

TOXIC TRADE

FOREST CRIME IN GABON AND THE REPUBLIC OF CONGO
AND CONTAMINATION OF THE US MARKET





A full size okoume veneer in the Dejia Group's affiliate company in Gabon.
Source: EIA

Acknowledgement

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KEY FINDINGS

EIA's four-year investigation establishes that illegally-sourced timber from Gabon and the Republic of Congo has routinely entered the United States (US) and, for over a decade, made its way to thousands of US consumers.

An in-depth analysis of the okoume (*Aucoumea klaineana*) veneer imported directly into the US from the two African countries indicates the complicity of the US importer Evergreen Hardwoods Inc. and the negligent sourcing of the manufacturer Roseburg. Roseburg's okoume-made "eco-friendly" product can be found in dozens of family-owned retailers across the US and in major hardware stores including Menards and, until 2017, in Home Depot.

EIA investigators learned that the illegally-sourced okoume trees have been harvested, processed and exported by "Dejia Group," a group of affiliated companies controlled by the Chinese mogul Mr. Xu Gong De. Dejia Group manages 1.5 million hectares of tropical forest in Gabon and the Republic of Congo, and is one of the most influential Chinese timber groups in Africa.

EIA undercover investigators and data analysts discovered that Dejia Group:

- has illegally obtained forest concessions, including the Lebama Forest Management Unit of 100,000+ hectares;
- routinely overharvests. EIA's analysis indicates that one Congolese affiliate alone of the Group has overharvested 46 different species – by a total of roughly 85,000 cubic meters, equivalent to more than 15,000 trees;
- exported over 100,000 logs, worth over US\$80 million, in excess of its Congolese log export quota between 2013 and 2016;
- has avoided the payment of at the very least between US\$3 and US\$6.7 million per year in corporate tax in Africa, from 2013 to 2016, through transfer pricing techniques that involve offshore companies based in Hong Kong.

EIA investigators were repeatedly told by the Group's executives that these crimes have gone unpunished because of the bribes they routinely pay to multiple layers of public servants and decision-makers, including ministers.

Evidence collected by EIA shows that Dejia Group is by no means an isolated case. Forest crimes covered by high-level corruption are systemic and tightly linked to the inner workings of industrial logging in both Gabon and the Republic of Congo, countries that together account for more than half of the area allocated to logging concessions in the Congo Basin.

Dejia Group has taken advantage of the lack of mandatory Chinese regulations on imports of illegal timber to ship most of its illegal wood products to China.

The Group has also placed hundreds of thousands of tons of timber products into European countries with laws that prohibit the import of illegal timber, including France, Belgium, Italy, Spain, and Greece.



Executive Summary¹

The Congo Basin, home to the second largest tropical forest in the world after the Amazon and equal in size to half of the continental United States (US), is of vital importance for thousands of species, including our own.^{2,3} For four years, EIA has investigated the logging sector in the Congo and Gabon, countries that together account for approximately 60 percent of the total area under forest management in the Congo Basin. EIA's findings reveal that one of the most influential groups of affiliated timber companies in Africa, which for the purpose of this report will be referred to as "Dejia (deh-ja) Group," has built its business model on bribery and other crimes. According to evidence collected by EIA, the Group has continuously broken the most fundamental forest laws, has turned timber trade regulations upside-down, and has diverted millions in unpaid taxes from the governments of Gabon and the Republic of Congo. Dejia Group executives explained in detail to EIA investigators how the company routinely bribes ministers in both the Republic of Congo and Gabon to get access to timber concessions and avoid punishment for their crimes. EIA's findings indicate that the Group's modus operandi is by no means an exception – instead, the corruption and forest crimes perfected by Dejia also plague the majority of companies operating in the industrial logging sector in the Republic of Congo and Gabon. EIA found that illegally-sourced timber from Dejia is contaminating European and US markets, despite their laws prohibiting the import of illegal timber. In the US, the complicity of the main importer and the deliberate negligence of a prominent manufacturer, both of whom EIA investigators met undercover, are critical elements of the toxic supply chain. As a result, US consumers have unknowingly supported one of Africa's most brazen criminal forest networks for over a decade.

EIA's findings reveal that one of the most influential Chinese groups of affiliated timber companies in Africa, "Dejia Group," has built its corporate empire on bribery, tax evasion, and forest crimes.

Illegal logging and the related trade in illegally sourced wood products remain a major threat to the world's forests, with severe impacts on climate, biodiversity, fragile states' economies and the livelihoods of indigenous peoples.^{4,5} Estimates consistently and conservatively indicate that between 20 and 50 percent of all the timber traded internationally was harvested or traded illegally or from high-risk sources.⁶ Organized criminal groups have increasingly found profit in this business, and are now responsible for 50 to 90 percent of global illegal logging and related trade.⁷ Illegal logging flourishes and feeds a governance vacuum in countries where it occurs, furthering the development of multi-layered corruption hierarchies and leading to the violent silencing of individuals who stand up and dare to speak out.^{8,9,10}

In exchange for his political support and abundant connections in both China and Africa, Mr. Xu was allegedly the main financier of Mr. Ping's 2016 presidential campaign in Gabon.

EIA investigators recently completed four years piecing together the complex corporate network and supply chains that connect the fragile rainforests of Gabon and the Republic of Congo to major US hardware stores, family-owned lumberyards and thousands of end consumers to whom, ironically, these timber products have been marketed for their "eco-friendly" characteristics.

The backdrop to EIA's in-depth research on the Africa-US timber trade is the rapidly changing landscape of the Congo Basin logging sector. In just a few short years, China has become the largest market for the region, accounting for 46 percent of exports in value (in 2016), and reshuffling the cards of a sector historically dominated by European companies since the colonization of the African continent in the 19th century.^{11,12,13} Asian entrepreneurs, including Malaysian, Singaporean, and Chinese from Hong

Kong and the mainland, have acquired vast areas of tropical forest in the Congo Basin, creating new companies or bailing out old ones.¹⁴ In the first half of 2018 alone, Asian companies, chiefly from the Chinese mainland, have allegedly obtained control over 2.5 million hectares of forest concessions in Cameroon, the Republic of Congo, the Democratic Republic of Congo, and Gabon.¹⁵

The Deji Group was one of the forerunners of Chinese investment in Africa.¹⁶ According to one of the Group's senior executives, Deji set the model for success for Asian and particularly Chinese investors. Mr. Xu Gong De, a Chinese mogul who has spent decades in the region, is the mastermind behind the Group that has positioned itself at the epicenter of the Chinese investment in the timber industry in the Congo Basin. According to EIA's investigation, several factors explain this trajectory.

The capacity to secure strong patronage from decision-makers has proven vital. The network of Deji Group's godfathers includes in particular one of Africa's most influential diplomats, Mr. Jean Ping – an ex-African Union Chairman and former President of the United Nations General Assembly. In exchange for his political support and abundant connections in both China and Africa, Mr. Xu – who is a nephew of Mr. Ping – was allegedly the main financier of Mr. Ping's 2016 presidential campaign in Gabon. In the Republic of Congo, Deji Group found a strong ally in Mr. Henri Djombo, one of the longest-serving Ministers in Africa (including 19 years as the Republic of Congo's Minister of Forest Economy).¹⁷ A Deji executive in the Republic of Congo told EIA investigators that a briefcase full of cash was frequently given to the Minister in exchange for his services.^{18,19}

Deji Group comprises several affiliated companies involved in the harvest, transport, processing and export of timber, including Sino Congo Forêt (SICOFOR) and Congo Deji Wood Industry (CDWI) in the Republic of Congo, and Société de Sciage de Moanda (SSMO) and Société des Bois de Mounana (SBM) in Gabon. The rapid development of the Group has been anchored in the violation of national laws regarding forest exploitation, timber processing and export, and tax payments. Between 2013 and 2016, records obtained by EIA investigators and undercover meetings with Deji's top executives indicate that the Group has exceedingly overharvested the Congolese forest. During the same period, EIA's analysis shows



