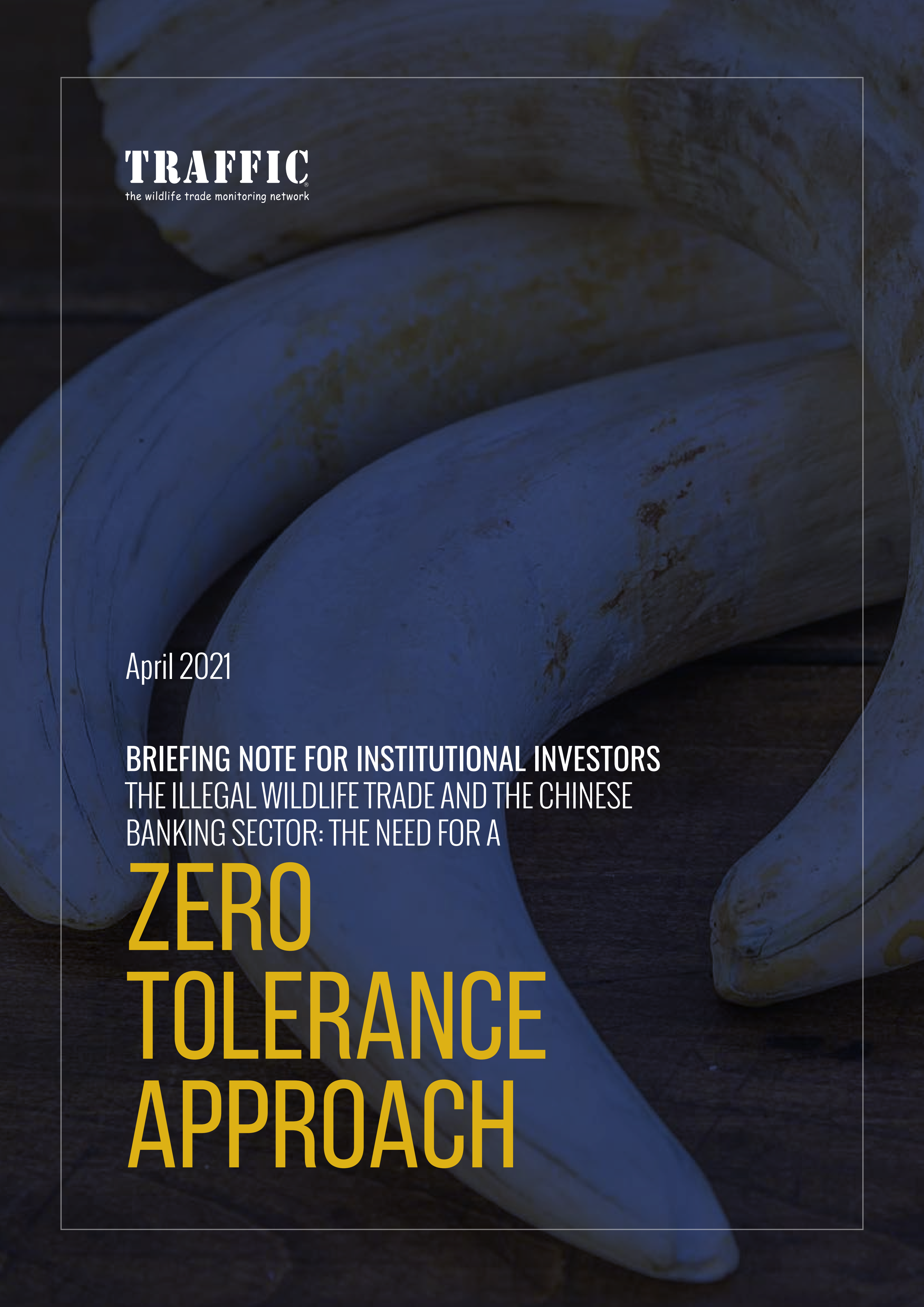

TRAFFIC
the wildlife trade monitoring network

April 2021

BRIEFING NOTE FOR INSTITUTIONAL INVESTORS
THE ILLEGAL WILDLIFE TRADE AND THE CHINESE BANKING SECTOR: THE NEED FOR A
ZERO TOLERANCE APPROACH

TRAFFIC REPORT

TRAFFIC is a leading non-governmental organisation working globally on trade in wild animals and plants in the context of both biodiversity conservation and sustainable development.

