship with the companies named in this report.

ANZ’s historical banking relationship with Rimbunan Hijau’s subsidiaries in PNG is well documented. In 2006, five NGOs from PNG and Australia brought a complaint to the Australian National Contact Point (ANCP) on the *OECD Guidelines for Multinational Enterprises* about ANZ’s support of Rimbunan Hijau in PNG. The ANCP is an independent investigator, based in the Australian Treasury, that can conciliate complaints against multinational enterprises who are alleged to have breached the Guidelines. The complaint alleged that ANZ had “actively facilitated and supported” Rimbunan Hijau’s PNG operations, which involved illegality, human rights abuses and environmental destruction.¹³⁹ At the same time, the Green Party of Aotearoa New Zealand filed a similar complaint with the New Zealand NCP.¹⁴⁰ Both complaints were rejected. The Australian NCP claimed that the performance related bank guarantee ANZ had given to the PNG Forest Authority did not constitute an “investment relationship”, so the OECD Guidelines did not apply.¹⁴¹ In a statement on its website updated in June 2007, ANZ outlined that it had discussed the concerns of environmental NGOs Rimbunan Hijau, that the company had refuted claims of illegal logging and that the PNG government had provided “written assurance that the logging activities of Rimbunan Hijau are legal and comply with Papua New Guinea’s Logging Code”.¹⁴²



Logging truck in Vanimo © Hemis, Alamy Stock Photo

Vanimo Forest Products

Vanimo Forest Products holds the Vanimo blocks 1-6 concession in West Sepik (Sandaun) Province, covering an area of just under 300,000 ha.¹⁴³

A 1999 assessment by Forests Monitor and Individual and Community Rights Advocacy Forum Inc (ICRAF) found that the company’s operations had damaged sago palms and other vital community food sources and polluted rivers. Their study documented an increase in malnutrition among pregnant women since the project had started.¹⁴⁴

In 2004, a government-sponsored Review Team reported several concerns raised by landowners in the concession, including that: landowners complained that the company frequently uses police to threaten villagers with guns to address issues that could easily be resolved through normal dialogue.¹⁴⁵

The report also reported claims from landowners that certain individuals in PNGFA (Vanimo office) and VFP and an expatriate were involved in an illegal “money market” that involves advancing landowners’ money against the timber royalty and charging 100% interest when the advance is repaid. Only the involvement of PNGFA officers was able to be confirmed by the Review Team.¹⁴⁶

The same 2004 report stated that 14 women from the Vanimo Forest Products concession area had made formal complaints to the welfare office in Sanduan Province in an attempt to seek financial assistance to raise children they have had to foreign workers. Furthermore, the Sanduan Province reported an increase in sexually transmitted diseases since the start of the project.¹⁴⁷ It also reported an allegation that women are employed by expatriates as domestic servants “and are expected to provide sexual favours to the expatriates in the logging camps.”¹⁴⁸

ANZ appears to have continued to do business with Rimbunan Hijau’s PNG subsidiaries until 2010. Financial statements filed with the IPA from 2006-2009 indicate that Rimbunan Hijau (PNG) had provided unlimited cross guarantees to ANZ to cover debts of 20 RH subsidiaries.¹⁴⁹ There is no evidence in filings with the IPA of ANZ holding a banking relationship with Rimbunan Hijau’s PNG subsidiaries after 2010. ANZ PNG has advised that it currently has only one customer involved in the logging industry in PNG and that this company ‘has received certification in line with the FSC’.¹⁵⁰

In the mid-1990s, Westpac provided financing to WTK Realty Limited and two of its subsidiaries – Vanimo Forest Products Limited and Vanimo Timber Company Limited. While the full amount of credit made available is unknown, at points during that time, the filings of WTK subsidiaries suggest they had outstanding loans with Westpac totalling over K3 million.¹⁵¹

In April 2014, Oxfam Australia reported on Westpac’s connections with WTK Realty Ltd, highlighting WTK’s links to land grabbing and human rights abuses under

the SABL scheme.¹⁵² In November 2014, each of WTK Realty Ltd and Vanimo Forest Products Ltd filed a Notice of Satisfaction of Registered Charge which stated that their respective Westpac charges had been satisfied in October 2000.¹⁵³ Both also filed a Discharge of Equitable Mortgage from Westpac dated November 2014. Westpac issued a media release stating that WTK Realty Ltd had not been a customer of the bank since 2000.¹⁵⁴ However, it remained silent on the status of its relationship with Vanimo Forest Products. In response to questions from Act Now! and Jubilee Australia, Westpac advised that it had not had a financing relationship with any of the companies named in this report “for a significant period” but did not provide a specific date when these relationships had ended.¹⁵⁵

ANZ also appears to have held a banking relationship with WTK Realty during the turn of the last century. WTK Realty’s 1999, 2000 and 2001 Annual Reports referred to ANZ as “its banker”¹⁵⁶ Vanimo Forest Products had also provided an equitable mortgage in favour of ANZ which was discharged in 2006.

5.2 Westpac's and ANZ's policies on logging

Westpac has taken a comparatively strong position on logging. Westpac's Agribusiness Position Statement (September 2020), which applies across its operations, including in PNG, states that it will not provide products and services to any activities giving rise to 'Land Grabbing'. Land grabbing is defined as 'large-scale land acquisition or concession which does one or more of the following: violates human rights, particularly those of women; flouts the principle of free, prior, and informed consent; takes place without or disregards a thorough assessment of social, economic, and environmental impacts; avoids transparent contracts with clear and binding commitments on employment and benefit sharing; or eschews democratic planning, independent oversight, and meaningful participation'.¹⁵⁷ This definition should exclude a large number of PNG's logging operations.

The same Position Statement also provides that Westpac will seek to develop relationships with customers that demonstrate commitment to particular standards – in the timber sector, these include that growers (forest managers) and processors must support FSC/PEFC certification and demonstrate credible progress towards full certification within a satisfactory timeline. For manufacturers, traders or retailers of timber products, Westpac encourages procurement of certified inputs.