A bulldozer opening a secondary logging road in a forest concession in Gabon.
Source: ANPN

that the Group over-harvested nearly 20,000 cubic meters worth of species listed as vulnerable or endangered according to the International Union for the Conservation of Nature (IUCN) Red List of Threatened Species.²⁰

Dejia Group controls over 1.5 million hectares in the Congo Basin, so its practices have acute impacts on immense tracts of unique forest habitat, including that essential to the survival of African forest elephants (*Loxondota spp.*) and great apes in the Republic of Congo. In this country, Dejia has operated for over ten years without an approved forest management plan, in breach of the central sustainability principle of the national Forest Code.²¹ Dejia Group's modus operandi also makes a mockery of voluntary approaches such as the "The Guide on Sustainable Management and Utilization of Overseas Forests by Chinese Enterprises" promoted by Chinese authorities. On the one hand, the Group has publicly committed itself to responsibly manage its concessions, while on the other hand, executives from the Group repeatedly told EIA investigators that these promises are essentially for show, with no impact at all on their daily illegal practices.²²

A Dejia senior executive told EIA investigators that the Group has illegally obtained the right to harvest at least one of their concessions – the Forestry Management Unit (Unité Forestière d'Exploitation) Lebama in the Republic of Congo – by resorting to bribes. A colossal amount paid under the table, combined with a high-level political connection, allowed the Dejia Group to win the Lebama FMU during the last call for tenders for a forest concession in the Republic of Congo in 2016. Their proposal was somehow more appealing than their direct competitor who paid over US\$4 million in bribes, as he claimed to undercover EIA investigators, in order to gain the concession. Dejia's corruption scheme was revealed by one of the corrupt officials who took part in it during a courtroom trial, but the court decision against the Group has been kept away from the public's knowledge and the company has faced no consequences.²³

Contrary to its repeated promises to encourage local development in Africa, the Group has blatantly broken the Congolese law limiting exports of unprocessed wood. This law, designed to incentivize the creation of local employment and maximize value-added processing in the Republic of Congo, has



Overview of the Congo Basin forest.
Source: EIA

been turned upside-down by the company. Instead of the 15 percent maximum allowed by Congolese law, Dejjia Group has exported on average over 87 percent of its production as unprocessed round logs from the Republic of Congo between 2013 and 2016. During this period, the company exhausted its annual export quota of logs by April of each year; thus all log exports shipped after April were in violation of the Congolese export quota law.^{24,25} Dejjia Group executives explained to EIA investigators that they cannot be “limited” by such laws; infringing them and obtaining ad hoc “derogations” through bribes is at the heart of their business model in the region. According to a detailed analysis of national timber trade records, only very few logging companies operating in the Republic of Congo have obeyed the export quota system between 2014 and 2017, revealing the staggering scale of malpractices pervading the Republic of Congo’s forest service and customs.^{26,27,28,29}

As Dejjia Group executives told EIA investigators, the company has also deprived the Congolese and Gabonese governments of at least US\$3 million in taxes each year through transfer pricing schemes using a variety of offshore entities located in Hong Kong.

One affiliate of the Dejjia Group
alone overharvested over
15,000 trees from 46 different
species, between 2013
and 2016.

Dejjia Group’s stolen timber is contaminating three principal international markets: China, the EU and the US. Dejjia sells most of its exports to the Chinese market – 82 percent in 2015-2016 by volume – where buyers ask little about the origin and legality of the timber. The EU and US, markets often referred to as “regulated markets” because of their legislation that prohibits the import of illegal timber, are also absorbing important quantities of illegally sourced timber from Dejjia – 14 percent to the EU and 3 percent to the US in 2015-2016 by volume. The Dejjia Group accounts for approximately 36 percent of all the timber exported from Gabon and the Republic of Congo to the US, mostly in the form of okoume (*Aucoumea klaineana*) veneers. The Group is actually



the largest provider of this popular yet vulnerable tropical species to the US.³⁰ According to EIA's analysis The Group produces approximately 40 percent of all the okoume imported and used by American businesses and consumers.

Between 2007 and 2018, the Deji Group sold over US\$20 million worth of timber product to the US.³¹ Only a few US importers have been directly involved in this toxic trade. The largest of them is Evergreen Hardwoods, Inc.^{32,33} The entry of thousands of tons of illegally sourced timber into the US has relied on the active complicity of Evergreen, a company that has been in business with Deji for over ten years. Evergreen's former co-owner and current purchasing manager, Mr. Jim Green, stated to EIA investigators that he doesn't care at all about whether the timber is of legal origin. He also claimed that even if the timber were to come from a protected area, he would have no issue purchasing it and placing it on the US market.³⁴ Mr. Green is well aware that his principal supplier in the Republic of Congo and Gabon routinely pays bribes. He explained to EIA investigators: "Everyone wants a bribe, everyone needs to be greased to make things work. I don't care, I understand that, that's how it works. I do that." He also said that he has no problem

with purchasing Deji's timber through the Group's Hong Kong offshore companies.

Evergreen Hardwoods, Inc. is just the first link of Deji's US supply chain, which also involves one of the three major plywood factories in the country owned by Roseburg, a long-standing Oregon-based company that claims to be "America's single broadest mix producer of green wood building products, owner of the largest capacity sawmill in the country, and the greatest exporter of wood chips in the U.S."³⁵ According to Roseburg's representatives met by EIA undercover investigators, Roseburg has deliberately kept Evergreen as its intermediary with Africa-based suppliers and a convenient shield against legal enforcement actions.³⁶

The high-end okoume-face plywood manufactured by Roseburg, called "Breckenridge", mainly used for outdoor siding and renovation, is then distributed by a multitude of affiliated businesses spread all over the country.^{37,38} It ends up in a wide spectrum of retail stores, from local lumberyards to the major US hardware chains such as Menard's and until recently The Home Depot.³⁹ Ironically, the product offers points within the rating framework of Leadership in Energy



Okoume logs about to be peeled in the facility of the Dejjia Group's affiliate in Gabon.
Source: EIA

and Environmental Design (LEED), the most widely used green building rating system in the US.^{40,41}

Above and beyond the Dejjia-Evergreen-Roseburg-Menards supply chain, EIA's deep-dive into the logging sector in two of Africa's largest timber producing and exporting countries shows the "business as usual" practices in vigor and the structural flaws of a particularly opaque sector which controls over half of the national forests in the Republic of Congo and Gabon. On the demand side, it exposes the current weaknesses in protecting US and EU consumers from illegally-sourced timber. EIA's investigation underlines the urgent need for a much more comprehensive, consistent and stricter control of US' importers due care obligations. Robust due care systems have proven to be the heart of the law-abiding implementation of the amended Lacey Act, the US law that makes it unlawful for any person to import and/or trade in timber products harvested, transported or sold in violation of state, foreign or international law (in this case, relevant to Gabonese and Congolese laws).^{42,43} Short of these needed changes, toxic timber trade flows from all over the world will continue to make their way to US markets.

"I'm not worried that you're stealing from a national park. I don't care. I just need to have documentation in case somebody accuses me."

- Jim Green, Dejjia Group's historic client in the US

EIA Recommendations

The “business as usual” degradation of the second largest tropical forest in the world, and the array of negative impacts on regional governance, call for urgent actions. EIA recommends:

GABON AND THE REPUBLIC OF CONGO

- Immediately suspend the operations of the Deji Group’s affiliates in both countries and thoroughly investigate its logging, trading, processing and exporting practices;
- Launch an anti-corruption and tax evasion crack-down across the timber sector;
- Strengthen the regulatory frameworks with dissuasive measures against illegal logging and related financial crimes;
- Join the global effort for true public transparency in the forest sector, through the release of key information on logging operations and related trade in both countries.

