

# Trends & issues

in crime and criminal justice



Australian Government  
Australian Institute of Criminology

No. 391 March 2010

**Foreword** | *The low number of prosecutions in Indonesia for illegal logging may not offer a strong enough deterrent against engaging in what is a lucrative crime. However, the movement of offenders and proceeds tied to illegal logging through other countries in the region offers some opportunities to support Indonesia's law enforcement responses. Officials in Hong Kong, Singapore and Malaysia may charge offenders in those jurisdictions with criminal money laundering offences for their involvement in corruption offences in Indonesia. However, the structures of money laundering offences in those countries prohibit direct charges being laid for money laundering tied to illegal logging. Only Singapore is able to prosecute actors for money laundering tied to sales of endangered species. As such, this may offer an additional avenue for prosecuting offenders and producing a deterrent effect. Indonesian officials have also made some use of financial intelligence to pursue illegal logging cases. The proceeds of crime provisions and mutual legal assistance for asset freezing operating in Hong Kong and Singapore also offer some additional avenues for targeting the proceeds of any corruption offences committed in Indonesia. Asset freezing and recovery in both countries still requires assistance from Indonesia to secure an outcome. The 'follow the money approach' is not as flexible as some commentators have suggested in the past.*

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## Following the proceeds of illegal logging in Indonesia

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Many international agreements, such as the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), target illegal logging, although few countries have criminalised importing, re-exporting, or possessing illegally logged timber. Domestic law that targets illegal logging, beyond CITES, remains the domain of tropical timber countries such as Brazil and Papua New Guinea. Few countries have created offences for importing illegal timber (eg see US *Lacey Act of 1900* (16 USC 3371–3378)). Anti-money laundering (AML) regulatory systems offer a non-traditional avenue for stemming illegal logging that do not rely on criminalising it in tropical timber destination markets (Setiono & Hussein 2005).

The Australian Government has committed to help nations in the region prevent illegal logging through a range of capacity-building measures including law enforcement (DAFF 2010) and providing assistance to financial intelligence units in the southeast Asia and Pacific region (AUSTRAC 2009). This paper considers how AML regulations in other regional centres might be used to supplement these approaches to assist Indonesia to stem illegal logging.

### Illegal logging law enforcement

Illegal logging operations require a chain of activities. *Law of the Republic of Indonesia Number 41 Year 1999 on Forestry* (Law 41/1999) sets out indictable offences for the key aspects such as receiving, buying, selling, or possessing illegal forest products (Article 50(3) (f)). The range of acts linked to logging operations, the connected corruption offences and the volume of illegal timber suggests that a large number of individuals and groups are involved in illicit activity.

Much of the information on logging case outcomes comes from civil society groups quoting the local media (eg EIA & Telepak 2007; HRW 2009). Official reports of law enforcement outcomes for illegal logging focus on suspects, cases and log confiscations rather than reporting convictions (eg Dephut 2004). Indonesia's responses to illegal logging have included large-scale, blitz-style, law enforcement operations such as Wanalaga I (OWI) and Hutan Lestari II (OHLII). OWI operated across almost all of Indonesia from 2002 and into 2004 (Dephut 2004). OHLII operated in Papua in 2005 with a budget of IDR12b. Police identified 186 suspects during OHLII and this culminated in 13 convictions, all of which attracted sentences of less than two years (HRW 2009).

The Minister of Forestry has suggested corruption may be influencing the outcomes of logging cases (cited in EIA & Telepak 2007). The Ministry committed to judicial reform and scrutiny to improve forest governance (Dephut 2009). Other commentators have suggested that the understanding of environmental law held by law enforcement and the judiciary is an influencing factor in the volume of prosecutions (Wardojo, Suhariyanto, & Purnama 2001).

The scale of ongoing illegal logging activities, as well as information from non-government organisations, suggests enforcement approaches alone have produced few crime reduction successes (EIA & Telepak 2007; GRID-Arendal 2008; Indonesia Civil Society Groups nd). The conviction outcomes from operations such as OHLII, and cases such as Mr Praestyo Gow (see Box 1), add support to this view.

