Targeting Natural Resource Corruption

Welcome! We will begin shortly.

This is a Zoom webinar. All participant videos are off and lines are muted, but please feel free to introduce yourself in the chat.

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Trade Discrepancy Analysis: A Tool to Identify Environmental Corruption and Associated Illicit Financial Flows

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Terrorism, Transnational Crime and Corruption Center, GMU

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TRAFFIC

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Environmental Investigation Agency

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Terrorism, Transnational Crime and Corruption Center, GMU (Moderator)

James Morgan / WWF

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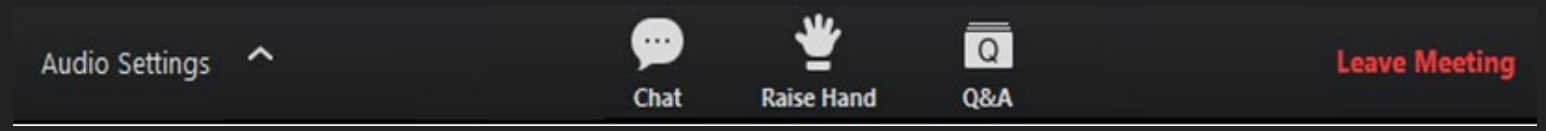
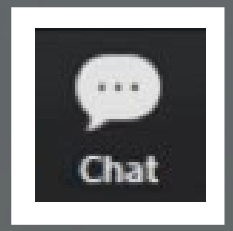
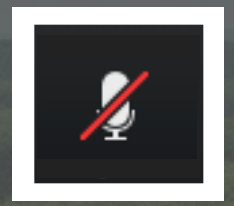
Get Engaged





1. Exchange thoughts with other participants via chat

Introduce yourself and share your own insights and questions in the chat window



2. All participants are muted

Given high attendance in this webinar, all lines will remain muted

James Morgan / WWF

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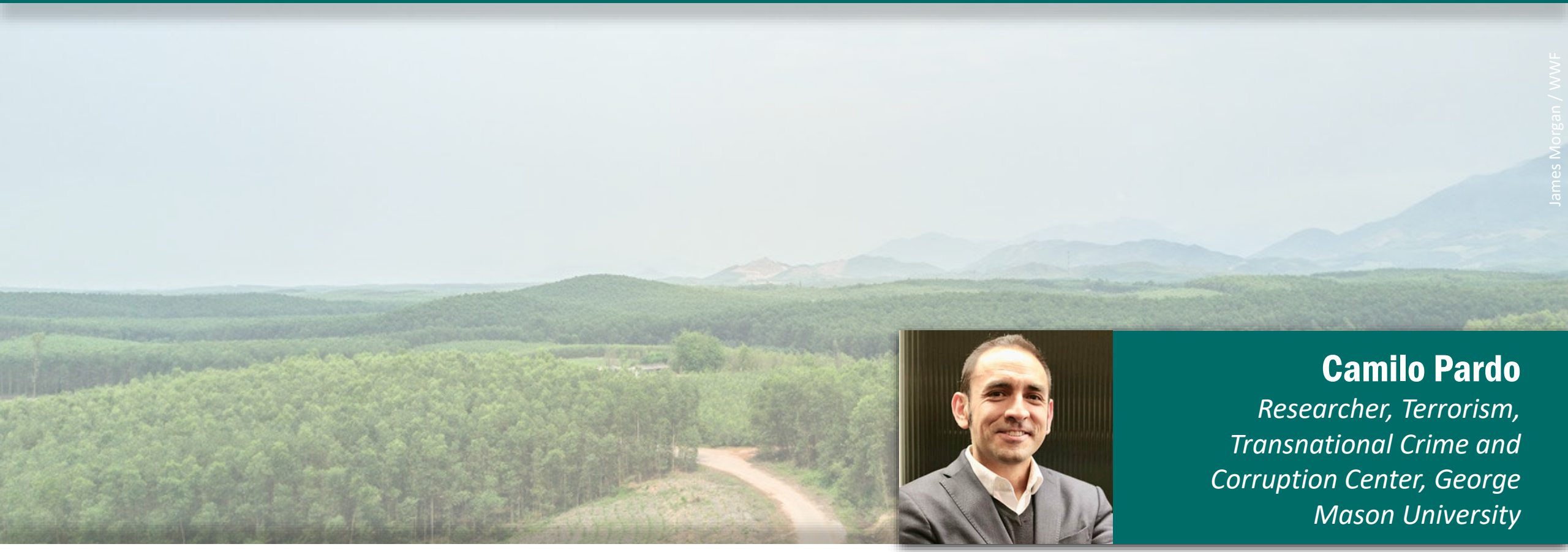

James Morgan / WWF

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Researcher, Terrorism, Transnational Crime and Corruption Center, George Mason University

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The Vietnamese Furniture Industry: A Trade Discrepancy Analysis

Presentation by:

Camilo Pardo-Herrera, PhD

Contents

1. Trade discrepancy as a method of Analysis
2. Results
   - Vietnam Timber Imports
   - Vietnam Furniture Exports
3. Takeaways

Trade Discrepancy Analysis

Trade Discrepancy Analysis
As Method of Analysis

- The difference between the trade value recorded by the importing country and that recorded by the exporting country

- Various levels depend on data aggregation
  - National level
  - Country-pair – national level
  - Commodity level
  - Transaction level

Trade Discrepancy Analysis
As Method of Analysis

- Can evince illicit financial flows (IFF)

  Movement of money and assets across borders that are illegal in their source, transfer or use
  - Tax evasion
  - Money laundering
- Criminal behavior **does not always** explain trade discrepancies
  - Reporting errors
  - Data aggregation

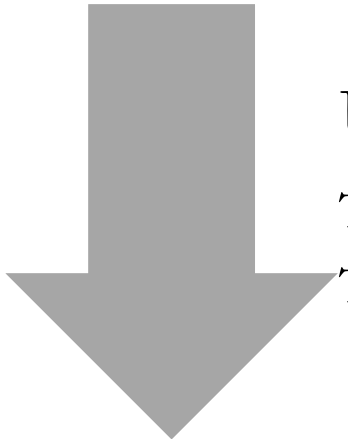
Trade Discrepancy Analysis

Overvalued Exports

Bring funds into the country

Subsidy abuse

Money laundering



Undervalue Exports

Tax evasion

Transfer funds out of the country

Trade Discrepancy Analysis

Overvalued Exports

Bring funds into the country

Subsidy abuse

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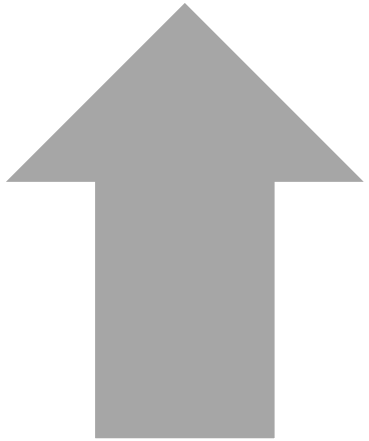
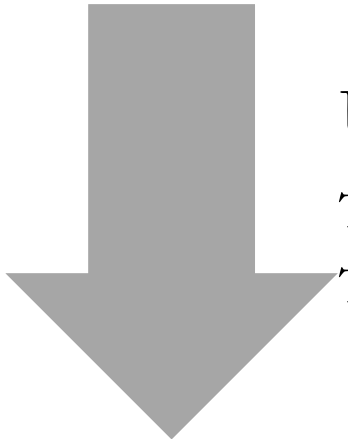


Overvalued Imports

Tax evasion

Transfer funds out of the country



Undervalue Exports

Tax evasion

Transfer funds out of the country

Undervalued Imports

Bring funds into the country

Money laundering

Tax and custom duties evasion

Trade Discrepancy Analysis
Data Analyzed

- United Nations International Trade Statistics Database
  - Trade statistics from 170 countries
  - Commodities by categories (HS Codes) and partner countries
  - Exports (FOB) & Imports (CIF)

- All wood or wood products identified with the following HS Codes:
  - HS44
  - HS4401 to HS4421
  - HS940161, 940169
  - HS940330, 940340, 940350, 940360