In response to questions from Act Now! and Jubilee Australia, Westpac confirmed:

In FY13-14 Westpac Group introduced its Agribusiness Position Statement and financing facilities for customers involved in the logging/timber industry who did not meet FSC or PEFC standards were closed. The statement was developed to address a number of sustainability risks, including concerns related to customers in PNG and other offshore jurisdictions where there is less transparency, and followed the government review of PNG's Special Agricultural Business Licences.

Last year we expanded the Group's Agribusiness Position Statement to exclude all relationships with entities involved in the logging/timber industry who do not meet FSC or PEFC standards. Therefore, any other banking relationship with entities involved in the sector, such as transaction account services, has been ceased or closure activity commenced.

Act Now! and Jubilee Australia asked Westpac to confirm if it has any current banking relationship with Rimbunan Hijau (PNG) Limited, WTK Realty Limited, Cakara Alam (PNG) Ltd, Vanimo Jaya Limited, Kerawara Limited, KK Connections Limited or any of their related parties or subsidiaries. While Westpac advised it does not have a current financing relationship with these parties (ie a relationship where Westpac extends credit/loan facilities), it did not indicate whether it had any current transactional banking relationship. It did, however, indicate that "actions following our latest review of the PNG customer base is on track to be finalised within weeks".¹⁵⁸

Westpac also confirmed that logging is deemed a high-risk industry for the purposes of AML/CTF compliance, and that customers classified as high risk are subject to ongoing enhanced customer due diligence.

ANZ also has a specific sectoral policy on forestry. While the full policy is not available, an information document on the policy sets out that the bank uses a "principles-based risk framework" when making decisions on forest related transactions. The principles include supporting "customers that demonstrate a balanced approach to social, environmental and developmental impacts on forests" and use internationally accepted industry management practices to manage social, environmental and economic impacts. It clarifies that ANZ's policy provides "a framework comparable with internationally recognised certification schemes" such as PEFC and FSC, and that the bank will seek independent verification of certification or performance.¹⁵⁹

Unlike Westpac, ANZ's policy does not require it to exit relationships with customers who do not meet FSC or PEFC certification, or explicitly require customers to achieve any particular environmental or social standard. However, in practice ANZ appears to have exited any relationships it had with the logging companies covered in this report. In response to questions from Act Now! and Jubilee Australia, ANZ confirmed:

Our approach to banking the forests and forestry sector in PNG has evolved over a number of years in line with our regional presence and strategy.

While we won't comment on the specifics of former or current customers, we can confirm that ANZ has progressively reviewed its exposures to the forests and forestry sector in PNG and currently banks only one customer involved in logging. This company has received certification in line with the FSC.¹⁶⁰

It should be noted that, while Westpac and ANZ appear to have changed their approach in relation to financing the major logging companies in PNG, our research has not covered the financing of other kinds of agribusiness linked to deforestation or activities outside PNG. In 2019, Friends of the Earth reported that Westpac and ANZ had each provided financing to global agribusiness and palm oil companies linked to rainforest clearing and land grabbing, despite their policies.¹⁶¹

In November 2021, ANZ released a Human Rights Grievance Mechanism Framework, which allows communities that have been harmed by ANZ-financed projects to bring a complaint directly to the bank.¹⁶² The framework provides a pathway for resolution of complaints with companies and, in some cases, for ANZ to contribute to a remedy, making ANZ the first large commercial bank in the world to adopt a human rights policy that offers a genuine pathway for redress.¹⁶³ The policy followed a complaint to the ANCP by NGOs from Cambodia and the US seeking justice for Cambodian communities evicted by a sugar company that was a customer of ANZ. The development of the Grievance Policy was a recommendation from the ANCP. This policy is a welcome step that should be replicated by the other banks operating in PNG to ensure that communities can hold banks accountable for the impact of the activities they finance.

“

Any bank that chooses to finance PNG's tropical forest logging in the face of overwhelming evidence of illegality in the sector risks being complicit in illegal activity. Investors in BSP and Kina Bank, including their Australian shareholders, should be asking some tough questions right now about where their money is going, and what risks they might be exposed to.

FYFE STRACHAN
POLICY DIRECTOR, JUBILEE AUSTRALIA

6. THE NON-BANK LENDERS DRIVING THE LOGGING INDUSTRY

Heduru Moni Limited, which trades under the name of Moni Plus, is a licenced financial institution offering personal loans, assets finance, foreign exchange and fixed term deposits.¹⁶⁴ Moni Plus provides financing for assets including motor vehicles, heavy machinery and construction equipment.¹⁶⁵ Since 2018, the PPSR records 39 transactions between Moni Plus and logging companies. The value of these transactions is not listed on the PPSR, but we estimate it represents around **K14 million (or AU\$5.3 million)** in financing.¹⁶⁶

KK Connections and related parties received financing secured by 37 Toyota Landcruiser pickup trucks and four Isuzu trucks, with an estimated value of around **K8 million (AU\$2.7 million)**. Many of these financing transactions are still outstanding. KK Connections and related companies have seen a 750% increase in log exports in the last decade, exporting more than 450,000 cubic metres of logs in 2020.¹⁶⁷

Moni Plus has also engaged in eight vehicle financing transactions with members of the Rimbunan Hijau group, likely to be worth more than **K6 million (AU\$2.3 million)**. All of these transactions are set to expire between 2022-25. Vehicles given as collateral include

eight Mercedes Benz logging trucks. Moni Plus also provided an unspecified bank charge to Rimbunan Hijau (PNG) Limited and Timbers PNG Limited secured by a property in West New Britain Province.

Non-bank lender First Investment Finance Ltd has also provided financing to Rimbunan Hijau (PNG) Limited secured by seven properties in Port Moresby. The amount of this financing is unknown, but has the potential to be significant. It has also provided vehicle financing for Sinar Tiasa (PNG) Limited, a Rimbunan Hijau subsidiary.¹⁶⁸

While the majority of transactions discussed above look like vehicle financing, it is not clear whether the transactions are like traditional car loans, where money is advanced to pay for a vehicle, or more general loans that the companies have secured with vehicles they already own.

Heduru Moni did not respond to requests for information from Act Now! and Jubilee Australia about its financing of logging companies. The Moni Plus website highlights a number of corporate social responsibility initiatives, including support for a number of sporting teams, but does not include any policies relating to responsible lending. Given that Moni Plus is providing millions of kina in financing to logging companies implicated in environmental destruction and human rights abuses, developing policies on lending to the logging sector should be a priority.