#### Box 1

Mr Praestyo Gow (also known as Asong) owned two boats containing 13,000 cubic metres of timber that were inspected by police in 2004 in West Kalimantan. Gow did not have legitimate transportation documents for the timber shipments. This constitutes an offence under Law 41/1999 Article 50(f), with a maximum penalty of IDR5b and 10 years imprisonment. Gow was charged and prosecutors sought a four year prison sentence. He was acquitted of all charges at trial. A statement from one judge stated Gow was acquitted because the ships were still docked when they were inspected although he agreed Gow did not have the documents when the ships were loaded. This constitutes an offence under Law 41/1999 Article 50(h). Article 50(h) (carrying, possessing, or receiving illegal forest products) has a maximum penalty of five years imprisonment and a fine of IDR10b (DFID 2007; EIA & Telepak 2007).

### The case for anti-money laundering approaches

*Predicate crimes* are those offences that generate the illicit funds 'laundered' in a money laundering activity. Illegal logging and corruption are not uniformly considered predicate crimes for money laundering.

However, the Asia/Pacific Group on Money Laundering (APG 2008) recognises the significance of illegal logging as a predicate offence for money laundering in the region. As such, there are advocates for using the AML system as a forestry law enforcement mechanism in Indonesia (Setiono & Husein 2005; Speechly 2004; Tacconi, Obidzinski & Agung 2004). Indonesian officials have already attempted to use AML regulations to target illegal logging offenders. The Indonesian Financial Intelligence Unit (PPATK) developed 15 money laundering

cases, prior to 2007, against police officers who were linked to illegal logging. The cases did not lead to any convictions. PPATK was also involved in the preparation of the case against Marthen Renouw in Papua (see Box 2) which resulted in an acquittal. Reports of the Renouw case (EIA & Telepak 2007; Nakashima 2006) suggest the same processes that impede traditional law enforcement approaches to illegal logging also impede the use of financial intelligence to secure convictions.

### Anti-money laundering: Hong Kong, Singapore and Malaysia

Some of the financing for illegal logging operations comes from outside Indonesia and some of the proceeds are also likely to be held outside the country. Transnational logging transactions can potentially frustrate efforts to use the Indonesian AML system to

Singapore and Hong Kong are unique because of their likely importance to Indonesian investors as regional financial hubs. As such, they are potential destinations for much of the wealth generated by illegal logging in Indonesia.

Capgemini and Merrill Lynch (2007) indicated that, in 2006, Indonesia was home to 20,000 high net-worth individuals (HNWIs), few of whom were investing in Indonesia. During that same year, Indonesia held 0.8 percent of the wealth amassed by HNWIs in the region. It saw 19,000 Indonesian HNWIs residing in Singapore holding US\$93b in assets.

The Financial Action Task Force (2008) suggests that the size, stability and sophistication of the Hong Kong financial centre makes it attractive to money launderers for the same reason as it is attractive to legitimate investors. Hong Kong's banking sector is the 15th largest in the world (measured by external transactions) and has the sixth largest turnover of foreign exchange transactions (FATF-GAFI 2008).

### Prosecuting outside of Indonesia

Money laundering offences are considered to be *dealing with* the proceeds of crime. *Dealing with* is most commonly defined as performing transactions using the proceeds of crime or with money used to finance a crime.

A key consideration for using money laundering offences to prosecute individuals based in other jurisdictions for dealing with the proceeds of illegal logging in Indonesia is the definition of predicate crimes adopted in each country.

### Hong Kong's money laundering offences

Hong Kong has two money laundering offences that criminalise dealing with any property generated by an indictable offence (*Organised and Serious Crimes Ordinance* (OSCO) (s 25(1)) or a drug trafficking offence (*Drug Trafficking (Recovery of Proceeds) Ordinance* (DTROP) s 25(1)). OSCO and DTROP are collectively known as the Ordinances. The Ordinances define *dealing with the proceeds of crime* as acquiring, concealing, disguising, disposing of or

converting, and bringing into or removing from Hong Kong the proceeds of predicate offences. An individual who deals with funds known to be the proceeds of crime has committed an offence. Individuals who deal with funds reasonably believed to be the proceeds of crime are also committing an offence. The Ordinances use a list-based approach for defining predicate crimes (Schedule 1 and 2 of OSCO; Schedule 1 of DTROP), although the inclusion of all indictable offences provides an extensive list. Predicate offences for money laundering crimes in Hong Kong include acts committed overseas that constitute an indictable offence if committed in Hong Kong (OSCO s 25(4)).