Trade Discrepancy Analysis

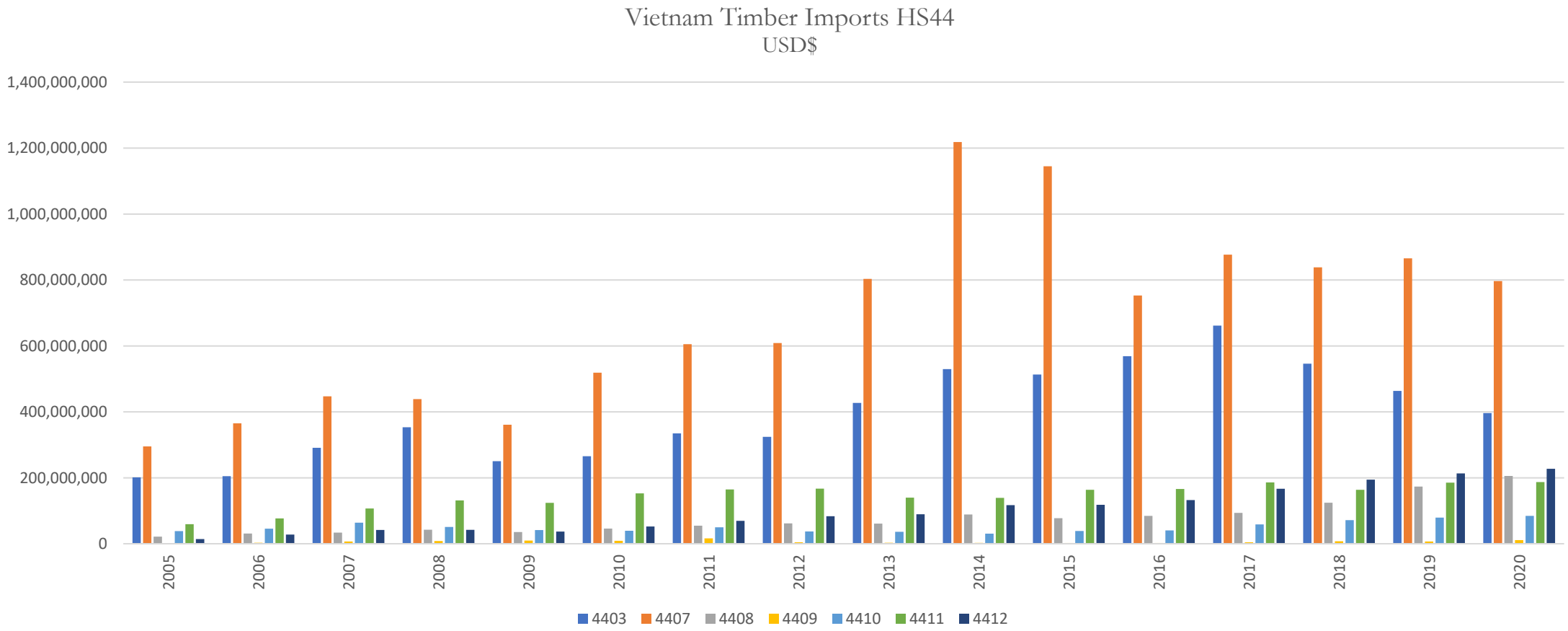
Countries Analyzed

1. Cameroon
2. Cambodia
3. Laos
4. Congo
5. Nigeria
6. Gambia
7. Gabon
8. Ukraine
9. Liberia
10. Papua New Guinea
11. Russia