7. THE MONEY LAUNDERING RISKS ASSOCIATED WITH LOGGING

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. But the logging sector in PNG is more than just a sensitive sector from an ESG perspective – it also poses a significant risk for banks' compliance with anti-money laundering regulations.

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

Anti-money laundering regulations recognise a wide range of crimes such as bribery, fraud, drug trafficking, embezzlement, tax evasion and illegal resource extraction. These crimes cost the global economy trillions and often involve egregious human rights abuses. They depend on financial (e.g. bank accounts), legal (e.g. shell companies), and commercial machinery (e.g. sham contracts), to enact the crime and then retain the illicit benefits in a cleaned form.

Regulations, such as PNG's *Anti-Money Laundering and Counter Terrorist Financing Act 2015* and its *Criminal Code 1974* place a responsibility on professional sectors like banks, casinos, lawyers, accountants, and corporate service providers to monitor these risks, apply appropriate levels of due diligence with customers, identify suspicious activity involving clients, and report matters to the relevant authorities. If an institution fails to comply with AML requirements it can face disciplinary measures, or even criminal prosecution.¹⁶⁹

The Bank of PNG's 2017 *Money Laundering and Financing of Terrorism National Risk Assessment* concluded that illegal logging poses a significant money laundering threat.¹⁷⁰ Breaches of the Forestry Act and Regulations are predicate offences for money laundering and, as outlined above, the sector is associated with a range of other criminal activities in PNG. The money generated from

illegal logging in PNG generally accrues offshore when the logs are sold, but may pass back into PNG to fund logging or other business operations.¹⁷¹ The National Risk Assessment noted that PNG's porous borders, cash-based and often informal economy exacerbate the country's vulnerability to money laundering.¹⁷²

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”.¹⁷³ The assessment also reported that more than 40 logging ports around the country are outside effective Customs control and these are known to be used for people movement, the export of flora and fauna and laundering. Despite this, the assessment found no evidence that any investigation into breaches of forestry laws had resulted in a successful prosecution of a timber operator or an individual associated with the industry (although this was disputed by PNGFA).¹⁷⁴ The assessment noted that money laundering risks had already led one commercial bank to institute a policy of not dealing with companies involved in the logging industry.¹⁷⁵

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. While the full extent of illegal logging and fishing is not known (inevitable whenever dealing with illicit activities), it is widely accepted that the problem is widespread and the lost revenue is extensive.

Bank of PNG, Money Laundering and Financing of Terrorism National Risk Assessment¹⁷⁶

In response to the National Risk Assessment, the Government of PNG issued the *National Anti-Money Laundering and Counter Terrorist Financing Strategic Plan 2017-2022*, which included an action for the PNGFA to conduct a sector risk assessment as well as a requirement to demonstrate progress in compliance activities and enforcement action.¹⁷⁷

They're operating using a trans-national crime model, in that many of their efforts are actually in breach of various laws of the country. And the banks actually facilitate this by allowing them (logging interests) to use their services in the processing of what are essentially the proceeds of crime.

GARY JUFFA
GOVERNOR OF ORE PROVINCE ¹⁷⁸

The bird of paradise is native to the forests of PNG © Nik Borrow

Recent regulatory action on money laundering has highlighted that the risks for banks are very real. In July 2021, the Financial Analysis and Supervision Unit (FASU) within the Bank of PNG announced it had taken regulatory action against BSP for failing to implement an effective AML/CTF program and failures to implement several due diligence requirements.¹⁷⁹ FASU's media release stated that BSP had failed to identify legitimate sources for payments of several million kina to a Politically Exposed Person, and that it had failed to conduct enhanced due diligence on a customer who had credible allegations of money laundering against them.¹⁸⁰ It referred to a "systemic culture of non-compliance" by BSP. While there is no evidence that any of these findings relate specifically to the logging industry, they do show that potential money laundering risks are very real in PNG.

BSP issued a response stating that it had complied with its AML/CTF obligations at all times.¹⁸¹ The Bank of Papua New Guinea also issued a statement disassociating itself from FASU's media statement, arguing that it was concerned about the impact of the statement on the stability of the financial system. The Prime Minister of PNG, The Hon James Marape, also commented that he would not question the credibility of BSP.¹⁸²

While it is fair to say that alleged serious breaches of AML/CTF legislation by PNG's largest bank could threaten the credibility of the banking system in PNG as a whole, placing the blame for this on FASU, the regulator, seems to miss the point. Instead, FASU's findings regarding BSP highlight the importance of banks maintaining a high level of due diligence when it comes to AML/CTF, and that the failure to do this could have implications for the entire financial system.

Westpac Banking Corporation also came under fire in Australia for "serious and systemic" breaches of Australian AML/CTF laws in 2019, for which it was ultimately hit with an AU\$1.3 billion fine. Breaches included failure to appropriately report international funds transfers and failures to monitor the risks associated with the movement of money into and out of Australia through its correspondent banking relationships.¹⁸³ While there is no suggestion that this breach related to transactions with PNG, this highlights the potential risks for correspondent banks.

Given the high levels of illegal behaviour associated with PNG's logging sector, and the associated increased risk of money laundering, it should follow that all logging companies should be considered high risk clients and subject to enhanced due diligence. This is particularly so for those that have been specifically named in government reports, court judgments and NGO reports of illegal behaviour, as not only is it an offence to launder property, it is an offence if a bank fails to properly assess risk, apply appropriate due diligence, and/or report suspicious activity. Moreover, there is a risk that where proceeds of logging are paid into a PNG bank account, and the logs have been harvested under an illegally granted lease, or harvested in excess of the allowable cut, then those funds are proceeds of crime that give rise to a money laundering offence. This presents a strong argument for the PNG and Australian banks to end their relationships with PNG's logging sector to avoid this risk.

8. THE ROLE OF INVESTORS AND CORRESPONDENT BANKS

Evidence of commercial banks operating in PNG providing current and historical financing for logging companies also raises questions about whether this is the intention of its investors, or whether they even know how their money is being used.

