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Subcommittee on National Security, International Development, and Monetary Policy

Hearing entitled

**From Timber to Tungsten: How the Exploitation of Natural Resources
Funds Rogue Organizations and Regimes**

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Laundering Illegal Logged Timber in the Peruvian Amazon, criminal organizations benefit from corrupt government practices with devastating consequences for indigenous peoples, the environment and the climate crisis

Thank you, Chairman Himes and Ranking Member Barr, for the opportunity to appear before this subcommittee today. I am Carla García Zendejas, Director of People, Land, and Resources at the Center for International Environmental Law (CIEL), a nonprofit organization that uses the power of the law to protect the environment, promote human rights, and ensure a just and sustainable society. CIEL works closely with a broad range of stakeholders in the United States, Latin America, and around the world on a diverse range of issues in environmental law and policy, including climate change, toxic chemicals, natural resource conservation and extraction, international financial institutions, human rights, biodiversity, and international trade.

Forests play a vital role in mitigating climate change, protecting biodiversity, and supporting the lives and livelihoods of Indigenous Peoples and local communities. Deforestation and forest degradation driven by unsustainable and illegal logging increasingly threaten the ability of forest ecosystems to fulfill these critical functions. For decades CIEL has worked to reduce the demand for illegal and unsustainable timber using legal tools such as the Lacey Act, the European Union Timber Regulation, and the Convention on International Trade in Endangered Species of Wild Fauna and Flora.

While communities worldwide facing deforestation experience many of the issues I will address during today's hearing, I will focus my remarks on Peru to offer an in-depth examination of the diversity of impacts that one country faces. Even with a concerted effort to improve forest management institutions, much with the financial and technical support from the United States, Peruvian forests and the communities that depend on them are still at great risk.

There is no question that illegal logging in Peru has a direct consequence on many issues, including primarily climate change. The Ministry of Environment announced that in 2020 Peru experienced the highest rate of deforestation in twenty years, more than 500,000 acres were lost.¹ Aside from the critical nature of biodiversity and habitat loss, impacts to forest ecosystems lead to changes in weather and exacerbate droughts, endangering the health of local and Indigenous communities while also eliminating the capacity for climate regulation. Illegal logging and the illegality of the forest trade in Peru also serve as a primary driver of a series of criminal activities that occur on the land where forests have been destroyed. These activities often enable criminal organizations to derive economic and territorial control from the use of the land once it has been clear-cut.

Illicit uses of the land once trees have been felled include mining of gold and silver,² production of crops such as coca, agribusiness such as palm oil, and non-metals mining such as the extraction of sand. These activities prosper within established criminal structures and organizations that come with an increase in

¹ Peru, Ministry of Environment -MINAM, GeoBosques, Bosque y Pérdida de Bosque <http://geobosques.minam.gob.pe/geobosque/view/perdida.php>

² BBC, (2021) *Rare Nasa photos reveal Amazon 'gold rivers'* <https://www.bbc.com/news/world-latin-america-56030334>

violence related to drug trafficking and arms dealing. This violence is targeted against landowners, environmental defenders and Indigenous Peoples who had been dependent on the land and forests they inhabited for their livelihoods.

While the Peruvian government has improved upon the legal framework and infrastructure that allows for enhanced forest management systems, it is precisely these digital management systems that are used by corrupt Peruvian forest officials, in conjunction with fraudulent timber harvest approvals, to foster illicit trade in forest products. Furthermore, the lack of systematic enforcement and prosecution of those responsible for environmental crimes in Peru is a major failure and a significant gap in the accountability system that allows illicit forest crimes to continue to occur.

Illegal logging and its related international trade is considered the third-largest crime in the world.³ As CIEL uncovered in our 2019 report, “[*Authorized to Steal: Organized Crime Networks Launder Illegal Timber from the Peruvian Amazon*](#),”⁴ public officials systemically enable criminal networks to harvest timber in the Peruvian Amazon illegally. Some of the violations related to deforestation and illegal logging are committed by organized crime networks comprised of forestry regents, public officials, and private corporations who collude to extract and sell illegally sourced wood. These criminal networks have operated a massive fraud for years with impunity; their crimes generate environmental, social, and economic instability. Although Peruvian law does impose criminal and administrative penalties on those involved in trafficking and selling illegally logged wood, few sanctions were applied, providing little incentive to abide by those laws.

Illegally sourced timber from the Peruvian Amazon is sold in many continually updated, modernized, and increasingly sophisticated ways to avoid being detected by national and international agencies and institutions along the global supply chain. In Peru, Forest Management Plans and Forest Transport Permits are approved by forest officials for timber that does not exist or is otherwise fraudulent. These officials coordinate with concessionaires, timber owners, sawmill operators, exporters, and others in the supply chain to make illegally harvested forest products appear legal.