1. China
2. USA
3. Japan
4. Korea
5. United Kingdom

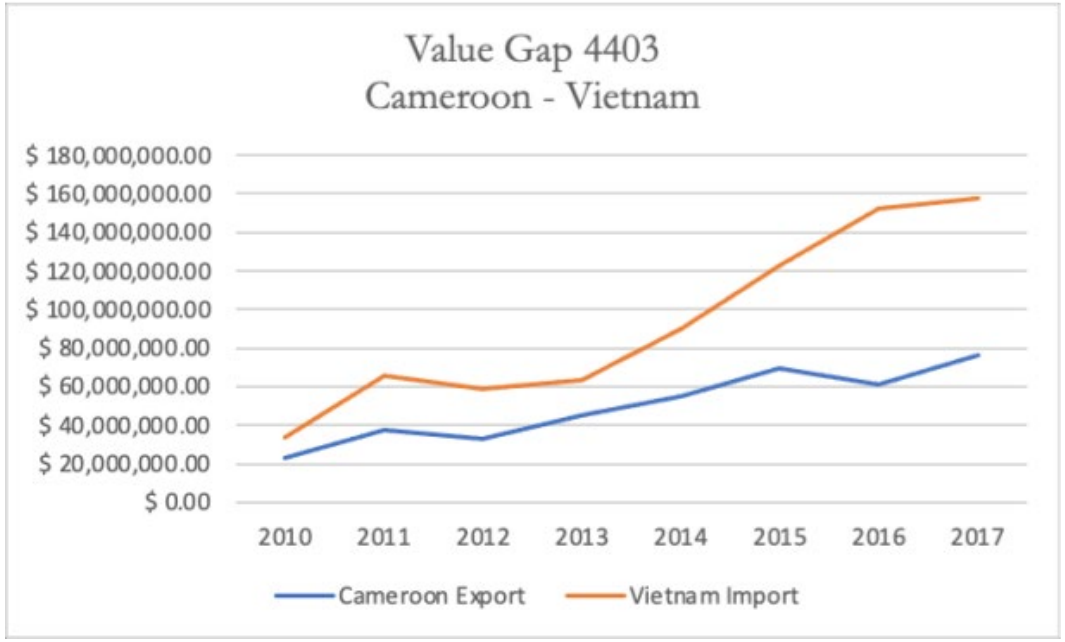
Results
Vietnam Timber Imports

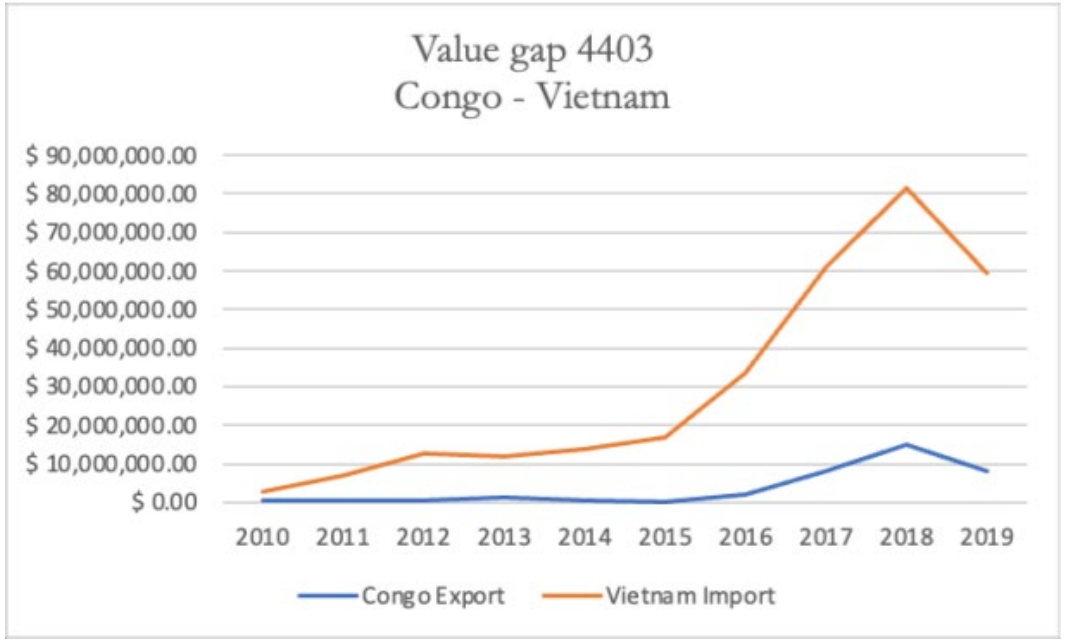
Results
Vietnam Timber Imports



Results

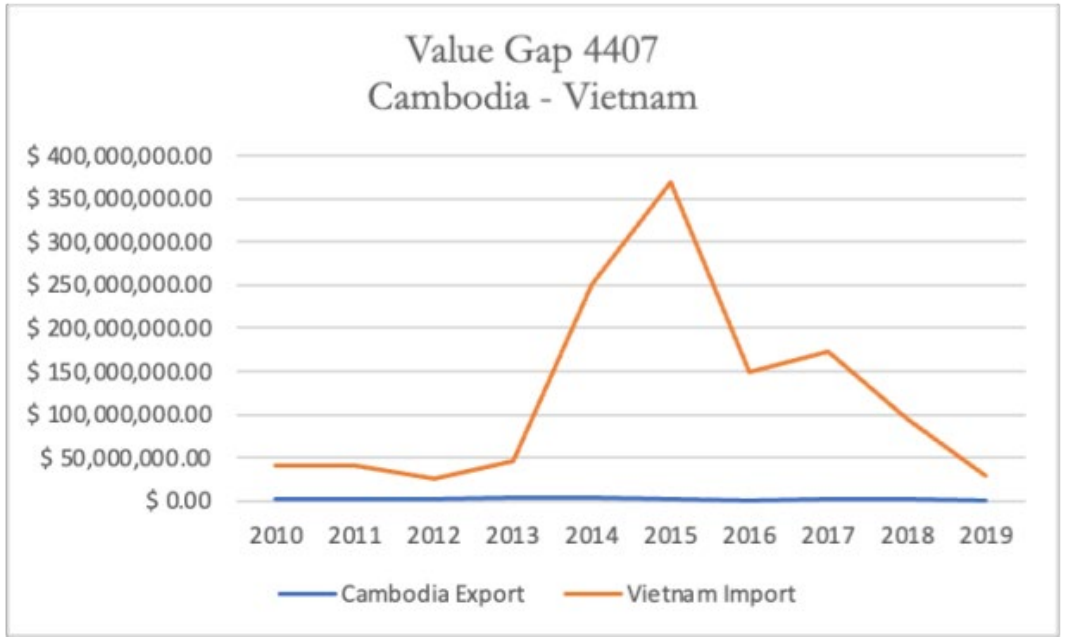
Gaps in Vietnam Timber Imports





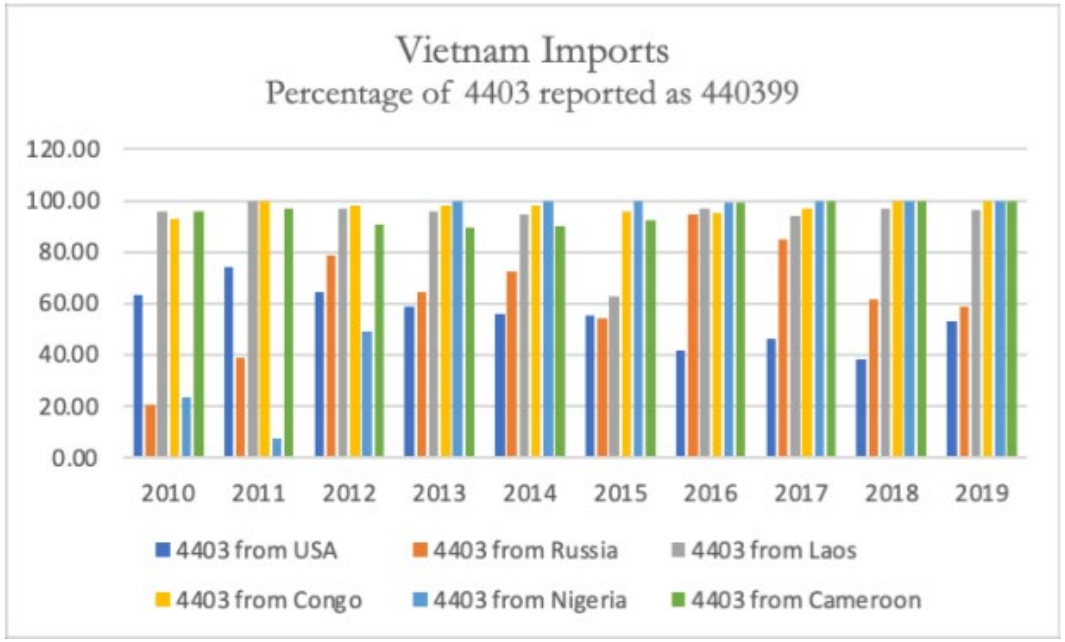
Results

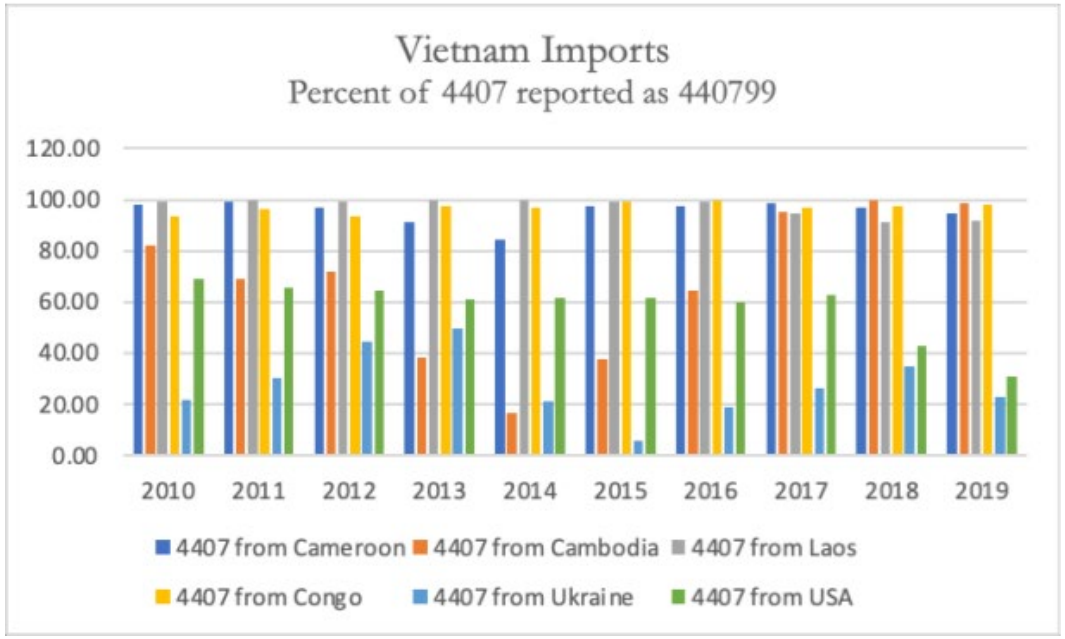
Gaps in Vietnam Timber Imports



Results

Mislabeling of raw wood





Results
Vietnam Furniture Exports

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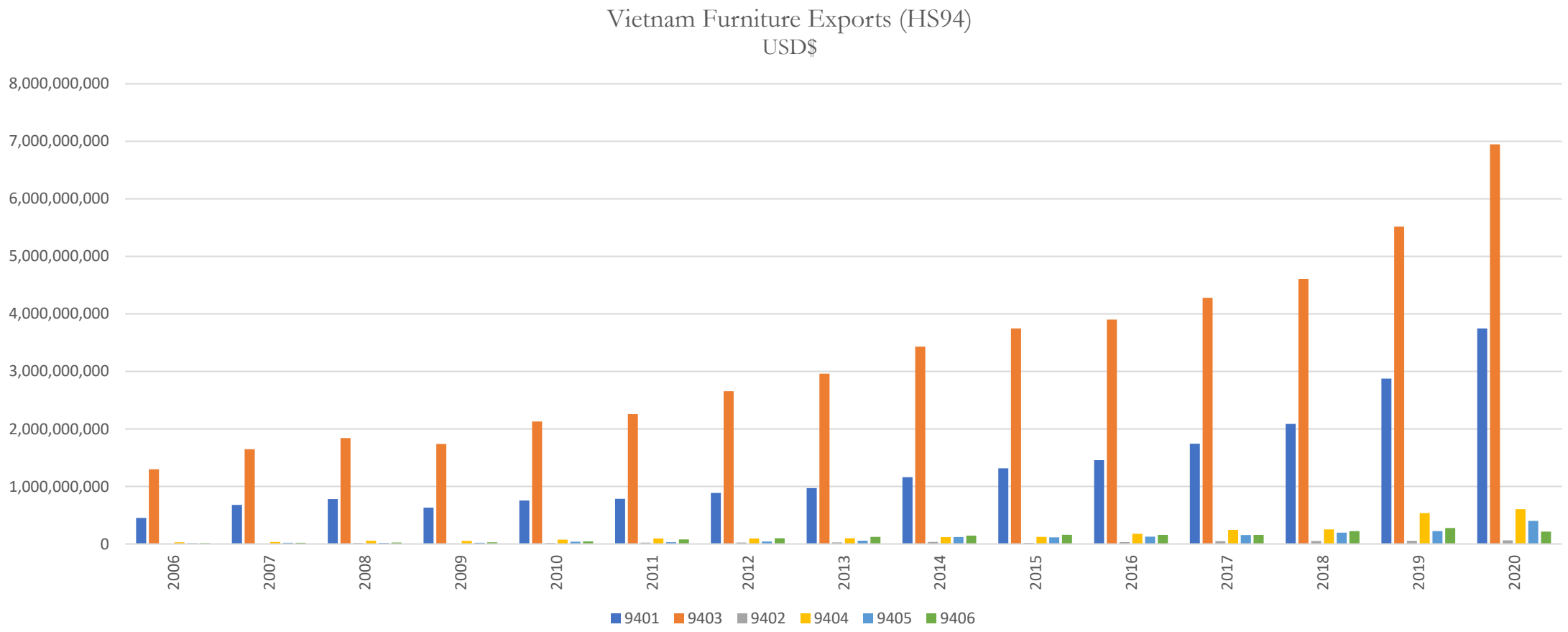
Vietnam Furniture Exports