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ACRONYMS

AML	Anti-money Laundering
CEO	Chief Executive Officer
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
FATF	Financial Action Task Force
IPBES	Intergovernmental Panel on Biodiversity and Ecosystem Services
KYB	Know Your Business
KYC	Know Your Customer
SDG	Sustainable Development Goals
STR	Suspicious Transaction Report
UNEP	United Nations Environment Programme

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ACKNOWLEDGMENTS

This briefing note sets out TRAFFIC's views on the role that institutional investors – asset owners, investment managers, insurance companies – can play in encouraging Chinese banks to adopt the systems and processes needed to manage the business risks associated with the illegal wildlife trade and to play their role in combatting that trade. It is underpinned by two reports – The Illegal Wildlife Trade and the Banking Sector in China and The Illegal Wildlife Trade and Chinese Banks Operating in Lao People's Democratic Republic – both of which provide practical guidance to Chinese banks operating in China and Lao People's Democratic Republic (Lao PDR) respectively.

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INVESTOR EXPECTATIONS

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INVESTOR EXPECTATIONS

Institutional investors have a key role to play in encouraging Chinese banks to take effective action on the illegal wildlife trade – see the expectations below. This starts by encouraging Chinese banks to make a formal commitment to zero tolerance of the illegal wildlife trade and to integrate these commitments into their anti-money laundering systems and processes. Once these initial actions have been taken, investors then need to continue to monitor how these commitments are being implemented, and to encourage banks to continuously strengthen and improve their approach to tackling the illegal wildlife trade and to anti-money laundering generally.

Investors should be prepared to use a variety of strategies to support these efforts. For example, they could:

- Raise the illegal wildlife trade as a standard agenda item in their meetings with Chinese banks.
- Formally write to Chinese banks to offer advice on their approach to tackling the illegal wildlife trade (e.g. following the publication of annual sustainability reports).
- Publicly praise banks that have made clear zero tolerance commitments or implemented effective systems and processes.
- Benchmark Chinese banks on their approach to tackling the illegal wildlife trade. This could highlight examples of good practices which can be used to build capacity and expertise in the Chinese banking sector.

EXPECTATIONS OF CHINESE BANKS ON TACKLING THE ILLEGAL WILDLIFE TRADE

1. Banks should make a formal, public commitment to zero tolerance of the illegal wildlife trade. This commitment should apply to the bank itself (including all its subsidiaries, branches, representative offices and legal entities) and to all individuals and organisations with which it has a business relationship, including clients and suppliers.

2. Banks should establish the systems and processes necessary to deliver these zero tolerance commitments. These include:

   2.1 Assigning responsibility for the oversight of the illegal wildlife trade zero-tolerance policy to the board or CEO.

   2.2 Assigning responsibility for the day-to-day implementation of the commitments to the individual responsible for overseeing the bank's internal control system for anti-money laundering.

   2.3 Ensuring staff are adequately trained to implement the bank's zero tolerance commitments.

   2.4 Adopting clear procedures for monitoring their exposure, or potential exposure, to the illegal wildlife trade.

   2.5 Communicating their zero tolerance commitments to all of their clients and business partners.

   2.6 Identifying and assessing the risks posed to their organisation from the illegal wildlife trade.

3. Banks should ensure that their Know Your Customer (KYC) and Know Your Business (KYB) processes pay attention to the potential for customers and businesses to be involved in the illegal wildlife trade.

4. Banks should report publicly on a regular basis (e.g. annually) on how they have implemented their zero tolerance commitments.

5. Banks should collaborate with other banks and stakeholders to build capacity and understanding of the illegal wildlife trade within the banking and finance sectors.

THE CASE FOR ACTION

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THE CASE FOR ACTION

The illegal wildlife trade is a major transnational organised crime, which generates billions of dollars in criminal proceeds each year (Financial Action Task Force, 2020).

Illegal wildlife trade cannot occur at this scale without financial crime and corruption. A report published in 2018 by Interpol states that the criminal kingpins involved in illegal wildlife trade are often involved in tax evasion, fraud, document falsification, money-laundering and firearms trafficking, and that illegal wildlife trade trafficking supply chains are commonly used to smuggle other illicit commodities, such as drugs and weapons (Interpol, 2018). Much of the profit is laundered via legitimate banking channels and online payment platforms.