The coordination allows illegally sourced wood to then be transported and marketed with official documentation issued by Peruvian officials from the Regional Forestry and Wildlife Authorities, as CIEL’s reporting on the Amazonian regions of Loreto and Ucayali demonstrates. Our investigation showed that laundering illegal timber with official documents cannot occur without the involvement of public officials, and we have uncovered how digital platforms created to increase proper forest management are being used as tools for criminal activity.

CIEL’s 2017 report, “[*Continuous Improvement in Illegal Practices in the Peruvian Forest Sector*](#),”⁵ revealed the exportation of higher levels of timber of dubious legal origin to markets that do not

³ Latin America Press, (2018), López Tarabochia, Milton. *Illegal Logging: An Organized Crime That Is Destroying Latin American Forests* <https://www.eurasiareview.com/21052018-illegal-logging-an-organized-crime-that-is-destroying-latin-american-forests/>

⁴ <https://www.ciel.org/reports/authorized-to-steal/>

⁵ <https://www.ciel.org/reports/continuous-improvement-illegal-practices-peruvian-forest-sector/>

prohibit the entry of illegal timber, such as China and Mexico. This suggests that Peruvian exporters may know their products to be illegal at the time of export. After reviewing thousands of official documents from the Peruvian government, we demonstrated how Peruvian timber exporters, acting with the complicity of certain government actors, continuously improve upon their illicit practices to avoid transparency and continue their trade in high-risk timber.

While institutions such as the Agency for the Supervision of Forest and Wildlife Service, also known as OSINFOR, are designed to increase transparency and contribute to efforts to combat corruption and illegality, the Peruvian government has continued to erode their independence and effectiveness. The data set underlying "**Authorized to Steal**" was created in an attempt to expose these criminal networks, including connections in the government, and to increase transparency within the supply chain for timber that is either illegally harvested or of dubious legal origin.

Furthermore, illegal logging can become a driver for illicit crops and illegal mining. Peru's Financial Intelligence Unit has determined that illegal gold mining is now the most profitable illicit activity and not drug trafficking. Documentation and investigations have proven that criminal networks exist throughout the gold supply chain. Exporters have legal companies aware of the gold's illegal origin. Ultimately, these export companies launder the ore.⁶

Consequently, illegal logging serves as a vector for violence, crime, corruption, and the exploitation of Indigenous Peoples and their rights while simultaneously driving deforestation, the loss of biodiversity, and the climate emergency.

Recent developments

In September, criminal charges were filed six years after the start of the largest illegal logging case in Peru's history. The case, often referred to as Yacu Kallpa, after the vessel which contained that and other shipments of illegal timber, resulted in Peruvian prosecutors seeking to hold more than 90 people, including dozens of forest regents, concessionaires, business people, and former public officials responsible for falsifying documents in an effort to evade laws designed to protect against illegal logging.⁷ The individuals are allegedly responsible for participating in the supply chain of illegal logging and timber trafficking of \$1.6 million of Amazonian wood intended for export to the Dominican Republic, Mexico, and the United States.

The criminal charges came only weeks after the U.S. District Court for the District of Columbia announced that Global Plywood and Lumber Trading LLC (Global Plywood), the company responsible for purchasing 85% of the wood in a prior 2015 shipment from Peru to the United States, pleaded guilty to violating the Lacey Act. As a result of the guilty plea, the court sentenced Global Plywood to pay \$200,000 in restitution to the Ministry of the Environment of Peru and a \$5,000 fine.

⁶ Mongabay, (2020), *Peru uncovers organized crime network laundering illegally mined gold*,

<https://news.mongabay.com/2020/03/peru-uncovers-organized-crime-network-laundering-illegally-mined-gold/>

⁷ InSight Crime, (2021), *Yacu Kallpa: Illegal Timber and Impunity in Peru* <https://insightcrime.org/news/yacu-kallpa-illegal-timber-impunity-peru/>; Ojo Publico, (2021), *Yacu Kallpa: Fiscalía formula acusación contra más de 90 funcionarios y empresarios* <https://ojo-publico.com/3046/yacu-kallpa-90-funcionarios-y-empresarios-acusados-por-tala>

The discovery and investigation that led to the recent indictments are the result of a major operation in 2015, “Operacion Amazonas.” Its success was predicated on the inclusion of prosecutors and agents from SUNAT (Peruvian Customs and Tax Authority) and OSINFOR in coordination with FEMA (the Peruvian Environmental Prosecutor), the Attorney General of the Ministry of the Environment of Peru, World Customs Organization, and Interpol. Due to the removal of OSINFOR directors and the precarious independence of the institution resulting from political shifts in Peru, there has not been a similar operation since 2015.