UNITED STATES

- Conduct an investigation into the import of illegal timber by Evergreen Hardwood, Inc. from Deji Group, including related corruption practices and participation in financial crimes;
- Investigate the operations of the Deji Group's affiliates located in the US;
- Clarify the due diligence obligations (risk determination, evaluation and mitigation) for timber importers under the Lacey Act;
- Improve routine analysis and oversight of declarations; systematically request information about importers’ due diligence systems and conduct frequent audits of their sourcing practices, particularly those related to timber flows from high risk countries and involving sensitive species; and conduct more civil forfeitures of illegally-sourced timber and wood products.

EUROPEAN UNION

- Investigate all imports from the Deji Group’s affiliates, as they have an incredibly high likelihood of illegality under the EUTR and likely rely on non-compliant due diligence systems by European importers;
- Given the systemic flaws exposed in this report, all timber products coming from both the Republic of Congo and Gabon should be considered high risk under the EUTR, and subject to the highest required level of due diligence.

CHINA

- Prohibit the import of timber and wood products that have been harvested, transported or traded illegally; and work in cooperation with the Republic of Congo and Gabon to put an end to the specific illegal activities highlighted.
- Enforce the second provision to Article 164 of the National Criminal Law that criminalizes bribes given to non-Chinese public officials, and investigate Mr. Xu’s operations.

INTERNATIONAL ORGANIZATIONS

- Support the Republic of Congo and Gabon’s efforts in retrieving the funds lost due to fiscal evasion, and encourage reforms against fiscal crimes in the export-oriented forest sector.

ENDNOTES

- 1 Unless otherwise noted, the source for the report are EIA's internal investigative reports, photos, audio and video evidence collected during the investigation between March 2015 and March 2018. All documents mentioned related to this investigation are in possession of EIA.
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- 16 Michel S. and S. Beuret, 2009. *China Safari: On the Trail of Beijing's Expansion in Africa*. New York, US.
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- 18 See Section 4 for details and full quote.
- 19 The identity of Dejia Group's members who met with EIA undercover investigators has deliberately been kept anonymous to prevent retaliation following the release of the report.
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- 23 See Section 4 for details and quotes.
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1

INTRODUCTION

The Congo Basin Forests at the Dawn of the 21st Century¹

With almost two million square kilometers of humid forests, the Congo Basin is the second largest tropical rainforest in the world.² It spans over six countries (Cameroon, the Central Africa Republic, the Democratic Republic of Congo, Equatorial Guinea, Gabon and the Republic of Congo) and represents more than 90 percent of Africa's rainforests.^{3,4} Including secondary and savanna forests, the area is approximately half the size of the continental United States (US). The region has long been recognized as a unique center of endemism, a place with a concentration of unique species that are found nowhere else in the world.^{5,6} These exceptionally diverse ecosystems are essential to the lives of the 75 million people – including nearly 150 different ethnic groups – who live in or near the Congo Basin forests.⁷ Moreover, as tropical rainforests store some 25 percent of the planet's total carbon and serve an essential role in global hydrological cycles, the Congo Basin provides climate services to the whole world.^{8,9}

As the forests of the Congo Basin are among the most intact in the tropics, there remains a unique opportunity to preserve irreplaceable wilderness and global environmental services.^{10,11,12} However, major threats such as uncontrolled mining, growing forest conversion for export commodities, chaotic infrastructure development and unsustainable commercial logging are ramping up.¹³ Industrial logging has proven to be a primary factor in forest degradation and a major, often underestimated, source of greenhouse gas emissions from tropical forests.^{14,15,16} This sector has by far the most extensive land use in the Congo Basin, and likely no equivalent in the world.¹⁷ Over a quarter of the Congo Basin forests are allocated for logging.¹⁸ The majority of the concessions are concentrated in two countries, the Republic of Congo and Gabon. In these countries, they cover more than half of the national territory. With an average formal production between six and eight million cubic meters per year, Congo Basin countries produce about 80 percent of the total volume of African timber.^{19,20,21}

As the forests of the Congo Basin are among the most intact in the tropics, there remains a unique opportunity to preserve irreplaceable wilderness and global environmental services.

The Congo Basin logging sector is known for its dualistic configuration, composed of a highly visible sector that is almost exclusively export-oriented and dominated by large industrial groups with foreign capital; and an informal sector of artisanal "chainsaw loggers" who primarily meet the domestic demand and, to some extent, that of neighboring countries.²²



Forest cover in the Congo Basin.

Source: EIA

This report will focus exclusively on the export trends and therefore the industrial logging.²³

The logging sector in the Congo Basin has improved its notorious track record over the past ten years.^{24,25,26} This evolution has been mainly stimulated by local government-led reforms, regional exchanges of information, campaigns by local and international civil society organizations, and the growing cooperation with trading partner countries, such as the European Union (EU) through the Forest Law Enforcement, Governance and Trade (FLEGT) Voluntary Partnership Agreements (VPAs). But, as this EIA investigation shows, these signs of progress have been undermined by “forest mining” strategies developed by certain influential entrepreneurs and systemic failures that still plague the logging sector in the Congo Basin.

It is worth remembering that the Congo Basin is one of the last places on Earth with tracts of forest large enough to support concessions of a million hectares or more.²⁷ This attribute has stirred up deep interest from investors whose plans are simple: capture the “primary forest rent” as quickly as possible, including breaking the most fundamental laws of the logging sector, in order to sell massive volumes of high-value timber to poorly regulated markets where the import and trade of illegally-sourced timber is not illegal.²⁸ “Dejia Group,” which for the purpose of this

report refers to the affiliated entities controlled by the Chinese mogul Mr. Xu Gong De, is one of the largest of these investors.

Over a period of four years, EIA undercover investigators met on many occasions with key members of Dejia Group: the founder himself Mr. Xu Gong De, the executives in both the Republic of Congo and Gabon, the factory manager and employees in Gabon, and trading executives in China. Over many hours, Dejia’s officials explained to EIA investigators the inner workings of the Group, with information that EIA was able to then corroborate through other sources. Repeated statements made to EIA investigators revealed the shared mindset among insiders of one of the most powerful timber companies in Africa. EIA data analysts, using publicly available information and confidential sources, used Congolese timber trade data to confirm Dejia Group executives’ admissions regarding overharvesting, breach of export quotas, and colossal tax fraud. This produced an unprecedented portrait of the web of illegalities and corruption underpinning a major logging company’s operations in the tropics.

EIA’s investigation reveals that Dejia Group companies have repeatedly broken the most fundamental forest laws in the Republic of Congo and Gabon. EIA investigators found that these companies have bribed officials to



win the allocation of logging rights over hundreds of thousands of hectares of forest; operated for years without approved management plans; overharvested thousands of trees; logged many prohibited species; exported hundreds of thousands of logs beyond their allowed quota; and evaded millions of dollars in taxes through sophisticated transfer pricing schemes. As the analysis of a particular supply chain in the US shows, these crimes are only possible because demand side actors violate the laws of their land by either neglecting due care obligations or by actively supporting Deji Group's scheme.

In many cases, evidence brought by EIA shows systemic dysfunction that goes way beyond Deji Group and the particular supply chain analyzed between the Republic of Congo/Gabon and the US.

In many cases, evidence brought by EIA shows systemic dysfunction that goes way beyond Deji Group and the particular supply chain analyzed between the Republic of Congo/Gabon and the US. This evidence indicates rampant corruption practices and illegalities that plague the logging sector more broadly in the Republic of Congo and Gabon, and also contaminate many "regulated markets" – so-called because of their legislation that prohibits the import of illegal timber – including France, Belgium, Italy, Spain and Greece.