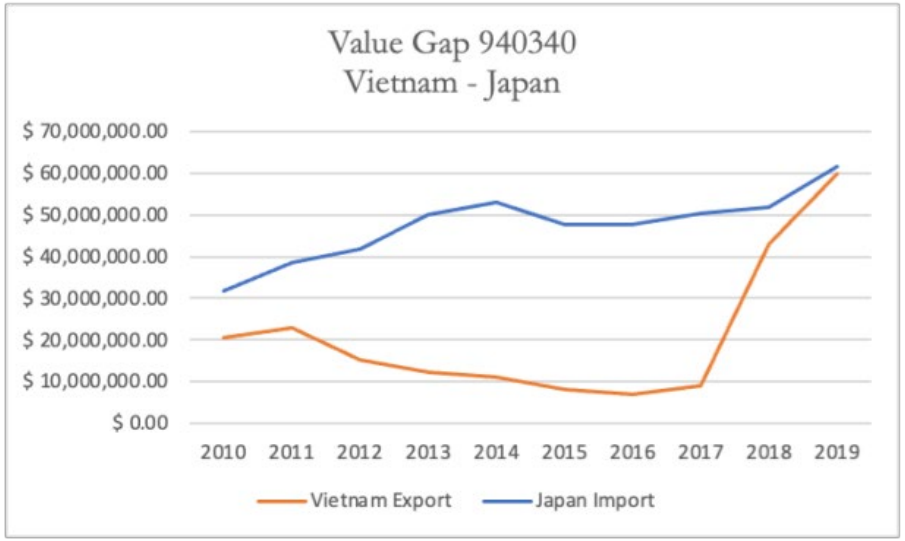


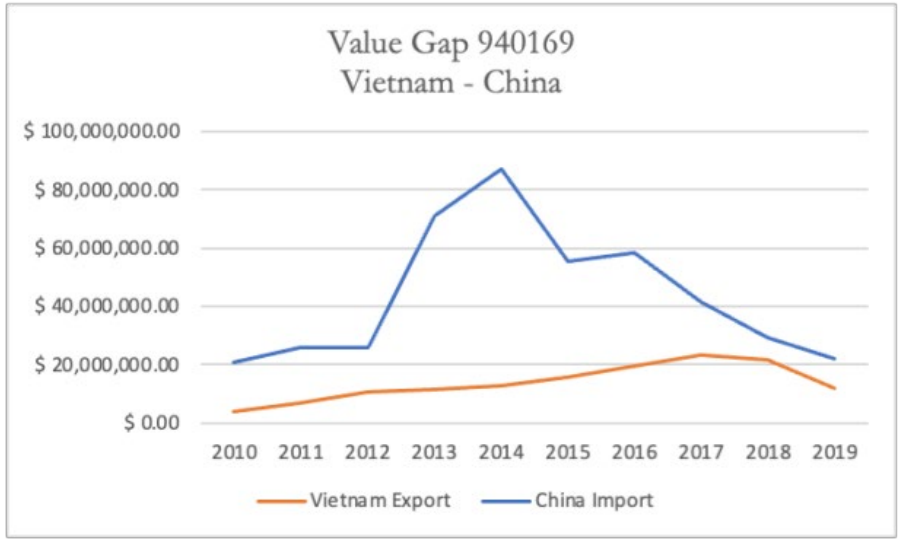
Results

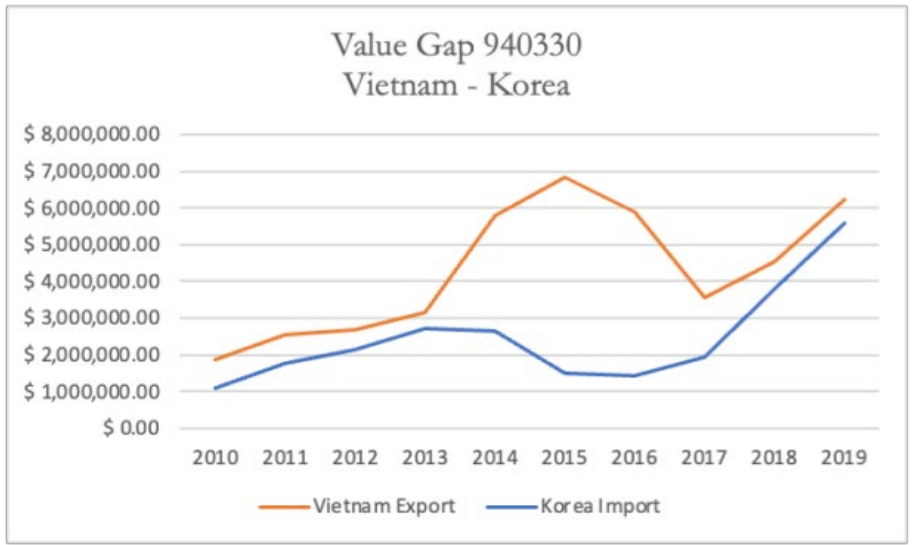
Vietnam Furniture Exports

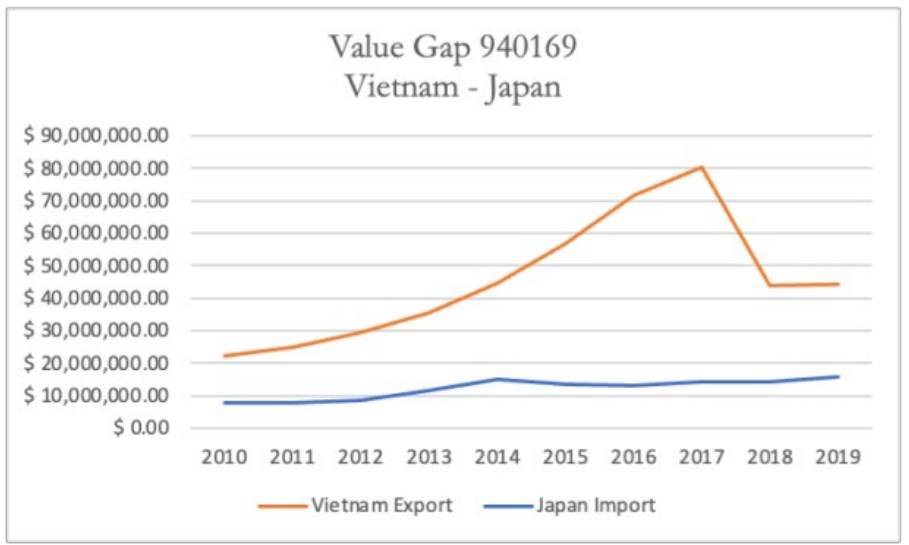
Results

Vietnam Furniture Exports



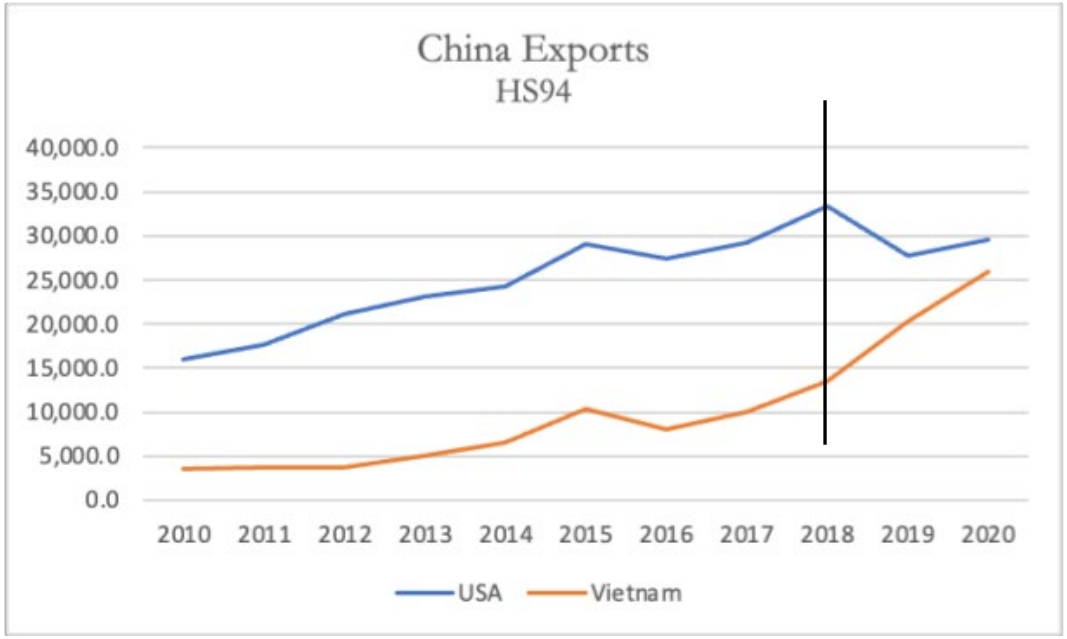






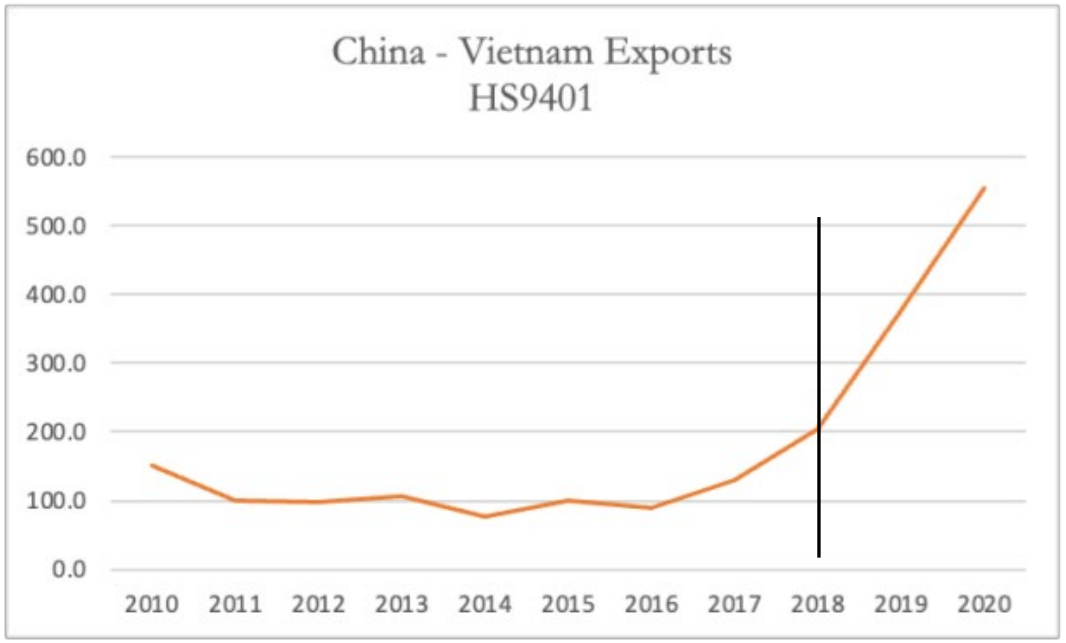
Results

Transshipment of Chinese furniture through Vietnam



Results

Transshipment of Chinese furniture through Vietnam



Trade Discrepancy Analysis: A Tool to Identify Environmental Corruption and Associated Illicit Financial Flows

James Morgan / WWF

Hin Keong Chen
Senior Advisor – Forest Governance and Trade, TRAFFIC

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TRAFFIC

Chen Hin Keong
Senior Advisor –
Forest Governance and Trade

Virtual panel:

Trade Discrepancy Analysis: A Tool to Identify Environmental Corruption and Associated Illicit Financial Flows

September 14, 2021

Trade Discrepancy Analysis – as a tool