Illegal wildlife trade is an increasingly important issue for Chinese banks to address for multiple reasons:

- The scale and economic importance of the Chinese banking sector, both domestically and internationally. The Chinese banking sector is the largest in the world, and five of the ten largest banks in the world (by assets) are Chinese[1].

- The tightening of wildlife-related policy, regulatory and law enforcement frameworks in China and internationally. In recent years, China's law enforcement authorities have pursued criminal cases relating to the illegal online wildlife trade, resulting in the confiscation of several hundred kilogrammes of ivory, rhino horn and other illegal wildlife products.

- China's growing role in global efforts to combat the illegal wildlife trade, notably through its presidency of the Financial Action Task Force (FATF). FATF has made it a priority to help countries go after the money involved in the illegal wildlife trade, and to identify and disrupt large criminal networks that profit from this crime.

- The international expansion of Chinese banks, which means that they are facing scrutiny of their systems and processes for preventing money laundering and other illegal activities.

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Globally, the proceeds of the illegal wildlife trade (excluding fisheries and timber) have been estimated at between USD7 and USD23 billion per year (UNEP-Interpol, 2014; World Bank, 2019).

[1] See, for example, the data presented at https://www.statista.com/topics/1552/banks-in-china/

THE FINANCIAL ACTION TASK FORCE REPORT MONEY LAUNDERING AND THE ILLEGAL WILDLIFE TRADE

The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF Recommendations are recognised as the global anti-money laundering (AML) standard.

In June 2020, FATF published its first global report on money laundering and the illegal wildlife trade (FATF, 2020). The FATF report shows that the illegal wildlife trade is a global threat, not just a problem for those jurisdictions where wildlife is illegally harvested, transited or sold. It shows that criminals use the legal wildlife trade and import-export businesses as fronts to move and hide illegal proceeds from illegal wildlife trade.

The report identifies the common methods wildlife traffickers use to launder their money, including using shell and front companies to hide payments and using online marketplaces and mobile and social media-based payment systems to facilitate the movement of proceeds from wildlife crimes. It argues that following the financial flows associated with the illegal wildlife trade and identifying money-laundering will allow countries to identify wider networks of syndicate leaders and financiers, to reduce the profitability of this crime over the longer term, and to help prevent and tackle associated crimes such as corruption and complex fraud.

The FATF report highlights the important role financial institutions can play in detecting and reporting suspicious activity, and in supporting law enforcement efforts. For example, the report notes that criminals can incorporate shell and front companies in both source and destination countries to facilitate illicit wildlife trade and can also take advantage of the weak regulatory environments in some financial and incorporation centres to set up complex company structures. This suggests that trade data, and information on company business activities and tax reporting, are important sources to identify anomalies and suspicious behaviour indicative of wildlife crime.

By encouraging and supporting Chinese banks to take action on the illegal wildlife trade, institutional investors – pension funds, asset managers, insurance companies – could make a significant contribution to combatting the illegal wildlife trade.

Institutional investors, in their roles as equity investors in and as providers of debt to Chinese banks, have a clear interest in ensuring that Chinese banks make formal commitments to zero tolerance of the illegal wildlife trade, and ensuring that these commitments are fully integrated into these banks' operating systems and processes. If banks manage these risks effectively, they should reduce their risk of prosecution under anti-money laundering legislation, reduce the risk of adverse publicity, and enhance their individual and collective reputations as responsible corporate citizens. In turn, these should improve their cashflows and profits, reduce the potential for fines or other sanctions, support these banks' international growth ambitions, and enhance their attractiveness to domestic and international investors.

In addition to the financial arguments, Chinese banks also need to recognise that many large institutional investors have now made commitments to responsible investment and to supporting the Sustainable Development Goals (SDG) for action. These commitments include regulatory compliance as a minimum, as well as expectations that banks will proactively manage their social and environmental impacts and the impacts of their customers and clients. The scope of these commitments clearly encompasses the impacts of banks and their clients on wildlife and requires banks to comply with legislation on the illegal wildlife trade and with legislation on anti-money laundering and on corruption, given that the effective implementation of such legislation will significantly limit the incentives for the illegal wildlife trade.