This EIA in-depth exposé begins with a brief overview of what is at stake in the Republic of Congo and Gabon ecologically, socially and economically (Section 2), before presenting Deji Group, its structure and workings (Section 3). Section 4 of this report is dedicated to the detailed presentation of the evidence gathered and analyzed by EIA. Section 5 explores step-by-step one particular supply chain that connects the Congo Basin forests to US consumers. The efforts undertaken in producing (the Republic of Congo, Gabon) and consumer (EU, US) countries to tackle the illegal logging problem, as well as their limits are detailed in Section 6. Finally, Section 7 briefly presents EIA's principal conclusions and lays out key recommendations.

Until there is real legal and market accountability in both the Congo Basin and the countries consuming its timber, these crimes will continue to be the norm, and the forests that play a central role in our common future will be under threat.

2

Illegal Logging in Gabon and the Republic of Congo: What is at Stake?

The influence of industrial illegal logging in the Congo Basin has no exact equivalent in the tropics.^{29,30} In this region, the industrial logging sector involves the most extensive use of land and covers more than a quarter of its tropical forests.³¹ The Republic of Congo and Gabon together account for approximately 60 percent of all Congo Basin forest concessions, covering almost 50 million hectares (Table 1).^{32,33} Therefore, the way in which logging companies operate in these countries has a profound impact on the nations' forests, their economies, their socio-cultural dynamics, and their fragile ecological equilibriums.

2.1 The Sector that Shapes the Regional Landscape

Gabon and the Republic of Congo possess the highest share of national forest allocated to industrial logging in the Congo Basin (Figure 1), with concessions covering about 53 percent of the Gabonese territory and about 40 percent of the Congolese territory.^{34,35} Each of the two countries has more area under concession management than the Democratic Republic of Congo (DRC).³⁶

	Dense forest cover (in ha)	Area under forest concession (in ha)	Percentage of the national forest under forest concession	Percentage of the Congo Basin forest under concession
Gabon	22,505,397	14,197,038	63%	29%
Republic of Congo	21,278,180	13,913,699	65%	28%
Central African Republic	6,923,690	3,698,531	53%	7%
Cameroon	19,091,044	6,281,212	33%	13%
Democratic Republic of Congo	114,526,051	10,762,055	9%	22%
Equatorial Guinea*	2,120,060	740,122	35%	1%
Total	186,444,422	49,174,876	-	100%
Average	-	7,070,123	27%	-

Table 1. National areas under forest concessions in the Congo Basin.

Source: Verhegghen and Defourny, 2010³⁷; Marquant et al., 2015³⁸; COMIFAC, 2018;³⁹

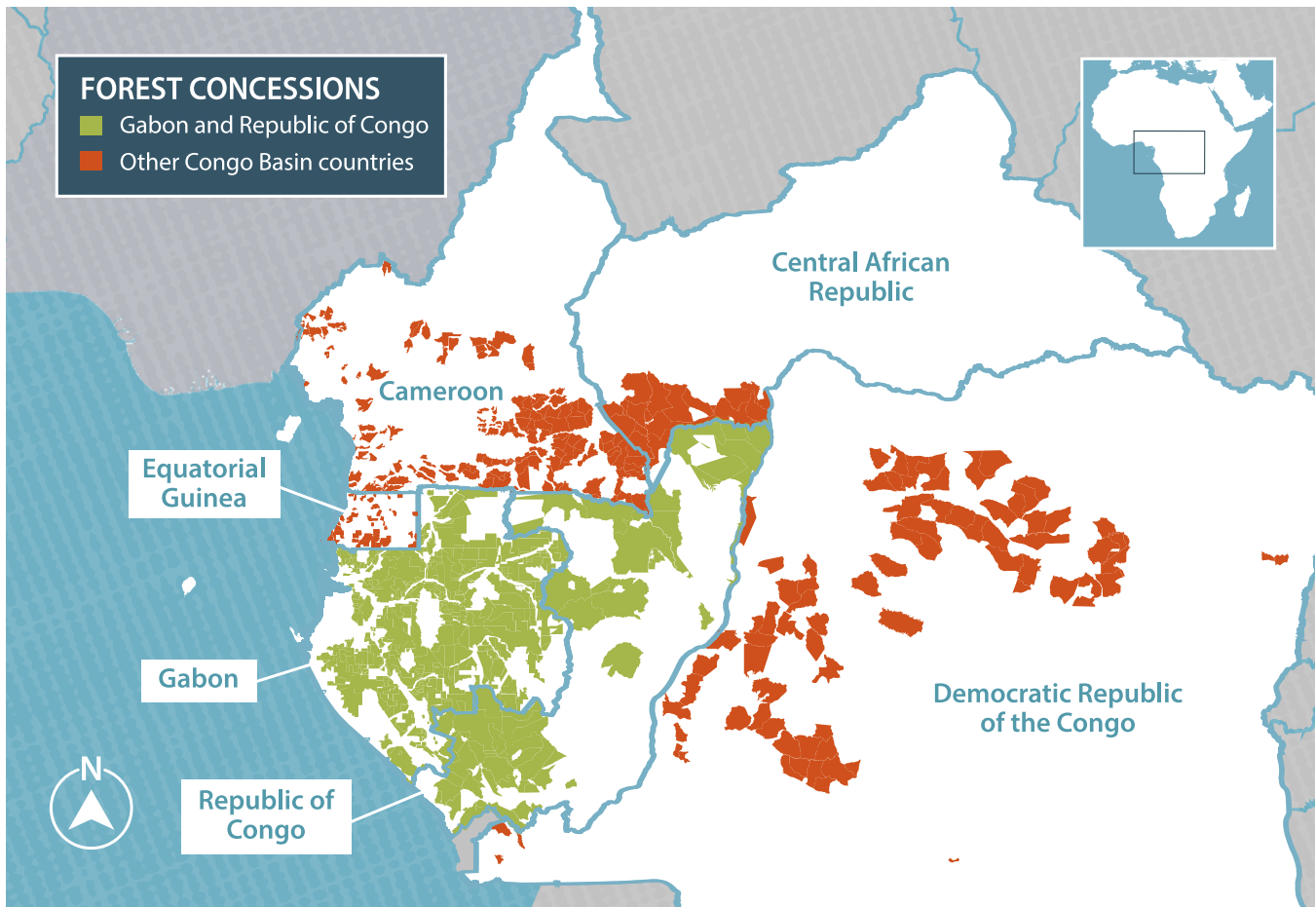


Figure 1. Forest concession areas in the Congo Basin: a look from the sky.
 Source: EIA, 2018 based on data from the World Resources Institute (WRI)⁴⁰

In order to improve sustainability of the timber sector, many Congo Basin countries including the Republic of Congo and Gabon reformed their forest legislation in the 1990s and early 2000s.⁴¹ However, the widespread violations of key forestry laws by logging companies controlling, on average, several hundred thousand hectares of forest – including concession boundaries, annual allowable cuts, minimum harvest diameter, protection of vulnerable species, ratio of timber to be processed in-country, or the tax to be paid – have massive negative impacts at the local, national and regional level.^{42,43} Conserving the Congo Basin forest, through protection or sustainable use, and through strict law enforcement, is key for the future of many species, including our own.