BSP, which is currently providing credit to Rimbunan Hijau, counts two of PNG's largest superannuation funds – Nambawan Super and NASFUND – among its biggest shareholders. These funds are charged with investing the retirement savings of ordinary PNG citizens. These citizens may be surprised to learn that their savings could be indirectly financing illegal logging.

The International Finance Corporation (IFC), the private sector lending arm of the World Bank, also holds a small shareholding in BSP. In 2021, Global Witness wrote to the IFC about alleged human rights abuses in Gilford Limited's concession. The IFC responded that it had not been made aware of any BSP exposure to Gilford, and take environmental and social concerns relating to its Performance Standards seriously. They added that the IFC and IFC Asset Management Company each held less than 1% of BSP's shares, and the IFC had been reducing its shareholding over several years. The corporation said it had supported BSP to strengthen its environment and social risk management practice.¹⁸⁴

Kina Bank, which has no outstanding lines of credit but has not ruled out providing banking services to PNG's top five logging companies, also has a number of significant Australian shareholders that may be interested to see the bank taking a clearer stand that it will not finance tropical logging. This includes Australian investors who own shares through custodian firms HSBC Custody Nominees (Australia) Limited – which is Kina Bank's largest shareholder, J P Morgan Nominees Australia Pty Limited, Citicorp Nominees Pty Limited and National Nominees Limited. As discussed above, the ADB holds a small shareholding in Kina Securities Limited, and any financing of commercial tropical logging is contrary to the ADB's *Safeguards Policy*. In light of this, it should be a red flag for the ADB that Kina has not ruled out financing to many of the companies engaging in this activity.

The money laundering risks associated with the logging sector also make the industry an issue of relevance for correspondent banks. In particular, Australia's NAB and Commonwealth Bank provide correspondent banking services to BSP. Australia's AML/CTF laws require all banks to undertake regular due diligence on their correspondent banking relationships.¹⁸⁵ Earlier in 2021, these banks faced scrutiny in the Australian press after BSP was investigated for allegations of money laundering.¹⁸⁶ Given the concerns regarding logging and money laundering raised by the Bank of PNG, BSP's continuing relationship with Rimbunan Hijau could pose a risk for NAB and CBA. Act Now! And Jubilee Australia did not contact NAB or CBA for comment during the preparation of this report.

9. CONCLUSION AND RECOMMENDATIONS

9.1 Conclusion

Providing credit or other banking services to logging companies is a major liability for commercial banks operating in PNG. Financing of logging operations implicates banks in the illegality and human rights abuses that plague the sector, and exposes them to the risk that they may be laundering the proceeds of crime. Non-bank lenders, while playing a smaller role than the big commercial banks, also have a responsibility where they know, or should know, that the funds they are providing could be supporting illegal logging.

The commercial banks' exposure to the logging sector also creates risks for the banking system as a whole. Any implication that a major bank is linked to money laundering risks undermining the confidence of investors and other actors in the financial system, which could be damaging for PNG's economic stability. Until illegal logging is stamped out, bank involvement in the logging sector is a liability.

It is clear that some banks have already taken positive steps. Westpac has stated it is in the process of exiting banking relationships with logging companies that do not meet FSC or PEFC certification, and ANZ says it has already done so. For these banks, continued due diligence is vital, including scrutinising the actual impact of the logging operations they continue to finance. It is also important they identify and end banking relationships with companies in the same corporate family as the logging companies, to avoid supporting the industry through the back door. History shows that it has taken the major banks too long to exit relationships with logging companies, with financing flowing to logging operations well after local communities, NGOs and even government-funded reviews 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 tropical logging sector. BSP has not ruled out providing banking services to any specific actors in the logging sector, and continues to provide financing to subsidiaries of Rimbunan Hijau. Kina Bank has advised it has no financing or security agent relationship with Rimbunan Hijau but has not ruled out other banking relationships with that company, or with other companies involved in tropical logging. With ANZ and Westpac closing their banking relationships with most logging companies, it is likely that logging companies will increasingly turn to PNG's two home grown banks for their transaction banking, bank guarantees and loans. BSP and Kina Bank have an opportunity to curb this destructive industry by stopping the flow of funds.

9.2 Recommendations

One of the ways to help bring an end to the scourge of illegal logging in PNG is to cut off the sources of financing on which it depends. Act Now! and Jubilee Australia recommend swift and thorough action from the

commercial banks operating in PNG to ensure that they and their investors are not complicit in illegal logging and to address the money laundering risks this industry poses. This means stopping funding for illegal logging, implementing due diligence measures to prevent future financing of the sector, and making redress available for past harms. Action by the banks should be monitored and supported by action from relevant government agencies, including the PNG Forest Authority, as well as regulatory agencies Financial Analysis and Supervision Unit (FASU) and the Internal Revenue Commission (IRC).

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 other banking 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 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 FASU/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.

ANNEX A: METHODOLOGY AND DATA LIMITATIONS

Identifying the top five logging companies over the past decade

The top five companies were determined based on log export reports from Swiss company SGS SA from 2011-2020. Export volumes were collected for the top seven companies each year. The export rates for each year for these companies were then tracked across the decade. When new companies appeared in the top seven exporting companies, they were then back checked across the rest of the decade to determine overall exporting rates for that period. A decade average was taken for each company to determine the top five.

In determining the relevant subsidiaries for the top five companies for assessment, the listed subsidiaries in the SGS log export reports were used. This involved noting down all subsidiaries that appeared for each company between 2011-2020. At times, a subsidiary may only appear once. Furthermore, published reports were also relied upon where available. For example, the complex web of subsidiaries for Rimbunan Hijau outlined by the Oakland Institute in their report 'The Great Timber Heist' was used to cross check and add subsidiaries that had been found for Rimbunan Hijau.¹⁸⁷

Identifying bank charges

To identify financing provided by the major five logging companies from the last decade, we analysed records of bank charges from company filings listed on the Investment Promotion Authority (IPA) of PNG website and the Personal Property Securities Registry (PPSR), as well as company annual and financial reports where available.