- Understanding how international trade statistics are captured and compiled
  - National customs -> national statistics department -> international platforms such as UN COMTRADE
  - Key data sources – Customs Export Declaration form, and Customs Import Declaration form
- Legality depends on a number of factors along the supply chain

PREMISE:

Illegality

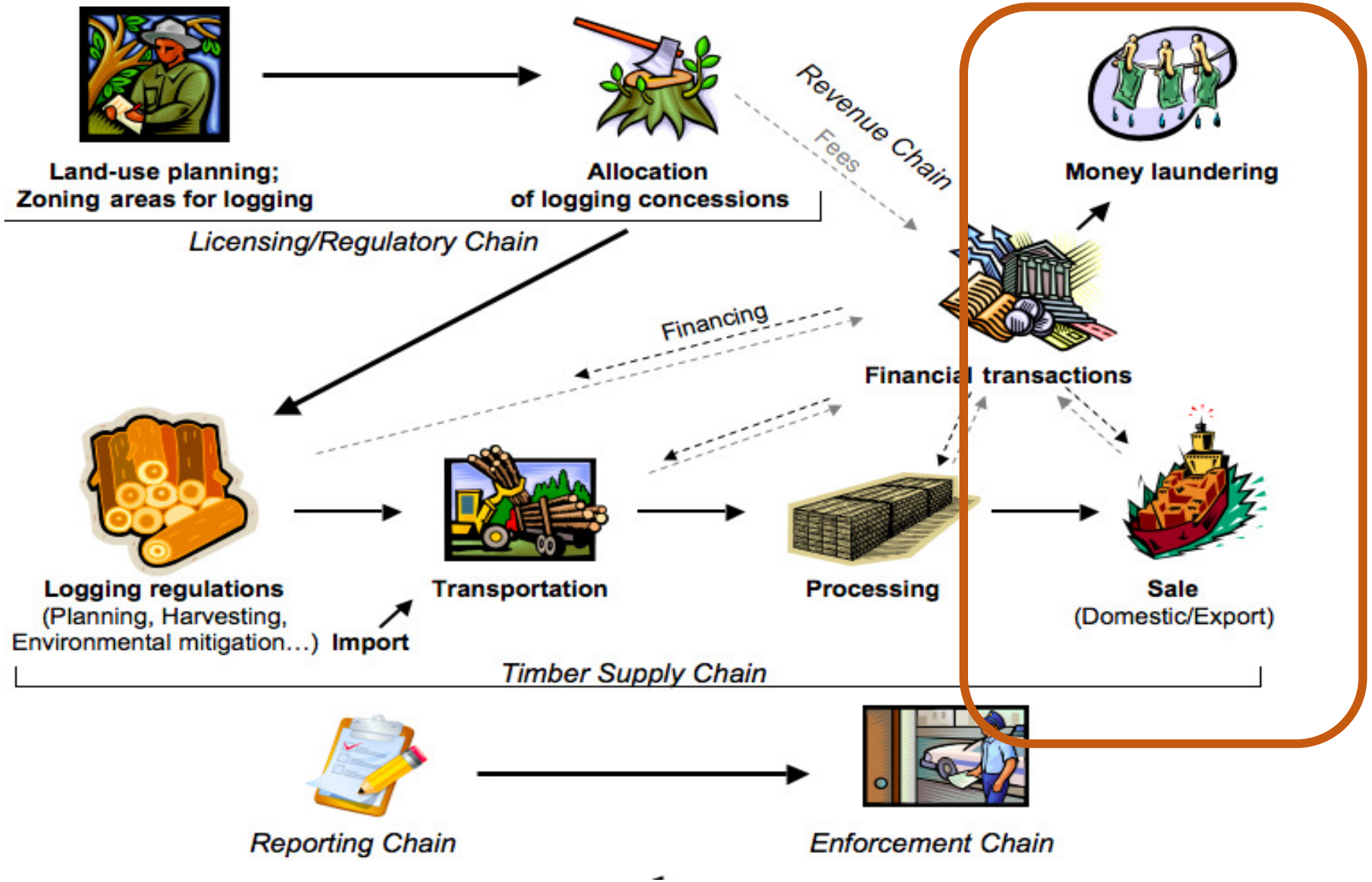
?

corruption

Resource and supply chain context to the trade discrepancy analysis

- Policy
- Legislation
  - National
  - international measures (CITES, US Lacey, EUTR/VPA, Australia AILPA, South Korea, Japan, Canada, etc.)
- Institutional
  - Resource management and extraction of logs
  - Tracking and traceability of raw, semi-processed materials and final products (markings and labeling, paper-base, electronic, etc.)
  - Revenue, fees and taxes (royalties, administrative fees related to products and business)
  - Documentation reporting related to products