2.2 Irreplaceable Biodiversity and Invaluable Climate Asset

The biodiversity of the Congo Basin forests is of global significance, given both the abundance of species found in the region and the high rate of endemism.^{44,45} It is estimated that the Congo Basin region still has 86 million

hectares of large, unfragmented pristine forests known as Intact Forest Landscapes (IFLs).⁴⁶ Apart from being biodiversity hotspots, IFLs store considerable amounts of the world’s forest carbon. The Congo Basin forest is home to at least 400 mammal species including the African forest elephant (*Loxodonta cyclotis*), the mountain gorilla (*Gorilla beringei beringei*), the forest buffalo (*Syncerus caffer nanus*), the okapi (*Okapia johnstoni*) and the bonobo (*Pan paniscus*).^{47,48} Over 1,000 bird and nearly 700 fish species are found in these forests, and new species continue to be discovered.^{49,50} More than 10,000 species of plants, 3,000 of which are endemic, can be found in the Congo Basin region.⁵¹ The Congo Basin has been recognized for its outstanding universal value for humankind with eight of its natural sites on the United Nations Educational, Scientific and Cultural Organization (UNESCO)’s World Heritage List.⁵²

The forests of the Republic of Congo and Gabon are particularly important refuges for many endangered species, but their habitat continues to be reduced and

degraded through illegal and/or unsustainable logging.⁵³ The direct impacts of illegal and/or unsustainable logging include a reduction of canopy cover, destruction of forest undergrowth, and the decline of large tree species that are a vital source of food and shelter to certain animals.⁵⁴

Gabon: Forest Elephant's Last Refuge

Gabon's forests are home to 8,000 known plant species, 600 bird species and over 300 mammals including the forest elephant, one of the largest land animals on Earth.^{55,56} Almost 75 percent of the African forest elephant (*Loxodonta cyclotis*) population has been lost over the last decade, and the continent continues to lose 10 percent of the surviving elephants every year.^{57,58} Although Gabon constitutes a fraction of the African continent, the country shelters approximately 45,000 forest elephants, representing nearly 60 percent of Africa's remaining population.⁵⁹ The battle for the survival of the forest elephant will be won or lost in Gabon, the forest elephant's stronghold.⁶⁰

Endangered Apes in the Republic of Congo

65 percent of Congolese territory is covered with forest, the vast majority of which is natural or naturally regenerated forests. Tree plantations still only cover a relatively small part of the country.^{61,62} The southern region of the Republic of Congo is home to considerable populations of great apes including western lowland gorillas (*Gorilla gorilla gorilla*) and Central chimpanzees (*Pan troglodytes troglodytes*). Ape population estimates in the southern region are about 20,000-50,000.⁶³ They are under increasing pressure from poaching, habitat loss and degradation, and disease fueled by increased access to their remote habitats and weak governance.⁶⁴

The battle for the survival of
the forest elephant will be won
or lost in Gabon, the forest
elephant's stronghold.

The exact number of western lowland gorillas is not known, but according to available information, the Republic of Congo has one of the highest gorilla densities in Africa and plays a key role for the survival of the species.^{65,66} In 2008, scientists from the Wildlife Conservation Society estimated that 125,000 individuals of the critically endangered western lowland gorillas are living in Congolese forests.^{67,68}

Endangered Congolese chimps, face very similar threats as gorillas, but unlike their larger relatives, chimps don't easily migrate, making them particularly vulnerable to the pressures on their habitat.⁶⁹ Because chimpanzees are territorial, it is very difficult for females and offspring to relocate into a neighboring community, and it is impossible for males.⁷⁰ Bouvier's red colobus (*Piliocolobus bouvieri*) is another charismatic Congolese animal that shows the dire importance of well-conserved forest tracks. Thought extinct for 40 years, the species was "rediscovered" in 2015 in the Republic of Congo's newly-established Ntokou-Pikounda National Park.⁷¹ Listed as critically endangered, no one knows how many individuals of this species still survive.⁷²



Figure 2. Congolese and Gabonese forests' endangered animal. Source, from left to right: Chi King (Central chimpanzee), Lieven Devreese and Gaël Elie Gnondo Gobolo (Bouvier's red colobus) and Pierre Fidenci (western lowland gorilla).



African forest elephants.
Source: Remi Pognante

Forest-Dependent Regional Climate

Congolese and Gabonese forests provide important local, regional and global ecological services.⁷³ Central Africa's tropical forests are among the world's largest carbon reserves, representing huge potential for mitigating anthropogenic carbon emissions responsible for climate change.^{74,75,76} At the same time, these forests are crucial to regulating local and regional weather patterns and climate variability, maintaining the regional hydrological cycle that affects large parts of the continent, and controlling floods in high-rainfall regions.⁷⁷ Unlike other major tropical forests, the Congo Basin forests generate between 75-95 percent of the region's rainfall through evaporation and evapotranspiration. By contrast, the Amazon Basin generates only 50 percent of its own regional rainfall, and Asian rainforests less than 20 percent.⁷⁸ In the Congo Basin, impacts on the forest are direct impacts on the climate.

2.3 Socio-economic and Cultural Values

The Congo Basin forests provide essential livelihoods to forest dependent communities who live in the forests themselves or in close proximity.⁷⁹ Home to nearly 30 million inhabitants, these forests sustain the livelihoods of about 75 million people from nearly 150 ethnic groups.⁸⁰ Among these ethnic groups are

about 500,000 indigenous people who heavily depend on forest resources and ecosystem services for their nutritional and medicinal needs and cultural survival.⁸¹ In the Republic of Congo, between 35 and 40 percent of the population live in rural areas and depend on forests as a major resource.⁸²

Forestry in the Republic of Congo and Gabon also plays a significant economic role. Timber once dominated the Gabonese economy until it was replaced by the oil industry.⁸³ Today logging contributes less than five percent to the Gross Domestic Product (GDP).⁸⁴ In contrast to the oil industry, the labor-intensive timber industry is a large employer, providing work for over a quarter of the active labor force.⁸⁵ The low price of Brent crude in recent years has revived the importance of the timber sector in Gabon, Africa's fourth largest oil producer.⁸⁶ The new head of government specifically identified the timber sector as a top priority for reform during his first 100 days in office.⁸⁷ The situation is quite similar in the Republic of Congo where the timber sector is also the second most important natural resource and contributes approximately 5 percent of the GDP.⁸⁸ Revenue from the logging sector amounts to almost US\$300 million per year, generating over 20,000 jobs both directly and indirectly.⁸⁹ In the Republic of Congo, the logging industry is the second largest employer, after the public sector.⁹⁰

3

Dejia Group: The Epicenter of Chinese Timber-Related Investment in Africa

EIA's investigation reveals that at each stage of forest exploitation and timber trade, Dejia Group companies have repeatedly broken the most fundamental forest laws in the Republic of Congo and Gabon. EIA investigators found that the Group has bribed officials to win the allocation of logging rights over hundreds of thousands of hectares of forest; operated for years without approved management plans; overharvested thousands of trees; logged many prohibited species; exported hundreds of thousands of logs beyond their allowed quota; and evaded millions of dollars in taxes through sophisticated transfer pricing schemes. Dejia Group's operations revolve around three pillars: the unrestricted exploitation of over 1.5 million hectares of forest in the Republic of Congo and Gabon through multi-scale bribes; the set-up of a plethora of offshore companies that are the centerpieces of a multi-million dollar tax evasion scheme; and connections carefully maintained with buyers in the three principal world timber markets (China, EU and the US). According to evidence gathered by EIA, Dejia Group's modus operandi is not unique in its nature, but rather exemplifies the business as usual practices in the region, fully adopted and replicated by other more recent investors.

Chinese-owned "Dejia Group" is

one of the most important timber

groups in Africa, controlling nearly 1.5

million hectares of forest concessions

in Gabon and the Republic of Congo.