Hong Kong has few offences relating to timber and they are not predicate offences for money laundering charges. Hong Kong has summary offences for importing, exporting, or possessing CITES listed species (ss 5–8 of the *Protection of Endangered Species of Animals and Plants Ordinance*). Possessing plants listed in the Forestry Regulation (s 2) is also an offence. The summary nature of these offences means they cannot be considered predicate crimes for money laundering charges.

Hong Kong's lack of indictable forestry offences precludes any illegal logging activities in Indonesia from being considered foreign indictable offences in Hong Kong. As a result, Indonesian logging crimes are not predicate offences for money laundering charges in Hong Kong. Those dealing with the proceeds of illegal logging in Indonesia, such as offenders hiding or moving the proceeds from Indonesia to Hong Kong, cannot be charged with money laundering in Hong Kong.

The offences in the *Prevention of Bribery Ordinance*, however, are predominantly indictable crimes (s 12) and potential predicate offences for money laundering convictions. The inclusion of foreign indictable offences as predicate crimes allows those in Hong Kong dealing with the proceeds of corruption offences committed in Indonesia to be charged with money laundering. This means anyone seeking to hide in, bring into, or remove from Hong Kong the proceeds generated by bribes paid to Indonesian public servants (s 4) to be charged with a money laundering offence in Hong Kong.

Hong Kong does not require a conviction for a predicate offence to initiate a money laundering prosecution. An offender can be charged with money laundering for dealing with the proceeds of crime if they should have had a reasonable suspicion that the funds were generated by criminal activities (OSCO s 25(1)). These aspects of money laundering offences in Hong Kong allow the possibility of charging anyone dealing with funds generated by a corruption offence in Indonesia, even without an Indonesian prosecution. This could include anyone moving funds through Hong Kong and may extend to those who did not take reasonable steps to determine the source of the funds. The key advantage of charging individuals in Hong Kong who are dealing with the proceeds of an Indonesian corruption offence is that it does not rely on an Indonesian conviction first. This approach can avoid the difficulties in the Indonesian judicial system for illegal logging and related corruption criminal cases that are exemplified by the Renouw case outlined in Box 2.

### Singapore's money laundering offences

Singapore's money laundering offences have many elements in common with the money laundering offences in Hong Kong. *The Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act* (CDSA) has eight offences which prohibit acquiring or possessing the proceeds of criminal conduct. Concealing, disguising, converting or transferring such

proceeds out of Singapore are also elements of the money laundering offences. Singaporean money laundering charges have two fault elements. First, an individual commits an offence by dealing with funds known to be the proceeds of a drug offence or other serious offence. Second, an individual may also be charged with money laundering for dealing with funds that would be reasonably suspected to be the proceeds of a drug or other serious offence (ss 46(2) and 47(2)).

Schedule 2 of the CDSA lists the proscribed serious offences that constitute criminal conduct for the purposes of money laundering charges. The predicate offences for money laundering charges extend to conduct carried out in another jurisdiction that would be a serious offence in Singapore. Singapore does not require a conviction for a predicate crime in order to pursue money laundering charges.

The list of serious offences that constitute predicate crimes includes Singapore's CITES offences and offences for importing regulated plants without a permit. The inclusion of these offences as predicate crimes allows those dealing with the proceeds from importing and exporting CITES-listed species and regulated plants without a permit to be charged with money laundering.

The extension of predicate offences to acts committed in another jurisdiction, if the act constitutes a serious offence in Singapore, also allows the prosecution of those dealing in the proceeds generated by some CITES

#### Box 2

In 2005, Marthen Renouw, a senior police official in Papua, was charged with bribery and money laundering for payments he received from individuals tied to companies involved in illegal logging activities. PPAIK identified IDR1.06b paid to Renouw allegedly to allow the companies to operate heavy logging machinery without a permit. The companies were raided in 2004 and 21 people were charged. Prosecutors sought three years' imprisonment and a fine of IDR50m at Renouw's trial in 2006. Renouw admitted receiving the funds but claimed they were spent on illegal logging investigations rather than his personal use. Renouw presented receipts for the bulk of the funds which were used to hire helicopters and other equipment.