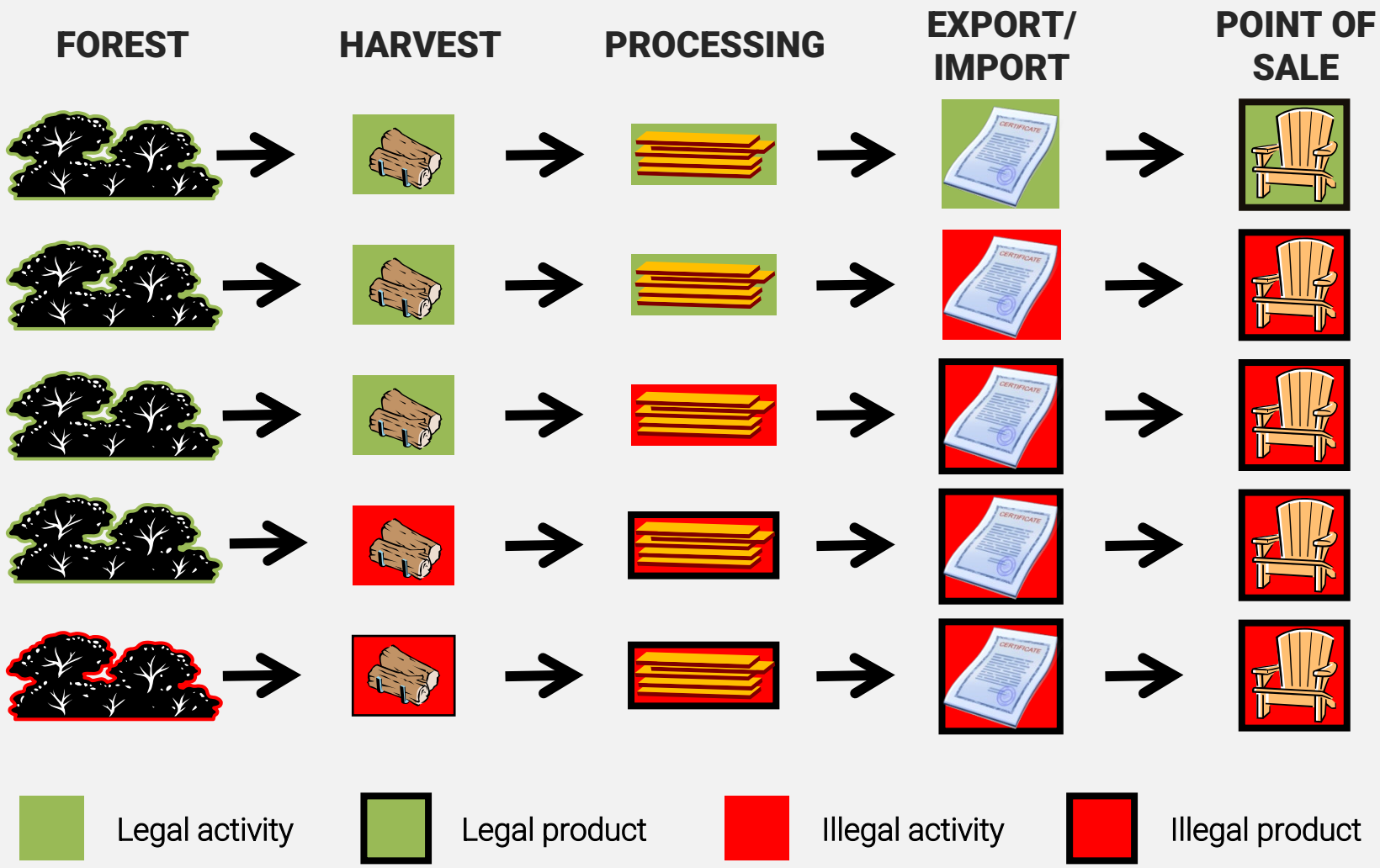
Generic timber supply chain and financing



(Source:Arthur G Blundell, &Emily E Harwell, 2009)

TRAFFIC

ILLEGAL ACTIVITY IN **SUPPLY CHAINS**



ANY ILLEGAL ACTIVITY anywhere along the Trade Chain = Illegal Product at the end of the Trade Chain

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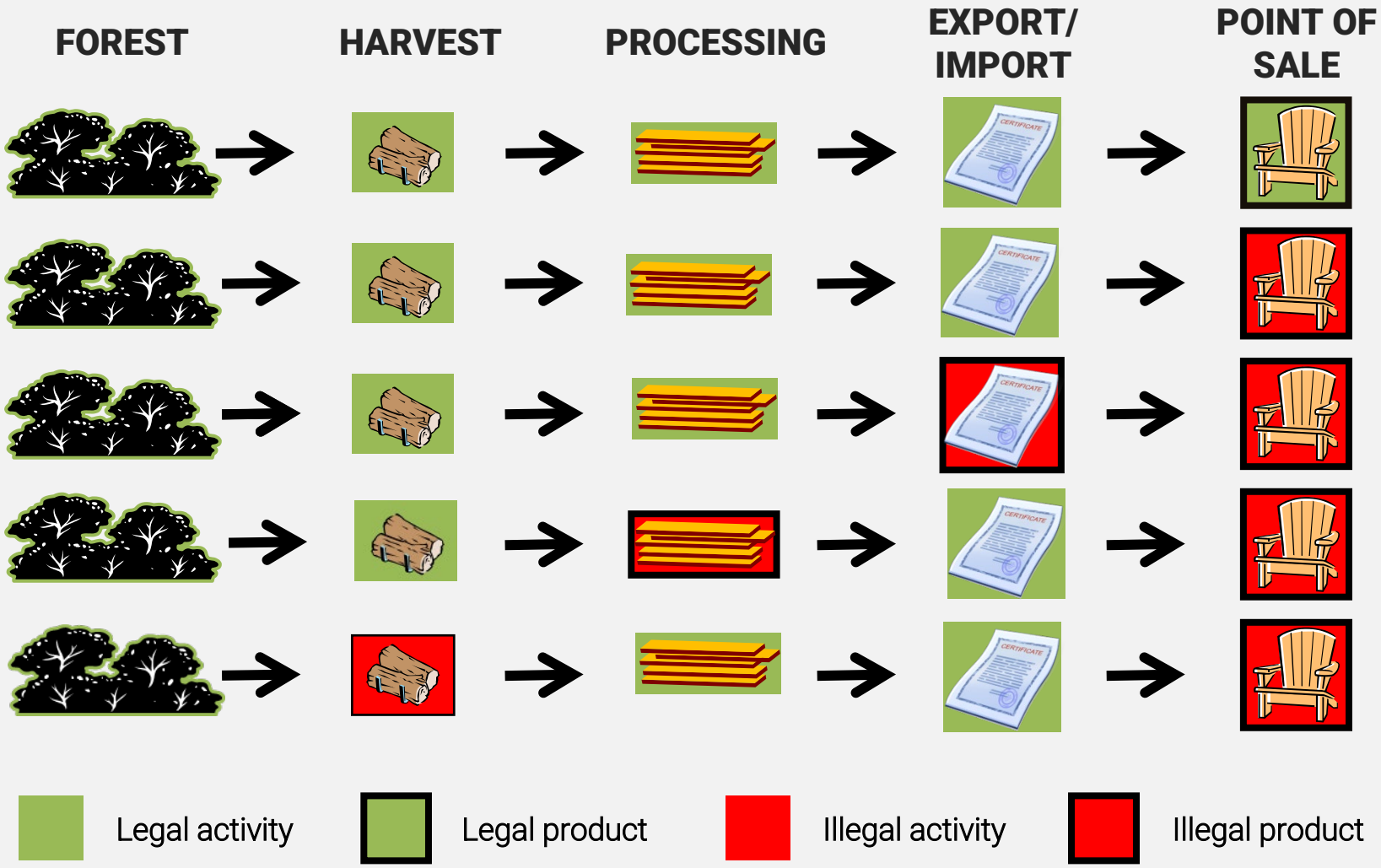
ILLEGAL ACTIVITY IN **SUPPLY CHAINS**



ANY ILLEGAL ACTIVITY anywhere along the Trade Chain = Illegal Product at the end of the Trade Chain

Issues and challenges in interpretation of trade discrepancy analysis as a tool to combat illegality and by extension, corruption

- Data capture – national statistics -> international statistics
  - Accuracy of records and records transmission
  - Accessibility
  - Up-to-date/current
- Resolution of the descriptors of products used by WCO and Customs Administration through HS codes to six digits
- Granularity of the statistics using HS codes – aggregation of shipments records/HS codes
- Limited or no species defined in the HS codes except for some national HS codes to the 9 digits
- Currency exchange rate fluctuations vs volumes and weights discrepancies
- No access to other supporting documents and information held by Customs for the shipments

Enhancing interpretation of trade discrepancy analysis

- Individual bilateral shipments at a finer level – daily, weekly, monthly, quarterly, etc.
  - Challenge – timely access to data in both countries (when are national statistics available from Vietnam and trading partner countries?)
- National policies – forestry, industrialisation, logging bans, log export bans, semi-processed products bans, trade restrictions, quotas, etc. (Cambodia banned exports of all timber to Vietnam in 2016; Lao PDR ban export of logs and sawnwood from natural forests in 2016). Vietnam negotiating the EU Forest Law Enforcement Governance and Trade (FLEGT) Voluntary Partnership Agreement (VPA) in 2010, various decrees enacted over the years and corresponding procedures and implementation criteria)
- National legislations
  - permits needed for export and/or imports from designated agency (forestry, trade, customs, CITES Management Authority, etc.)
  - Duties, fees, taxes, etc.
  - Transhipment procedures and verification
- Values captured – verification against market price
- Systemic versus opportunistic corruption to facilitate shipment

- Customs Administrations should request for the Customs export declaration form submitted together with other supporting documents during imports.
  - This will assist in confirming the values, weight, volumes of the approved trade from the country of export, as recorded by Customs, which enters the statistics.
  - Further verification with the supporting documents, such as manifest, bill of lading, invoices, etc. will help in reducing trade discrepancies, and may provide information on species being traded.