3.1 The Rise of Chinese-Owned Companies in the Congo Basin

China is one of the world's largest importers, consumers and exporters of wood-based products and has become the principal export destination for the timber-rich Congo Basin countries (Figure 3).^{91,92,93} Central African timber exports to China have increased by 60 percent from US\$652 million in 2009 to US\$1.041 billion in 2017, making it the largest commodity exported from the region after oil.^{94,95}

The growing Chinese appetite for Congo Basin timber has shifted trade flows in the region away from traditional European markets and toward Asia. Accordingly, China has been the top destination of the timber exported from Central Africa for several years now, dwarfing historical destinations such as France, Italy, and Spain (Figure 4).⁹⁶ In the late 2000s, when timber demand from the EU dropped due to the economic crisis, China's demand stayed strong and helped sustain Central African exports.⁹⁷

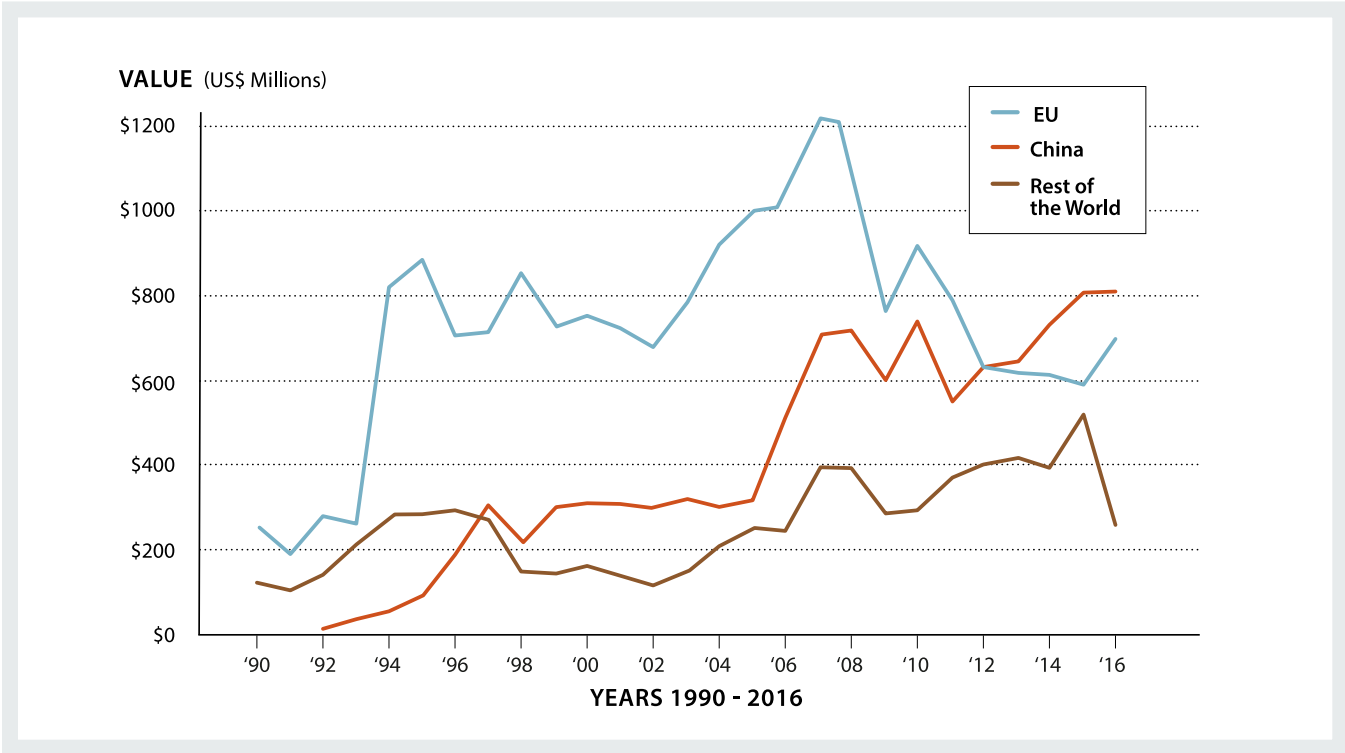


Figure 3. Evolution of timber exports from the Congo Basin, by value.
Source: EIA, 2018 based on UN Comtrade

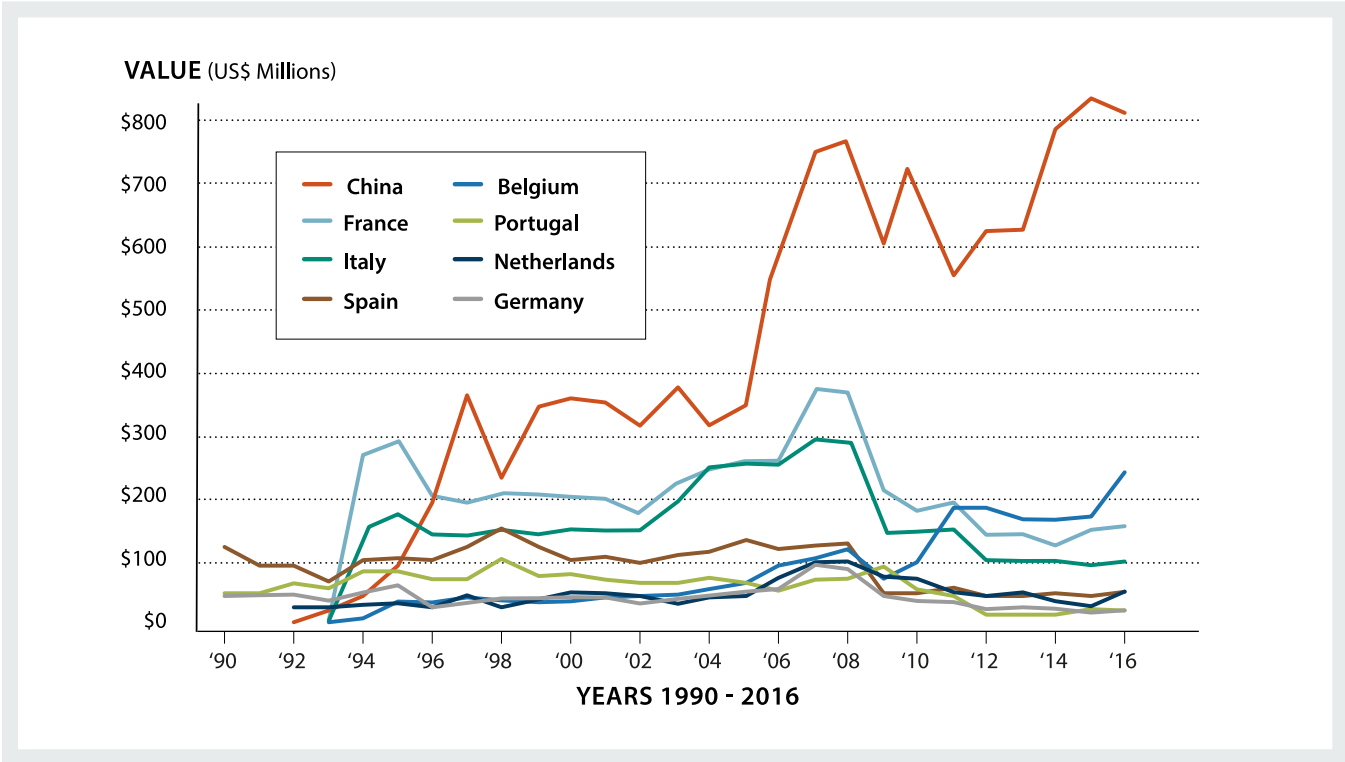


Figure 4. The top-eight timber trading partners of the Congo Basin countries, by value.
Source: EIA, 2018 based on UN Comtrade
Note: Trade partners were selected based on average import value over the selected time period.

Round logs dominate the trade between the Congo Basin and China (Figure 5). The continuous input of raw material from African forests has become a vital component of the Chinese timber industry. Since China's implementation of its Natural Forest Protection Program in 1998, its domestic timber production has decreased dramatically, and the country has shifted its sourcing of tropical wood from domestic forests to those overseas.^{98,99} Raw material from plantations in China cannot meet the specific needs of the furniture and plywood industries; millions of Chinese processing facilities rely on imports.¹⁰⁰ In this context, between 1996 and 2017, the Congo Basin has progressively become one of China's principal sources for tropical logs, rivaling Southeast Asia, and well ahead of Oceania and the Amazon (Figure 6).¹⁰¹ A mutual dependency has taken shape given the significant volume of sizeable round logs offered by the Congo Basin countries and the massive demand in China.