After U.S. authorities were alerted to two shipments containing illegal timber en route to the United States, officials seized the timber at the Port of Houston.⁸ Subsequent cooperation between U.S. and Peruvian officials provided evidence that the timber could not be the species that had been authorized for harvest, which was subsequently corroborated by the U.S. Forest Service’s Forest Products Laboratory.

The ensuing investigation led to the largest amount of illegal timber ever destroyed under the Lacey Act, which contains strict liability standards for forfeiture. At the same time, there was an agreement to destroy the larger shipment worth approximately \$1 million. Additionally, the U.S. importer agreed to pay for all costs related to storage, transport, and destruction of the smaller shipment of timber.

I would note that the Peruvian public officials who alerted the U.S. authorities about the Yacu Kallpa shipment received death threats for their actions. Harassment and reprisals are unfortunately commonplace against Indigenous Peoples and environmental defenders who protect the forest, but forestry officials working to uncover and stop illegal logging in Peru have also been victimized.

It remains to be seen if Peruvian prosecutors can carry out criminal procedures fully within such a high-profile case or if political instability and the fledgling Castillo administration and the judiciary can hold public and private actors accountable.

Peru is not an outlier in Latin America when it comes to instability and the weak rule of law. These issues most assuredly predate the pandemic, but the country’s current fragility must not be underestimated.

Solutions in Trade and Legal Frameworks

Effective tools such as those incorporated into the provisions of the U.S.-Peru Trade Promotion Agreement (PTPA) Annex on Forest Sector Governance contain verification and enforcement measures that have been used successfully. Using the PTPA, CIEL and partners petitioned the U.S. Trade Representative (USTR) to request verification of timber shipments from Peru after presenting strong evidence of illegality in 2012. Years later, an audit by Peruvian officials verified that a significant portion

⁸ Department of Justice, (2021), *U.S. Corporation Sentenced for Importing Illegally-Sourced Wood from the Amazon*, <https://www.justice.gov/opa/pr/us-corporation-sentenced-importing-illegally-sourced-wood-amazon>; Department of Justice, (2017), *Justice Department Reaches Agreement to Ensure Destruction of Timber Believed to Have Been Harvested in Violation of Peruvian Law*, <https://www.justice.gov/opa/pr/justice-department-reaches-agreement-ensure-destruction-timber-believed-have-been-harvested>

of the timber exported by La Oroza in a particular shipment was illegal;⁹ USTR took action by blocking the importation of timber from La Oroza, one of Peru's major exporters, in 2017 and extending the measure again in 2020.¹⁰ It was the first time that the mechanisms of the Forest Annex of the PTPA had been used for this purpose. USTR ordered the use of these enforcement actions against another company in 2019, blocking Inversiones WCA E.I.R.L. (WCA)¹¹ based on illegal timber found in three specific shipments to the United States.

Existing legal frameworks have the potential for impact. However, their success in halting illegal logging worldwide is highly dependent on whether companies believe that the risks of being prosecuted in the U.S. or Peru outweigh the financial gains from sourcing illegal, lower-cost timber.

To solve the ongoing crisis, the United States should continue to enforce the Lacey Act, the Forest Annex of the U.S.-Peru Trade Promotion Agreement, and existing regulations prohibiting the importation of illegally harvested wood from the Peruvian Amazon and the rest of the world. Simultaneously, similar provisions must be incorporated into other legislation to provide the United States with additional tools to stop U.S. companies involved in illegal activities.

In closing, I want to emphasize that while evidence of criminal actors along the supply chain has been well-documented, this is only one case study where deforestation is used as a mechanism to fund additional illegal activities.

Corporations and individuals must be held accountable for their actions so that there is an incentive to stop illicit activities and an end to the criminal networks they source. There is an enduring need to protect the world's forests and remaining carbon sinks, and actions to hold those responsible for their devastation must be a shared effort.

Thank you.

⁹ United States Trade Representative, (2017), *USTR Announces Unprecedented Action to Block Illegal Timber Imports from Peru* <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/october/ustr-announces-unprecedented-action>

¹⁰ United States Trade Representative, (2020), *USTR Announces Enforcement Action to Block Illegal Timber Imports from Peru* <https://ustr.gov/index.php/about-us/policy-offices/press-office/press-releases/2020/october/ustr-announces-enforcement-action-block-illegal-timber-imports-peru>

¹¹ United States Trade Representative, (2019), *USTR Announces Enforcement Action to Block Illegal Timber Imports from Peru* <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/july/ustr-announces-enforcement-action>