We reviewed records for the following companies:

Company	Subsidiaries checked
WTK Realty	<ul style="list-style-type: none"> Vanimo Forest Products Ltd Madang Timbers Limited Vanimo Timber Company Amanab Forest Products Ltd Logohu Ltd. Pacific Region Development Ltd
Rimbunan Hijau	<ul style="list-style-type: none"> Rimbunan Hijau (PNG) Limited Island Forest Resources Ltd Niugini International Corporation Limited Gilford Limited Niugini Lumber Merchants Ltd Saban Enterprises Ltd Sinaran Papua Ltd Wawoi Guavi Timber Co Ltd Beactive Ltd. Central Sawmill Ltd Evergreen Plantation Ltd. Forest Management Services (PNG) Ltd. GL Niugini Ltd Pacific Oil Palm Plantation Ltd.
KK Connections/ Kerawara Limited	<ul style="list-style-type: none"> KK Connections Limited KL Connections Limited Kerawara Limited Chain Reaction Ltd G88 Limited Laloani No. 8 Ltd Super Green Limited
Vanimo Jaya Limited	<ul style="list-style-type: none"> Vanimo Jaya Limited Border International Timber Ltd Sentawan (PNG) Ltd
Cakara Alam (PNG) Limited	<ul style="list-style-type: none"> Cakara Alam (PNG) Limited Sumber Alam (PNG) Limited Tzen Pacific Limited

Limitations

There are several limitations to the data on bank charges:

- It is difficult to determine whether certain charges listed on the PPSR are 'continuations' of previous charges prior to the change of reporting obligations, or whether they were new charges. In theory, when the PPSR came into effect, companies should have registered existing charges on the new system, even where those charges had previously been registered with the IPA. In practice, this requirement does not seem to have been rigorously followed. The charge listings in Annex B outline where we have treated a charge registered on the PPSR as a continuation of a previous charge.
- Information displayed on the PPSR does not include the maximum prospective liability secured by the charge and charge documents are not attached. For charges on the PPSR it has not been possible to identify the value of the financing provided.

- It appears that charges on the PPSR can be removed when they are satisfied. There may be additional charges that have been entered into since 2016 and then discharged that are not included in this report.
- Some charges registered on the IPA do not show a maximum prospective liability, and some do not provide any information on the property secured by the charge. Where information is incomplete, this is outlined in Annex B.



ANNEX B: DETAIL OF BANK CHARGES

Charges in favour of BSP

No.	Company	Charge Registration No.	Details of charge	Maximum prospective liability (PGK)	Maximum prospective liability (AUD) ¹⁸⁸	Date Made	Evidence of Discharge
1	GILFORD LIMITED	1003795383	Charge over all the company's present and after-acquired property	Unknown	Unknown	Registered 31 May 2018	No. According to PPSR charge is due to expire in 2048.
2	MONARCH INVESTMENTS LTD	1001803584	Charge over all the company's rights, property and undertaking	Unknown	Unknown	Registered 9 May 2016	No. According to PPSR charge is due to expire in 2036.
3	NIUGINI LUMBER MERCHANTS LTD	19933	Line of credit secured by a fixed and floating charge over the company's assets and undertakings.	K9.05 million	AUD3.35 million	31 March 2011	No. According to PPSR, charge was due to expire in 2021, but a continuation was lodged and the charge now expires in 2051
4	NIUGINI LUMBER MERCHANTS LTD	17605	Line of credit secured by a fixed and floating charge over the company's assets and undertakings.	K9.02 million	AUD3.88 million	15 September 2006	No. According to PPSR, charge was due to expire in 2021, but a continuation was lodged and the charge now expires in 2051.
5	RIMBUNAN HIJAU (PNG) LIMITED	19928	Line of credit secured by a fixed and floating charge over the company's assets and undertakings.	K15.6 million	AUD5.80 million	31 March 2011	No. No charge satisfaction filed on IPA. Below charge registered on PPSR may be the same as this charge, or this could be a different charge unregistered on PPSR.
6		1001802573	Charge over all the company's rights, property and undertaking	Unknown	Unknown	Registered 9 May 2016 (may have been made earlier)	No. According to PPSR charge is due to expire in 2036.
7	RIMBUNAN HIJAU (PNG) LIMITED	1001802685	Letter of Set-Off over funds held in Term deposit account.	Unknown	Unknown	Registered 9 May 2016 (may have been made earlier)	Yes. Termination registered on PPSR in 2021
8	RIMBUNAN HIJAU TIMBER PROCESSING LTD	Unknown	Line of credit secured by a fixed and floating charge over the company's assets and undertakings.	K12.03 million	AUD5.86 million	1 September 2015	No. No charge satisfaction filed on IPA. Below charge registered on PPSR may be the same as this charge, or this could be a different charge unregistered on PPSR.
9		1001803360	Charge over all the company's rights, property and undertaking	Unknown	Unknown	Registered 9 May 2016 (may have been made earlier)	No. According to PPSR charge is due to expire in 2036.
10	TIMBERS PNG LIMITED	20025	Line of credit secured by a fixed and floating charge over the company's assets and undertakings.	K7.065 million	AUD2.63 million	31 March 2011	No. According to PPSR, charge was due to expire in 2021, but a continuation was lodged and the charge now expires in 2051.
11	TIMBERS PNG LIMITED.	18606	Line of credit secured by a fixed and floating charge over the company's assets and undertakings.	K6 million	AUD2.81 million	15 September 2008	No. According to PPSR, charge was due to expire in 2021, but a continuation was lodged and the charge now expires in 2051.
12	WAWOI GUAVI TIMBER CO LIMITED	20026	Line of credit secured by a fixed and floating charge over the company's assets and undertakings.	K6 million	AUD2.23 million	31 March 2011	No. According to PPSR, charge was due to expire in 2021, but a continuation was lodged and the charge now expires in 2051. ¹⁸⁹
13	WTK REALTY LTD.	16940	Line of credit - Fixed and floating charge	K40 million	AUD16.81 million	20 July 2005	Yes. Termination registered on PPSR November 2021.
14	VANIMO FOREST PRODUCTS LTD.	16942	Line of credit - Fixed and floating charge	K40 million.	AUD16.53 million	14 August 2005	Yes. Termination registered on PPSR November 2021.
15	VANIMO TIMBER COMPANY LTD.	16939	Line of credit - Fixed and floating charge	K40 million.	AUD16.81 million	20 July 2005	Yes. Termination registered on PPSR November 2021.
16	MADANG TIMBERS LTD.	14761	Line of credit – fixed and floating charge	K7 million	AUD4.07 million	31 July 2001	Yes. Termination registered on PPSR November 2021.
17	AMANAB FOREST PRODUCTS LTD.	21266	Line of credit - Fixed and floating charge	K25.29 million	AUD11.13 million	1 April 2013	Yes. Termination registered on PPSR November 2021.
18	CAKARA ALAM LIMITED	17507	Line of credit secured by a fixed and floating charge over all of the company's assets and undertakings	K2.502 million	AUD1.12 million	3 April 2006	Yes. Termination registered on PPSR November 2021.
19	TZEN NIUGINI LIMITED	17894	Line of credit secured by a fixed and floating charge over all of the company's assets and undertakings	K570,000	AUD 227,004	4 April 2007	Yes. Termination registered on PPSR November 2021.