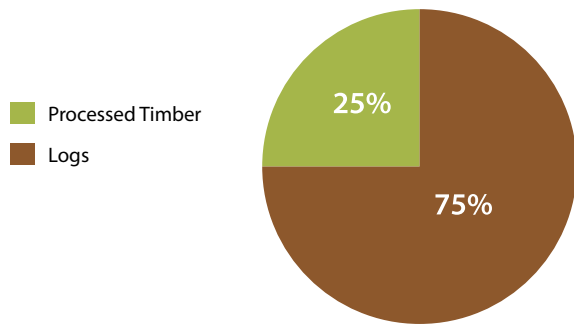


Figure 5. Congo Basin-China timber trade from 2010 to 2017: the prominence of logs (by value).
Source: EIA, 2018 based on Chinese customs data obtained from the Global Trade Atlas (GTA)

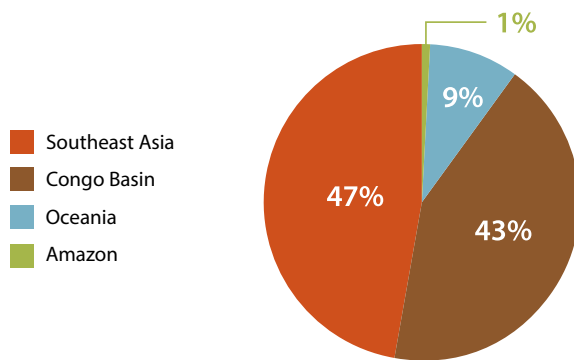


Figure 6. The principal tropical region for log exports to China, from 1996 to 2017, in value.
Source: EIA, 2018 based on Chinese customs data obtained from GTA

China's soaring timber imports have been closely connected to an increase in direct engagement by Chinese state-owned, state-controlled and private companies in Central Africa.¹⁰² Since the implementation of China's "going out" policy in 2002, Chinese companies have shown increasing interest in forest resources and related investment opportunities in the Congo Basin to feed China's growing demand for timber.^{103,104} In order to acquire concessions in the Congo Basin, Asian groups including Chinese, have created local subsidiaries who can compete in the bidding process and/or purchase existing companies with active concession titles.¹⁰⁵ Several Western logging companies that have been operating in Africa for decades, such as the formerly French-owned Leroy Gabon, have been taken over by Asian investors.¹⁰⁶ In the Republic of Congo, the originally French, then German (from 1968), then Danish (from 2006), company Congolaise Industrielle des Bois (CIB) was sold to the Singapore-based firm Olam International in 2010.¹⁰⁷

Altogether over 2.5 million hectares of forest in the Congo Basin have allegedly passed under Chinese control in recent months.

This trend seems to have accelerated in the past months. In the Democratic Republic Congo (DRC), early February 2018, two Chinese-owned companies, Forestière pour le Développement du Congo (FODECO) and Société la Millénaire Forestière (SOMIFOR), were awarded three logging concessions totaling 650,000 hectares, in violation of the logging moratorium in place since 2002.^{108,109,110} The Société Industrielle et Forestière du Congo (SIFORCO), a company owned by Danzer Group until it was sold to Blattner Group in 2012, sold five concessions to the Chinese company Booming Green DRC (over 1.1 million hectares in total).^{111,112} The long-established Italian-owned Cora Wood in Gabon allegedly sold its three concessions (612,000 hectares in total) to Chinese investors over the past months.¹¹³ In Cameroon, the Dutch company Wijma (GWZ Group) reportedly sold part of their forest concessions (over 115,000 hectares) in 2018 to the Vickwood Group, a Hong Kong based timber company.^{114,115} Altogether over 2.5 million hectares of Central African forest have passed under Chinese control in recent months.

The strong Chinese government support for overseas forest exploitation, combined with a lack of consequences for wrongdoing and a no-questions-asked policy at the import level in China, have paved the way for a new, reckless generation of entrepreneurs to thrive, at the cost of African forests and African states. Mr. Xu Gong De, the founder of Deji Group, was a forerunner.

3.2 The Crimes, the Clients and the Coffers: Deji Group's Global Stratagem

Over a period of four years, EIA investigators were able to identify the entities comprising the corporate empire built by Mr. Xu Gong De (Figure 7 and 8). For the purpose of this report, the affiliated entities controlled by Mr. Xu will be referred to as "Deji Group." The word "Deji" – likely "De" from Mr. Xu's name and "Jia" from the Chinese word for Gabon – appears in the name of several of these affiliated entities. Deji Group comprises eight companies involved in a well-coordinated effort to illegally harvest Central African forests, place the illegally-sourced products on the main world markets, and defraud African states of millions of dollars in unpaid taxes every year.

The Group's global strategy is anchored on three complementary components (Figure 8): gain access to



Figure 7. Mr. Xu Gong De (徐恭德).

Source: EIA

massive quantities of tropical forest resources with minimal oversight through bribes in the Republic of Congo and Gabon; place most of the illegally-sourced timber on the world's largest "unregulated" market (China) – where no legislation prohibits the import of illegal timber, and develop special connections and niches with "regulated" markets (EU and US) – where legislation prohibits the import of illegal timber; and hide profits and avoid tax payment through a cluster of offshore companies located in Hong Kong.¹¹⁶ The following sections explain in greater detail the workings of the Group and its gradual structuring over time.

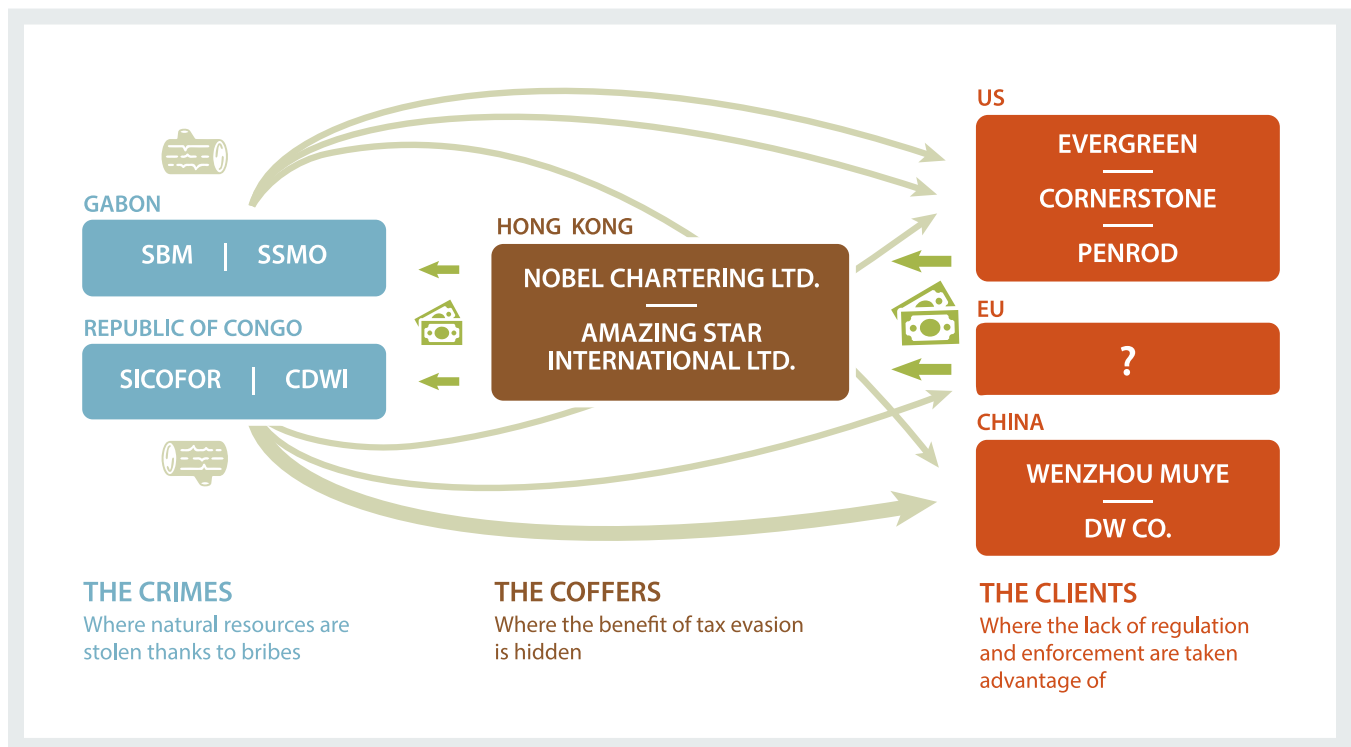


Figure 8. The three pillars of Deji Group's strategy and the companies involved.