Renouw was acquitted of the corruption and money laundering charges on the basis that there was no key witness. An unsuccessful appeal was lodged against the verdict. Non-government organisations suggest that the prosecution could have prepared a stronger case with the clear evidence of the payments received and could have sought higher penalties. Other financial information, such as other assets held by Renouw (including his other bank accounts), might have provided more evidence. It has also been suggested that the companies involved smuggled a large volume of timber to China and that this could only have been accomplished with the involvement of Renouw and numerous other officials (EIA & Telepak 2007; Nakashima 2006).



offences in Indonesia. As importing CITES plants is a serious offence in Singapore, Singaporeans dealing with the proceeds of CITES plants that have been illegally imported into Indonesia might be charged with money laundering.

There are no associated offences for exporting plants that are not CITES species from Singapore without a permit. This limits the ability of authorities to charge Singaporean residents who are dealing with the proceeds of species of timber illegally logged in Indonesia if those species are not listed in the CITES Appendices. In this case, the act taking place in Indonesia is not an offence in Singapore, therefore, the proceeds are not the proceeds of crime.

Bribery offences for soliciting, receiving, or giving a bribe to public servants, agents, members of parliament and members of public bodies are also listed predicate offences for money laundering charges in Schedule 2. This allows those in Singapore who are dealing with the proceeds of bribery payments made in Indonesia to be charged with money laundering in Singapore. This expands the potential for laying criminal charges against those in Singapore who are dealing with funds connected to illegal logging in Indonesia if the funds were generated by related bribery.

Singapore legislation distinguishes between money laundering offences where offenders are dealing with proceeds generated by their own criminal conduct and offences where funds are generated by the criminal conduct of another person. The offence of laundering funds on behalf of another party requires the launderer to disguise or conceal the origins of the funds with the intention of assisting a person to avoid prosecution for a serious offence, serious foreign offence, or the creation of a confiscation order (ss 47(2), 46(2)). The structure of the offence for laundering funds on behalf of another party (laundering to avoid prosecution or asset recovery) might impede using money laundering offences to charge those in Singapore dealing with the proceeds of illegal logging in Indonesia.

### Malaysia's money laundering offences

Engaging in, attempting, or abetting money laundering is a single offence under Malaysia's *Anti-Money Laundering and*

*Anti-Terrorism Financing Act 2001 (AMLA)* (s 4). Money laundering is defined as *transacting with the proceeds of serious crimes with the intent to disguise the source, the beneficial owner, or the location of the funds*. The definition includes acquiring, possessing, receiving, disguising, transferring, converting, exchanging, disposing of, removing from, or bringing the proceeds of unlawful activities into Malaysia.

Unlawful activities are those connected to a serious offence, although a money laundering charge is not dependent on a conviction for a predicate crime (s 4(2)). The Second Schedule of the AMLA lists the predicate offences for money laundering charges. The list of serious offences does not encompass any environmental crimes. Those dealing with the proceeds of illegal logging in Malaysia cannot be prosecuted for money laundering nor can those dealing with the proceeds of illegally logged timber in another country.

Offences from the Malaysian *Anti-Corruption Commission Act 2009* (ss 16–23, 26, 28) were included on the list of predicate crimes in Malaysia. Bribing an officer of a public body (s 21), accepting or offering an inducement (s 19) and misusing a position (s 23) are predicate offences for money laundering charges. Predicate crimes in Malaysia include serious offences committed in another jurisdiction or acts in another jurisdiction constituting a serious offence in Malaysia. Those in Malaysia dealing with the proceeds of an Indonesian corruption offence may be charged with money laundering.

### Predicate Indonesian crimes: Money laundering charges in the region

Charging offenders in Malaysia, Hong Kong and Singapore who are dealing with the proceeds of logging-related offences is an attractive extension to the Indonesian law enforcement response. There are, however, limits for laying money laundering charges in those three countries for logging offences. Singapore is the only country of the three that includes any forestry offences as predicate crimes. They are restricted to CITES offences which do not exhaust the means of illegally logging timber. None of the countries considered are able to charge those dealing with the proceeds of other Indonesian logging offences with money laundering.