TRAFFIC

THANK YOU

www.traffic.org

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Forests Campaigner, Environmental Investigation Agency

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ENVIRONMENTAL INVESTIGATION AGENCY

Virtual Panel:
Trade Discrepancy Analysis

14 September 2021

Thomas Chung, Forests Campaigner EIA

Overview

ENVIRONMENTAL INVESTIGATION AGENCY

1. TDA use case
2. VNTLAS Vietnam

Use case: Myanmar –trade discrepancy

ENVIRONMENTAL INVESTIGATION AGENCY

Table 2: *Declared exports and imports HS codes 4407 and 4418 Myanmar and world for 2019* [29]

			HS Code	Weight (kg)	Value $
Myanmar	Export	World	4407	35,414,138	43,525,889
World	Import	Myanmar	4407	125,608,045	154,674,162
Myanmar	Export	World	4418	33,756,435	68,549,248
World	Import	Myanmar	4418	3,744,094	5,422,012

Table 3: *Declared exports and imports HS codes 4407 and 4418 Myanmar and EU28 for 2016-19* [30]

			HS Code	Weight (kg)	Value $
Myanmar	Export	EU 28	4407	16,566,050	25,402,179
EU 28	Import	Myanmar	4407	23,675,948	137,724,283
Myanmar	Export	EU 28	4418	6,120,069	28,525,564
EU 28	Import	Myanmar	4418	376,064	1,720,307

Myanmar –trade discrepancy

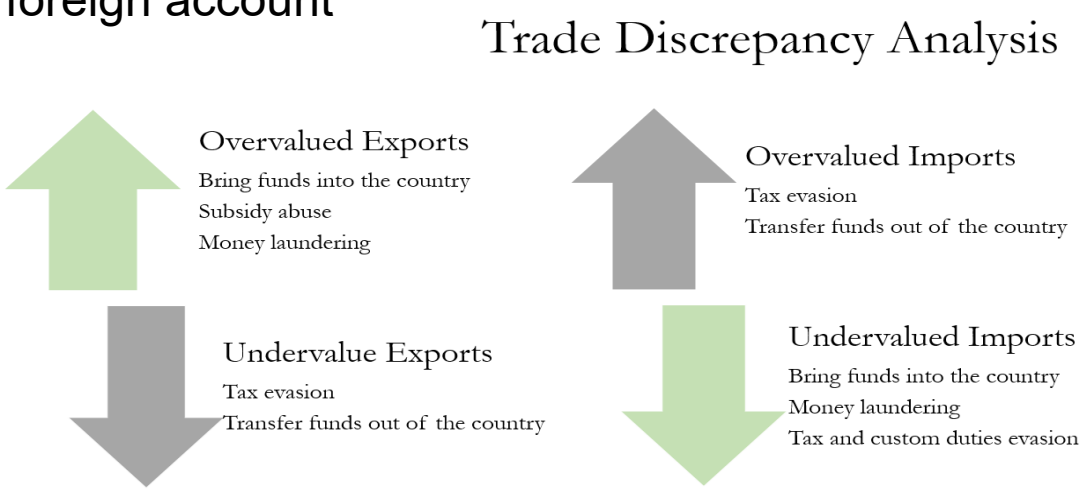
ENVIRONMENTAL INVESTIGATION AGENCY

- discrepancies in weight, value and Harmonised System (HS) code
- Could be indicators of attempts to evade paying tax and, possibly, other activities like money laundering
- Intelligence showed that certain EU countries are more likely targeted
- Freedom of information request Croatia

Detailed trade discrepancy analysis

- often notable differences in the declared values of the shipments e.g. value of $65,870 on the export declaration and value of $274,184 on the declaration at destination

Export under-invoicing involves under-reporting the amount of exports leaving a country in order to evade or avoid taxes on corporate profits in the country of export by having the difference in value deposited into a foreign account



ENVIRONMENTAL INVESTIGATION AGENCY

2

2 Pošiljatelj/Izvoznik Br: ---
33 Tarifna oznaka 44072995 00
15 Sif. zem. otp./izv. ---
32 Br. st. 1
31 Pakiranje i opis robe
Oznake i brojevi - kontejner (br.) - broj i vrsta
(10892 PC PAKETI)
(CSNU6721370) DASKE OD TIKOVINE NE BLANJANE I NE BRUŠENE
Drvo obrađeno po dužini piljenjem ili glodanjem, rezano ili ljušteno, neovisno je li blanjano, brušeno ili spojeno na krajevima ili ne, debljine veće od 6 mm:-tropsko:--ostalo:--- teak, tiama, tola:----ostalo:-----ostalo:------ostalo
34 Šif. zem. podr. a MM b
35 Bruto masa (kg)
36 Prefer. 100
37 Postupak 4200 ---
38 Neto masa (kg) 15.744,770
39 Kvota
40 Isprava/prethodni dokument
(Z ZZZ 60178/2019/447/003728 OD 18.03.19.)
41 Posebna mjerna jedinica
(18,742 MTQ)
42 Vrijednost stavke 274.184,76
43 MV 1
46 Statistička vrijednost 1.806.457,91

1

14.No	15.Hscode	16.Description of Goods	17.UnitCode	18.UnitPrice	19.Quantity	20.Value(USD)
	4418100030	Teak Scantling, Board, Decking, Skirting and T & G Teak Scantling T(1"~1.75") x W(4"~5") x L(6'~15") As Per List Attached (10) Items Only	KG		15744.7677	65870.60

21. Remarks
Send a copy of Bill of Lading after completion

Reg.No. 2522 Pg.No. 07

22. The particulars declared by me/us are true and correct.
Signature :
Name : Min Thu
Designation : 121/DA GA TA (N) 056485/ 09794774923
Date :

23. Conditions
,EICC (11/2019)
Incoterm ပါသတ်မှတ်ချက်များအတိုင်းလိုက်နာ
ဆောင်ရွက်သွားရန်ဖြစ်ပါသည်။
သစ်တောဦးစီးဌာန၏ ၂16.01.2019) ရက်စွဲပါစာအုပ် အမှတ်
(N – 158) စာမျက်နှာအမှတ်(30) အရ ခွင့်ပြုသည်။
ခွင့်ပြုပစ္စည်းမှလွဲ၍ အခြားပစ္စည်းများ
ရောနှောသယ်ဆောင်ခွင့်မပြုရန်ဖြစ်ပါသည်။

Date: 07 FEB 2019

24. Revenue Stamp
ကုန်ပစ္စည်းစစ်ဆေးရေးအပွဲအတည်းတစ်ရုံနှင့်
စစ်ဆေးပြီးစာသဘောကောင်ပိုင်ခွင့်ပြုသည်။

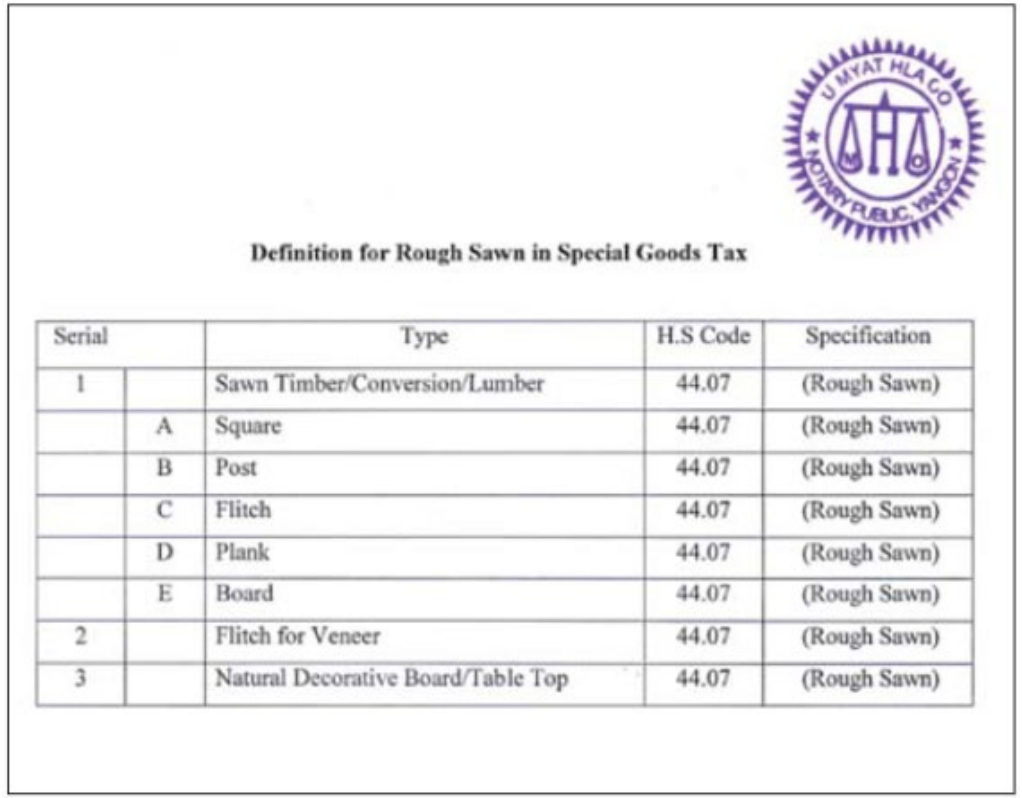
25. EXPORT LICENCE issued subject to conditions stated hereon.
for DIRECTOR GENERAL
Date of Issue:
Stamp