SDG 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

15.7: Take urgent action to end poaching and trafficking of protected species of flora and fauna and address both demand and supply of illegal wildlife products

HOW BANKS SHOULD MAKE A FORMAL COMMITMENT TO ZERO TOLERANCE OF THE ILLEGAL WILDLIFE TRADE.

Banks making commitments to zero tolerance of the illegal wildlife trade should publish these commitments in a formal policy or similar document. This policy should also set out the actions (e.g. systems and processes, allocating responsibilities, sharing information, training) that the bank will implement to ensure that this zero tolerance commitment is delivered.

The scope of the policy should include the bank itself (including all of its subsidiaries, branches, representative offices and legal entities) and any individual or organisation with which it has a business relationship, including clients and suppliers.

The policy should also include commitments to:

- Raising awareness of the illegal wildlife trade and the role of the financial industry in combatting it.
- Reporting suspicious or potentially illegal wildlife trade-related activities to the relevant regulatory body or law enforcement agency. Such reports, known as suspicious transaction reports (STRs), may provide operational intelligence, trigger investigations or support ongoing criminal investigations into wildlife crime.
- Supporting the development of external mechanisms and networks that enhance the ability of the financial industry to identify potentially suspicious activity related to the illegal wildlife trade.

UNDERSTANDING THE ILLEGAL WILDLIFE TRADE

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UNDERSTANDING THE ILLEGAL WILDLIFE TRADE

The consequences of the illegal wildlife trade are devastating. The Intergovernmental Panel on Biodiversity and Ecosystem Services 2019 Assessment identified that a million species are at risk of extinction and that the second most significant driver of biodiversity loss is 'direct exploitation' (IPBES, 2019). Furthermore, the wider impacts of the illegal wildlife trade on ecosystems and biodiversity are eroding the foundations of economies, livelihoods, food security, health and quality of life in all regions of the world. There are also direct implications for human health, with 60% of emerging infectious disease being zoonotic[2] in nature, and more than 70% having an origin in wildlife (Watsa, 2020).

The definition of the illegal wildlife trade used in this report is: trade in wildlife or wildlife parts – flora and fauna – that violates either international legal frameworks or the legislation of one or several of the countries/territories through which a wildlife product has passed. This definition encompasses both domestic laws and the regulations of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

CITES

CITES is an international agreement between governments. Its aim is to ensure that international trade in specimens of wild animals and plants does not threaten their survival[3].

CITES works by subjecting international trade in specimens of selected species to certain controls. All import, export, re-export and introduction of the species covered by the Convention has to be authorised through a licensing system. The species covered by CITES are listed in three Appendices, according to the degree of protection they need:

- Appendix I includes species threatened with extinction. International commercial trade of these species is forbidden other than in exceptional circumstances.
- Appendix II includes species not necessarily threatened with extinction, but in which trade must be controlled to ensure long term sustainability. Annual quotas are applied and official CITES import and (re)export permits are needed in order to avoid over-utilisation which will threaten their survival.
- Appendix III includes species that are protected in at least one country which has asked other CITES Parties for assistance in controlling the trade.

RISK ASSESSMENT: BUSINESS SECTORS WHICH ARE PARTICULARLY IMPACTED BY OR EXPOSED TO THE ILLEGAL WILDLIFE TRADE

- Transport and logistics (e.g. freight and courier companies, sea transport, air transport)
- Travel and tourism
- Online platforms including E-commerce, social media and messaging apps
- Traditional Chinese Medicine
- Timber and forestry
- Pet shops and zoos (e.g. pet shops, breeding facilities, zoos)
- Crafts and collection
- Restaurants

[2] That is, they are diseases that can be transmitted from animals to people or, more specifically, they are diseases that normally exist in animals but that can infect humans.
[3] For further information, see https://www.cites.org/eng

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APPENDIX 1

ILLEGAL WILDLIFE TRADE EXAMPLES

ELEPHANT IVORY

An estimated 415,000 African elephants remain in the wild. Each year around 20,000 are killed for their tusks. In research conducted by GlobeScan in 2019, covering 2,000 consumers from 15 cities in China, 14% of the respondents stated that they intended to purchase ivory in future even though they were aware that doing so is illegal (Globescan, 2019). Much of this continuing demand comes from consumers who regularly travel outside China.