Offenders in Hong Kong, Singapore and Malaysia who are dealing with the proceeds of bribery which occurred in Indonesia could be charged with money laundering. None of the three countries requires a conviction for an offence in Indonesia before a money laundering charge can be made. There are also no specific requirements for the predicate offences to meet the dual criminality requirements in any of the three countries. That the behaviour would constitute a serious offence if it took place in Hong Kong, Singapore, or Malaysia is sufficient to constitute a predicate crime. The inclusion of corruption offences (as predicate crimes) expands the ability to access criminal charges for those involved in the proceeds of illegal logging-related crimes.

### Following the money

One aspect of the 'following the proceeds of crime' law enforcement approach focuses on punishing and deterring offenders by depriving them of the wealth generated by their illicit activities. The following section looks at the ability to recover the proceeds of crime in the financial hubs of Singapore and Hong Kong.

### Asset recovery in Hong Kong

Hong Kong's Ordinances contain asset recovery provisions for the proceeds generated by specified offences. The regime allows criminal confiscation of assets where the total value of property generated by an offence is equal to HK\$100,000 or more (OSCO s 8 and DTROP s 3). Asset recovery may take place once a defendant has been convicted of a listed offence or even prior to completed proceedings in some circumstances.

OSCO provides an extensive list of specified offences for asset recovery proceedings in Schedules 1 and 2. OSCO's specified offences include bribing a public servant, soliciting or accepting bribes as a public servant, bribing the Chief Executive and soliciting or accepting bribes as the Chief Executive. The list of specified offences encompasses money laundering but does not include any crimes connected to illegal logging.

Hong Kong's money laundering and domestic asset recovery mechanisms potentially allow the confiscation of

proceeds generated by a corruption offence in Indonesia, although they cannot confiscate proceeds generated directly by illegal logging. Recovering these assets requires an offender in Hong Kong to be convicted of knowingly, or having a reasonable suspicion of, dealing with the proceeds of corruption as a foreign indictable offence. The funds in question need to be at least HK\$100,000. In Hong Kong, using this path does not require a conviction for corruption in Indonesia. The drawback of this approach is that where a third party has been convicted of money laundering connected to Indonesian bribery, the assets are not likely to be owned by the defendant in Hong Kong. The Criminal Procedure Ordinance allows instruments, materials and things retained by the Hong Kong Police or Customs and Excise Service in the course of an investigation to be disposed of. This might include the proceeds of a predicate offence (FATF-GAFI 2008). It is not clear if this provision may apply to a predicate offence committed overseas.

#### **Asset recovery in Singapore**

Singapore's domestic asset recovery system, like that of Hong Kong, is conviction-based. A confiscation order may be issued once a defendant has been convicted of a serious offence, although the conviction need not be for the criminal activity that generated the assets (ss 4–5). The serious offences that may lead to a confiscation order after a conviction are the same offences as predicate crimes for money laundering in Singapore. The inclusion of money laundering as a specified offence in the CDSA allows asset recovery proceedings where an individual is convicted of money laundering but has not been convicted of a predicate offence. The CDSA also contains unexplained wealth provisions (ss 5(6), 4(4)). A person subject to an unexplained wealth order must demonstrate to the court that their wealth has been legally acquired. If the court is not satisfied of the legitimacy of the wealth then the assets in question can be confiscated. As noted above, the defendant must be convicted of a serious offence for an application for an asset recovery order to be made.

Singaporean authorities can use the domestic asset recovery mechanisms to confiscate the assets of an offender convicted of laundering funds generated

by corruption offences in Indonesia. The recoverable assets are not limited to those immediately generated by the money laundering or by the corruption offence. This means that the Singaporean asset recovery system could be used to deter laundering the proceeds of Indonesian corruption. As is the case in Hong Kong, this may not be the best mechanism to repatriate to Indonesia any corruption funds sent to Singapore for concealment. Repatriating the funds to Indonesia relies on the launderer still retaining possession of the funds when a recovery order is issued.

*The Criminal Procedure Code* also allows property that has been the subject of an offence, or an alleged offence, to be confiscated (s 386) by Singaporean authorities. This may include the proceeds of a predicate offence, such as corruption, although the Code does not clearly extend this provision to offences committed in another country. If s 386 of the *Criminal Procedure Code* is interpreted this way, then it may be available to Singaporean authorities to repatriate corruption funds to Indonesia.