Charges in favour of Kina Bank, Maybank and Kina Finance Limited

#	Company	Charge registration no.	Details of charge	Maximum prospective liability (PGK)	Maximum prospective liability (AUD) ¹⁹⁰	Date made	Evidence of discharge
1	WAWOI GUAVI TIMBER CO. LTD.	Unknown	Overdraft facility secured by a bank guarantee (Maybank)	K3 million	AUD1.13 million	Unknown (referenced in 2011 financial statements)	No, however charge is not registered on the IPA or PPSR
2	GILFORD LTD.	20444	Line of credit secured by fixed and floating charge (Maybank)	USD 300 million	AUD291.35 million	10/04/2012	No, however charge is not registered on the PPSR
3	RIMBUNAN HIJAU TIMBER PROCESSING LTD.	1003816105	Financing assets - collateral over 19 motor vehicles. (Kina Bank)	Unknown	Unknown	13/06/2018	Charge was registered on PPSR with expiry - 10/11/2021. Charge not listed on PPSR as at 17/11/2021.
4	RIMBUNAN HIJAU TIMBER PROCESSING LTD.	21297	Loan secured by a fixed and floating charge (Kina Finance Limited)	Registration of charge states that it secures 'repayment of the principal of K2 million, plus interest and any other monies payable'. Charge document lists maximum prospective liability as K100 million.	AUD45.42 million	20/08/2013	No, however charge is not registered on the PPSR

Charges in favour of Westpac

#	Company	Charge Registration No.	Details of charge	Maximum prospective liability (PGK)	Maximum prospective liability (AUD) ¹⁹¹	Date Made	Evidence of Discharge
1	WTK REALTY LTD.	10183	Equitable mortgage	Unknown	Unknown	31/05/1995	Yes, discharge filed November 2014. Notice filed states charge satisfied in October 2000.
2	VANIMO FOREST PRODUCTS LTD	10184	Equitable Mortgage	Unknown. In 1998, Vanimo Forest Products had K3.27 million owing against this charge. This was reduced to nil by its 2000 Annual Return.	Unknown	31/05/1995	Yes, discharge filed November 2014. Notice filed states charge satisfied in October 2000.
3	VANIMO FOREST PRODUCTS LTD.	9101	Unknown	Unknown. In 1997, Vanimo Forest Products had K3.17 owing against this charge.	Unknown	08/06/1993	No, however charge is not registered on PPSR.
4	VANIMO FOREST PRODUCTS LTD	10090	Unknown.	Unknown.	Unknown	25/01/1995	Charge appears in 1997 VFP Annual Return as a charge in favour of Westpac. In 1998-2000 Annual Returns, the same charge number appears in favour of Hastings Deering. This was discharged in 2000, noting it had been satisfied in 1995.
5	VANIMO TIMBER COMPANY	10185	Registered floating charge	Unknown	Unknown	31/05/1995	No, however, charge not registered on PPSR.

Charges in favour of ANZ

#	Company	Charge registration number	Details of charge	Maximum prospective liability	Date Made	Evidence of Discharge / Notice of satisfaction of registered charge
1	NIUGINI LUMBER MERCHANTS LTD	17716	Fixed and floating charge over company assets	Unknown	10 October 2006	Yes - 2010
2	STRAITS MARINE (PNG) LIITED	17720	Fixed and floating charge over company assets	Unknown	10 October 2006	Yes - 2010
3	RH TRADING LIMITED	15568	Unknown	Unknown	31 December 2002	Yes - 2010
4	SOVEREIGN HILL PNG LIMITED	17698	Fixed and floating charge over company assets	Unknown	10 October 2006	Yes - 2010
5	DYNASTY ESTATES LIMITED	15567	Fixed and floating charge over company assets	Unknown	31 December 2002	Yes - 2010
6	EVERGREEN PLANTATION LIMITED (previously known as Fonsen Logging Limited)	17693	Fixed and floating charge over company assets	Unknown	10 October 2006	Yes - 2010 (under name of EVERGREEN PLANTATION LIMITED)
7	SEAL MANUS LIMITED	17697	Fixed and floating charge over company assets	Unknown	10 October 2006	Yes - 2010
8	PACIFIC OIL PALM PLANTATION LIMITED (previously known as Putput Logging Limited)	17695	Fixed and floating charge over company assets	Unknown	10 October 2006	Yes - 2010
9	PACIFIC STAR LIMITED	17718	Fixed and floating charge over company assets	Unknown	10 October 2006	Yes - 2010
10	MONARCH INVESTMENTS LIMITED	17717	Fixed and floating charge over company assets	Unknown	10 October 2006	Yes - 2010
11	RIVERGOI NO 6 LIMITED	17687	Fixed and floating charge over company assets	Unknown	10 October 2006	Yes - 2010
12	SAN HIN DEVELOPMENT LIMITED	17699	Fixed and floating charge over company assets	Unknown	10 October 2006	Yes - 2010
13	SABAN ENTERPRISES LIMITED	17688	Fixed and floating charge over company assets	Unknown	10 October 2006	Yes - 2010
14	ISLAND FOREST RESOURCES LIMITED	17691	Fixed and floating charge over company assets	Unknown	10 October 2006	Yes - 2010
15	FRONTIER HOLDINGS LTD.	17719	Fixed and floating charge over company assets	Unknown	10 October 2006	Yes - 2010
16	MONARCH INVESTMENTS LTD.	7292	Fixed and floating charge over company assets	Unknown	23 December 1997	Yes - 2010
17	RIMBUNAN HIJAU (PNG) LTD.	Unknown	Fixed and floating charge over company assets	Unknown	10 October 2006	Yes - 2010
18	RIVERGOI NO.6 LTD.	17687	Fixed and floating charge over company assets	Unknown	13 December 2006	Yes - 2010
19	RIMBUNAN HIJAU TIMBER PROCESSING LTD.	11067	Fixed and floating charge over company assets	Unknown	18 March 1998	Yes - 2010
20	TIMBERS PNG LTD.	17692	Fixed and floating charge over company assets	Unknown	14 December 2006	Yes - 2010
21	WAWOI GUAVI TIMBER CO. LTD.	14251	Fixed and floating charge over company assets	Unknown	5 December 2006	Yes - 2010
22	VANIMO FOREST PRODUCTS LTD. (WTK Realty Limited)	N/A	Fixed and floating charge over company assets	Unknown	21 July 2000	Yes - 2006