Official declaration forms in Myanmar (1) and Croatia (2)

Myanmar –Tax system

- Myanmar applies a Special Goods Tax (SGT) on exports of wood logs and wood cuttings, including sawn wood, but not on more processed timber products.
  - 10 % on timber logs and wood cuttings of 10 square inches and above

- Additionally, the Myanmar Customs Tariff (MCT) has a higher rate for export of less processed timber products compared to those that are value added.
  - 15% vs 3%



Definition for Rough Sawn in Special Goods Tax

Serial		Type	H.S Code	Specification
1		Sawn Timber/Conversion/Lumber	44.07	(Rough Sawn)
	A	Square	44.07	(Rough Sawn)
	B	Post	44.07	(Rough Sawn)
	C	Flitch	44.07	(Rough Sawn)
	D	Plank	44.07	(Rough Sawn)
	E	Board	44.07	(Rough Sawn)
2		Flitch for Veneer	44.07	(Rough Sawn)
3		Natural Decorative Board/Table Top	44.07	(Rough Sawn)

Above: Photocopy of Government notification of goods under HS code 4407

Detailed trade discrepancy analysis

ENVIRONMENTAL INVESTIGATION AGENCY

- A review of the declared exports of timber products from Myanmar to Croatia and Croatia's declared imports for 2018 and 2019 allows to estimate that the actual SGT paid was $96,476; based on the declared HS code 4407 imports to Croatia from Myanmar, the amount that should have been paid was an estimated $568,027.

- In terms of MCT, the amount we calculate to have been paid for 2018 and 2019 was $28,943, while the amount that should have been paid was $852,041. Therefore, for Myanmar timber exports to only Croatia for the period 2018-19, we calculate the total avoided tax to be $1,294,649.

ENVIRONMENTAL INVESTIGATION AGENCY

Import control - VNTLAS

Vietnam – VPA Implementation

ENVIRONMENTAL INVESTIGATION AGENCY

Timber governance reform in Vietnam:

2018: October, the EU and Vietnam signed a VPA

2019: June, the Vietnam-EU VPA entered into force

2020: October, Vietnam Timber Legality Assurance System (VNTLAS) decree comes into force -> All imports and exports are subject to VNTLAS control

Implementation ongoing

THE GOVERNMENT

SOCIALIST REPUBLIC OF VIETNAM
Independence - Freedom – Happiness

No. 102/2020/ND-CP

Hanoi, September 01, 2020

DECREE

VIETNAM TIMBER LEGALITY ASSURANCE SYSTEM

Pursuant to the Law on Government organization dated June 19, 2015;

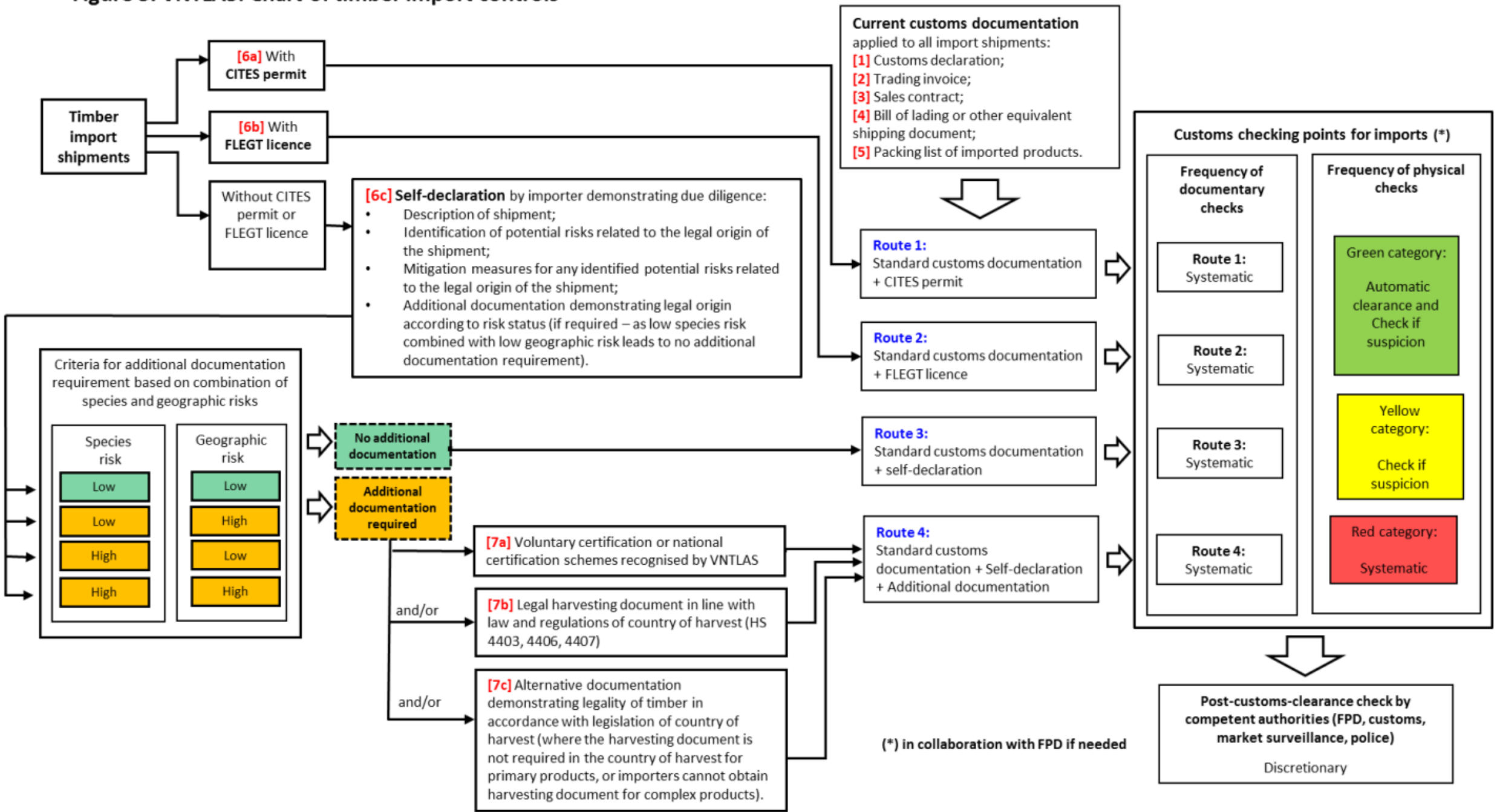
Pursuant to the Law on Forestry dated November 15, 2017;

Pursuant to the Voluntary Partnership Agreement on Forest Law Enforcement, Governance and Trade (VPA/FLEGT) between Vietnam and Europe Union, which comes into force from June 01, 2019;

At the request of the Minister of Agriculture and Rural Development;

The Government promulgates a Decree on Vietnam Timber Legality Assurance System .

Figure 3. VNTLAS: Chart of timber import controls



Source: VPA Document, Annex V

Conclusion

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- TDA is a useful tool for finding research entry points on a general level
- Aggregated trade data is freely available and can easily be used for TDA but is often not up to date
- Discrepancy does not automatically indicate illicit activity but should be checked for underlying causes
- Disaggregated TDA is dependent on data and supporting information availability - can be used to identify underlying causes
- Timber legality assurance systems are not designed to account for trade discrepancies in risk assessment:
  - Require due diligence systems to include tax receipts or other evidence of tax payments where invoices for timber are for payment into countries that are not the origin country of the timber
  - Require due diligence systems to include tax receipts or other evidence of tax payments where harmonised system codes change between country of export and country of import

ENVIRONMENTAL INVESTIGATION AGENCY

www.eia-international.org

Trade Discrepancy Analysis: A Tool to Identify Environmental Corruption and Associated Illicit Financial Flows

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Targeting Natural Resource Corruption

Harnessing knowledge, generating evidence, and supporting innovative policy and practice for more effective anti-corruption programming

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