African Elephants Loxodanta africana (except populations from Botswana, Namibia, South Africa and Zimbabwe) and Asian Elephants Elephas maximus are listed in Appendix I of CITES. All international trade in ivory has been prohibited since 1990 other than in exceptional circumstances. In addition, China implemented a commercial ban on the domestic sale and purchase of all ivory in December 2017 and in April 2020, continued to forbid the commercial import of ivory products. It is illegal for travellers and tourists returning from overseas to bring any amount of ivory into China.

In the period 2008-2017, about 393 tonnes of ivory was seized globally. Large quantities continue to be seized. For example:

- On 16 January 2019, Hong Kong Customs seized a shipment from Nigeria which contained 8,300 kg of pangolin scales and 2,100 kg of ivory, valued at USD 7.9 million and destined for either Mainland China or Vietnam (Reuters, 2019).
- Between January and October 2019, China Customs seized more than 9 tonnes of ivory (Sina Finance, 2019a).
- On 17 April 2020, Jiangmen Customs of China seized 413 kg of ivory and 28 kg of rhino horn and products, arresting nine individuals (Shanghai Customs District, 2019).

RHINOCEROS HORNS

In the past decade alone, more than 7,000 African rhinos have been poached, with just 25,000 African rhinoceroses now estimated to remain in the wild. In contrast, at the beginning of the 20th century, 500,000 rhinos roamed Africa and Asia (WWF, 2021).

In research conducted for USAID Wildlife Asia in 2018 covering 1,800 consumers from 6 cities in China, 13% stated that they were likely or very likely to purchase rhino horn in future (USAID Wildlife Asia, 2018).

All Asian rhinos are listed in CITES Appendix I; prohibiting any commercial international trade, while African rhinos are listed in both CITES Appendix I and II.

The illegal supply of rhino horns from Africa predominantly to Asia is reported to be more than 30 times greater than in the early 2000s. In the period 2016-2017, at least 4,500 African rhino horns entered illegal trade globally, generating estimated proceeds of between USD 79 million and USD 292 million (Journal of African Elephants, 2020).

Large quantities continue to be seized. For example:

- On 5 April 2019, Hong Kong Customs detected 82.5 kg of rhino horn (valued at HKD16.50 million or USD8 million at 2020 rates) in cargo being transported from Africa to Malaysia via Hong Kong (Xinhua News Agency, 2019).
- In 2019, officials at Shanghai Hongqiao International Airport seized eight rhino horns and 24 rhino horn products, weighing over 12 kg in total (Sina Finance, 2019b).
- On 1 June 2019, 9.79 kg of rhino horn were found by officials at Shanghai Hongqiao International Airport in the luggage of two passengers travelling from South Africa to Shanghai via Hong Kong (Sina Finance, 2019b).
- In January 2019, Dalian Customs seized 2.71 kg of rhino horns concealed in the luggage of a passenger who had travelled from Hong Kong (Baidu, 2019).