WTK Group

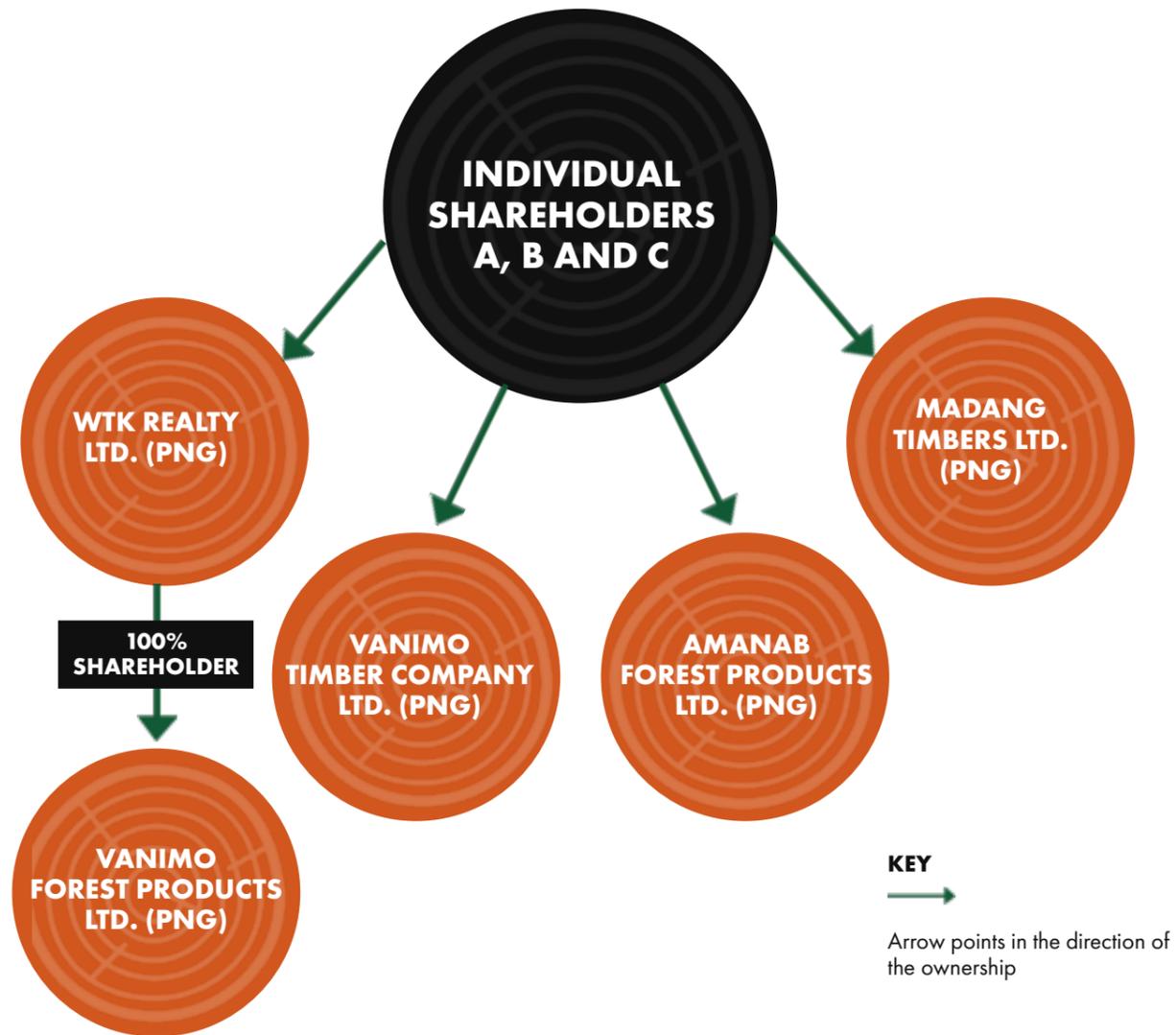
This report discusses financing relating to four companies in the WTK Group.

WTK Realty Ltd and Vanimo Timber Company Limited are jointly owned by the same three individual shareholders.¹⁹² These three individuals are also shareholders in Madang Timbers Limited, alongside Malaysian-registered companies Lismore Trading Company Ltd., Pacific Timber International Corp, Rayley Co. Ltd. and PNG-headquartered Pacific Region Development Ltd.¹⁹³

Amanab Forest Products Limited has four shareholders: PNG-registered company Johnson Holding (PNG) Limited and the same three individual shareholders that own WTK Realty Ltd.¹⁹⁴