#### **Mutual legal assistance in Hong Kong**

Mutual legal assistance by Hong Kong offers other avenues for restraining and confiscating assets held in the country that were generated by corruption in Indonesia. Hong Kong's mutual legal assistance provisions are in the *Mutual Legal Assistance in Criminal Matters Ordinance* (MLAO) and the *Evidence Ordinance*. Hong Kong is able to provide mutual legal assistance to co-signatories of bilateral agreements (s 4) and to other countries who enter into a reciprocity understanding.

Hong Kong will provide assistance beyond criminal matters into ancillary matters such as asset recoveries. They will provide assistance for asset restraint or the confiscation of property linked to foreign offences with custodial sentences of at least two years. MLAO does not require the offence to carry a custodial sentence in Hong Kong. All requests for assistance, however, are constrained by dual criminality requirements. Hong Kong will enforce both criminal and civil confiscation orders, despite adopting a criminal confiscation system domestically. Requests for enforcing external confiscation orders are not subject

to the HK\$100,000 threshold imposed on domestic asset recoveries (Schedule 2). Hong Kong will consider requests for asset restraint where a criminal matter has commenced in the requesting country (but has not been concluded) and where an external confiscation order has been given, or one is expected to be issued.

Hong Kong has not signed an agreement with Indonesia to provide mutual legal assistance, although assistance can be provided with a reciprocity agreement.

MLAO's ancillary matters provisions allow Hong Kong the capacity to enforce external confiscation orders for CITES offences, some forestry regulation offences, money laundering and corruption offences committed in Indonesia. Mutual legal assistance for ancillary matters is not bound by the summary nature of some of these offences in Hong Kong in the same way that a money laundering charge is. Nor is assistance restricted to a list of proscribed offences as domestic asset recovery is. The constraint on using the MLAO is that the funds need to be the target of an Indonesian confiscation before Hong Kong can enforce.

#### **Mutual legal assistance in Singapore**

Singapore, like Hong Kong, is also able to provide mutual legal assistance for ancillary matters. The *Mutual Assistance in Criminal Matters Act* (MACM) allows Singapore to provide assistance to other jurisdictions for serious offences (ss 16–17). MACM uses the same definition of serious offences offered by the CDSA which includes money laundering, corruption offences and export or import of plants and scheduled species. The matters under request for assistance must correspond to one of the offences listed in CDSA.

Singapore will offer mutual legal assistance for foreign criminal confiscation orders where there is a reasonable suspicion the assets are held in Singapore. Singapore may enforce foreign civil confiscation orders, although criminal proceedings must be underway for Singapore to recognise the order (s 29(3)).

Singapore may provide assistance to jurisdictions proscribed by the Minister of Law and those who enter into a reciprocity agreement (s 17(1)). Indonesia has not yet entered into an agreement with Singapore.

Singapore is able to enforce asset confiscation orders issued by Indonesia with a reciprocity undertaking. The confiscation order must be in connection to an offence corresponding with the serious offences in CDSA. The order, however, cannot be subject to appeal. A civil confiscation order may be enforced, although criminal proceedings need to be underway in Indonesia for the proscribed offence, and an order issued in Indonesia, for Singapore to enforce it.

## Some conclusions

Criminal money laundering charges, domestic proceeds of crime recoveries and mutual legal assistance offer different opportunities to use the AML systems in Hong Kong, Singapore and Malaysia to increase the availability of law enforcement outcomes for illegal logging activities in Indonesia. All three mechanisms have limitations, however, that make following the proceeds of illegal logging in Indonesia more complex than some authors have previously suggested.

Tracking the proceeds of illegal logging, and related corruption, through Singapore and Hong Kong would be aided with memoranda of understanding between Indonesia and these countries.

The key advantage of expanding the use of AML criminal and regulatory provisions to illegal logging issues, despite the limitations, is that the AML frameworks are already in place. Applying AML systems to stem illegal logging offences is a way for countries in the

region to offer assistance to tropical timber countries without the need to develop new, and potentially resource and time intensive, approaches.

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