ROSEWOOD

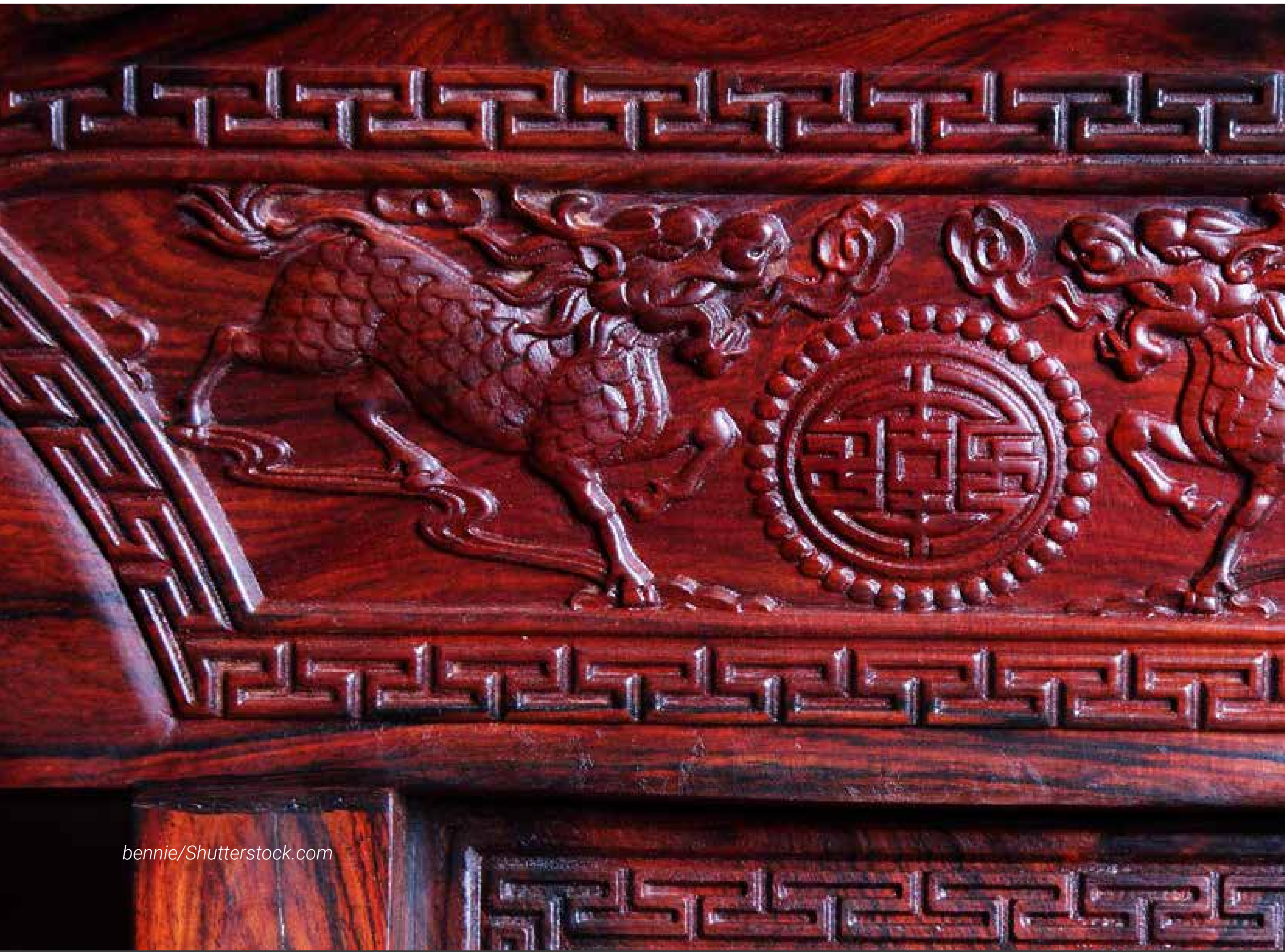
Rosewood products, or Hongmu in Chinese, refer to a group of dark red tinted hardwoods sourced from various tropical tree species, especially Dalbergia spp. and Pterocarpus spp. These species have been used in the traditional Chinese furniture and craft industries for hundreds of years and demand remains high. China is the largest processing centre, retailing cluster and demand market for rosewood products (UNODC, 2020).

The excessive consumption of rosewood products and the presence of illegal product in supply chains has attracted international attention due to associated negative impacts on the environment, governance and livelihoods of local communities in source countries. For example, in the period 2010 to 2015, at least 350,430 timber trees (mainly rosewood) were cut down in protected areas in Madagascar and at least one million logs (152,437 tonnes) were illegally exported from the country.

In 2016, the trade regulation measures in place under CITES for some rosewood tree species were upgraded to try to halt the rapid decline of rosewood populations. Among 29 species listed in China's National Hongmu Standard, 17 have been included in the CITES Appendices I and II.

Based on legal trade and seizure data, the largest source of illicitly harvested rosewood is Africa UNODC, 2020). Nigeria alone exported some 750,000 cubic meters of rosewood in 2017, which is equivalent to about four million trees, or more than 30,000 shipping containers, an average of almost 100 container loads exported per day (UNODC, 2020).

Large quantities of these exports have been seized. For example, on 15 October 2020, Hong Kong Customs seized more than 9 tonnes of rosewood, valued at HKD 6 million ((or almost USD 1 million at 2020 rates) in Tsing Yi port. The rosewood had come via the UAE and was being sent to mainland China via Hong Kong (Jiajunmi, 2020).



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