WTK Realty Ltd owns 100% of the shares in Vanimo Forest Products Limited.¹⁹⁵

Figure C.1: Relationship between WTK Group companies mentioned in this report



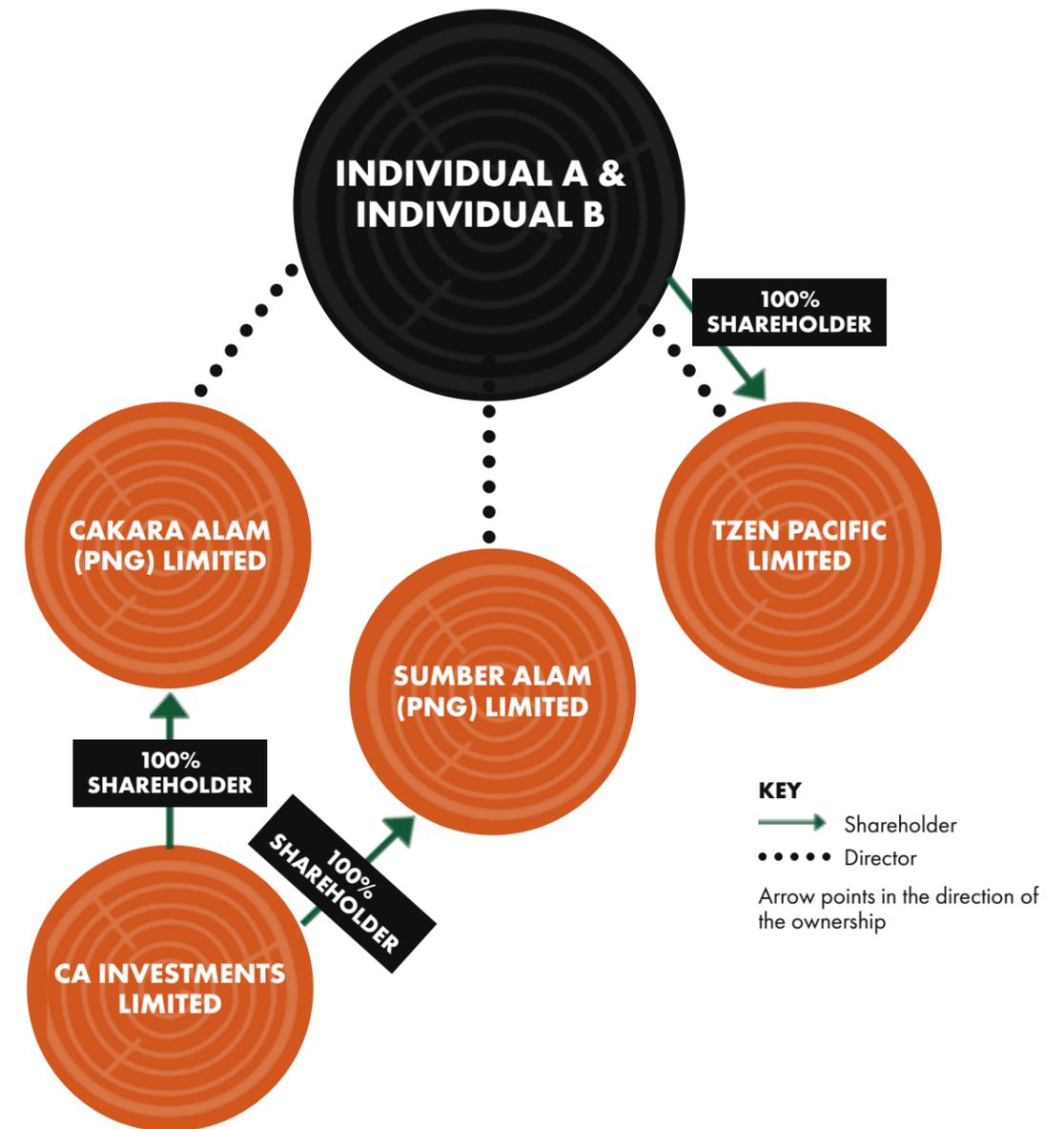
Cakara Alam (PNG) Ltd

Cakara Alam was first registered in PNG in 1988. Since 2000, it has been wholly owned by C.A. Investments Limited, a company registered in Labuan in Malaysia, a tax haven.¹⁹⁶

SGS log export reports from 2011 to 2020 list log exports from concessions held by Cakara Alam (PNG) Limited, Sumber Alam (PNG) Limited, Tzen Niugini Limited and Tzen Pacific Limited as part of the Cakara Alam corporate group.

Sumber Alam (PNG) Limited is also owned by C.A. Investments Limited and is managed by the same two directors as Cakara Alam (PNG) Ltd.¹⁹⁷ Tzen Pacific Limited has the same two directors as Cakara Alam (PNG) and Sumber Alam, and those two individuals are also its two shareholders.¹⁹⁸

Figure C.2: Relationship between Cakara Alam group companies mentioned in this report



Since 2009, the shares in Tzen Niugini Limited have been owned by a British Virgin Islands registered holding company.¹⁹⁹ Over the period 2010 to 2012, directors in Tzen Niugini included individuals associated with the Cakara Alam Group and the East New Britain Resources Group. Since 2012, Tzen Niugini appears from its filings to be wholly controlled by the East New Britain Resources Group.²⁰⁰ To avoid confusion Tzen Niugini has not been considered part of the Cakara Alam corporate group for this report.

KK Connections Limited and Kerawara Limited

SGS Log export data from 2011 to 2017 includes exports from KK Connections Ltd logging operations under the umbrella of the Kerawara Limited corporate group. All log exports under the Kerawara Limited umbrella are from KK Connections Ltd or companies that are linked to KK Connections Ltd through common directors and shareholders. From 2018, log exports from KK Connections Ltd were reported under the umbrella of the KK Connections corporate group. For the purposes of identifying export volumes, exports from all companies in the group have been amalgamated.

ENDNOTES

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20. See Apoi v Pouru [2015] PGNC 56 at [20], available at: <http://www.paclii.org/cgi-bin/sinodisp/pg/cases/PGNC/2015/56.html>; 2003-4 Review Team for the Inter-agency Forestry Committee (2004) Towards Sustainable Timber Production – A review of existing logging projects; Main Report – Observations and recommendations, p. 84-85; Global Witness (2018) A Major Liability: Illegal logging in Papua New Guinea Threatens China's Timber Sector and Global Reputation. London, Washington and Brussels: Global Witness, available at: <https://www.globalwitness.org/en/campaigns/forests/major-liability-illegal-logging-papua-new-guinea-threatens-china-timber-sector-and-global-reputation/> at p. 7-8.
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25. Forest Trends, Logging, legality and livelihoods in Papua New Guinea at p. 2.
26. See Lawson, 'Illegal Logging in Papua New Guinea', at p. 21-26.
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