Source: EIA, 2018

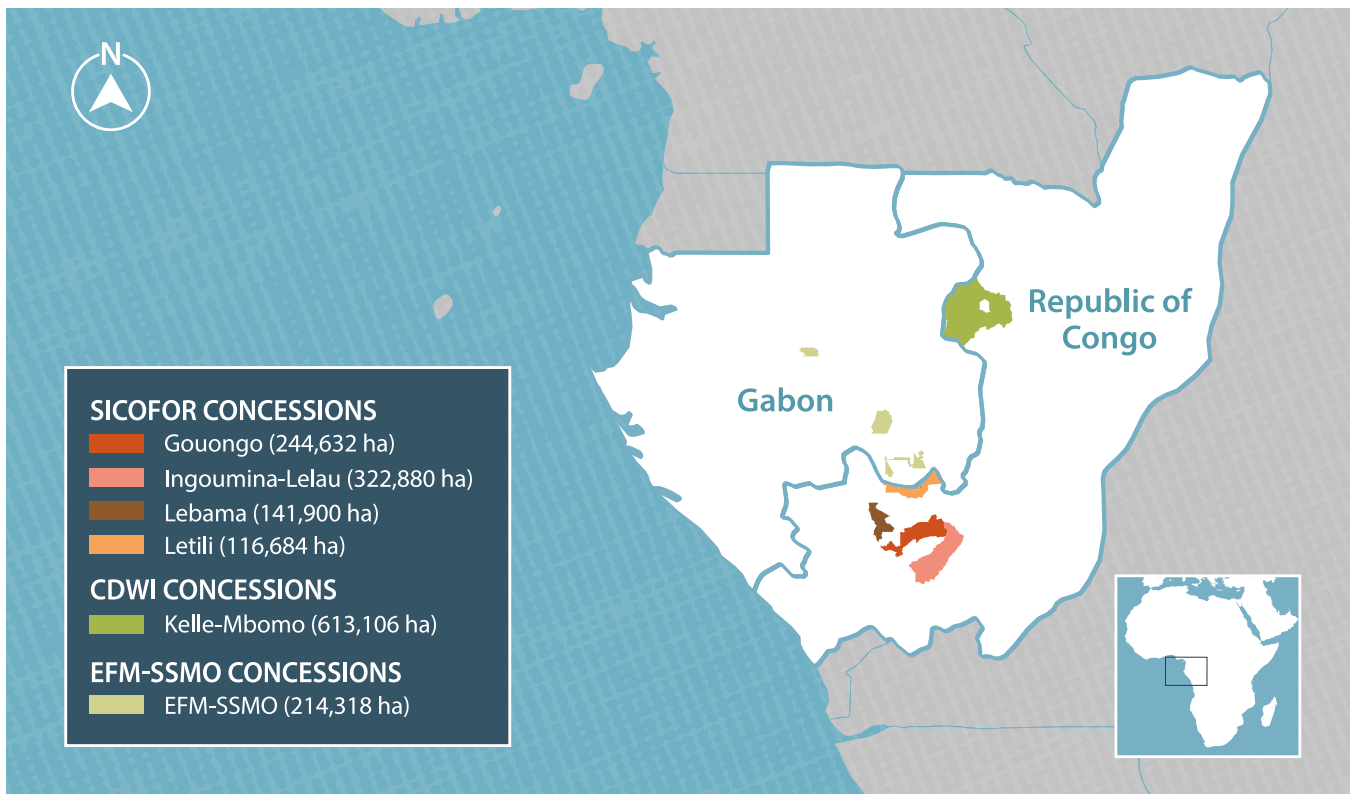


Figure 9. Map of Deji Group’s concessions in the Congo Basin.
Source: EIA, 2018 based on data from WRI¹¹⁷

In order to understand Deji Group’s functioning, EIA investigators met with multiple members of the Group’s network located in the Republic of Congo, Gabon, China and the US.

The Crimes: The Republic of Congo-Gabon

In Africa, the companies of Deji Group are fully vertically integrated from extraction to export: they own concessions, transport the logs to their processing facilities, and export them, either as raw logs or processed materials. According to EIA’s investigation, Deji Group is one of the most important Chinese-owned companies in the Congo Basin (and Africa), controlling nearly 1.5 million hectares of forest concessions in Gabon and the Republic of Congo.¹¹⁸ Over 80 percent of the forest area controlled by the Group is located in the Republic of Congo (Figure 9). Deji Group is a major producer of timber in the region. It has produced an estimated 323,885 tons of timber between 2013 and 2016, 17 percent coming from Gabon and 83 percent from the Republic of Congo.¹¹⁹ Sino Congo Forêt (SICOFOR), one of Deji Group’s affiliates, was the second largest exporter in the Republic of Congo between 2013 and 2016, annually exporting on average more than 135,000 m³.¹²⁰

Mr. Xu has lived in Central Africa since the late 1980s, a time when very few Chinese were present in the region.¹²¹

He was brought from China to Africa by his great-uncle, Mr. Jean Ping, who was then the Head of Cabinet for Omar Bongo, Gabon’s president from 1967 until his death in 2009.¹²² With the protection of his relative, Mr. Xu established a flourishing network of food stores and a food import business before investing in the timber sector.¹²³ Building on his growing wealth and high-level political connections, he soon positioned himself as a central figure in the Africa-China timber trade.^{124,125} By the early 2000s, Mr. Xu was believed to be one of the most influential Chinese expatriates in the region.¹²⁶

When Mr. Xu learned in 2005 that the largest forest concession in the Republic of Congo was up for sale, he reportedly contacted the Congolese Minister of Forest Economy and speedily closed a deal.^{127,128,129} According to well-placed informants, moving from timber trading to logging operations allows companies to have a direct access to raw material and better control of supply fluxes. The company Sino Congo Forêt (SICOFOR) was created as a result.¹³⁰ With a capital of CFA 100 million (~US\$181,000), the company reportedly received investments from the government of Jiangsu Province, through the Jiangsu Overseas Group Corporation (JOC) – a major state-owned entity in charge of promoting international investments by Jiangsu Province, and through direct support from the Bank of China, for a total investment of close to CFA 22 billion

(~US\$4 million).^{131,132} Mr. Xu and his long-time associate Mr. Li Yu Dong together own 90 percent of SICOFOR share capital.¹³³ Mr. Xu entrusted the management of the new company to his relatives, in particular his niece's husband, a Chinese journalist who would use his French language skills to maintain close relationships with Congolese authorities.¹³⁴

In 2005, Mr. Xu created the company Société de Sciage de Moanda (SSMO) in Gabon, which four years later was merged with the company Entreprise Forestière de Moanda (EFM).¹³⁵ In 2006 the Chinese mogul established another Congolese affiliate: Congo Dejia Wood Industry (CDWI).¹³⁶ A year later the company was granted over 600,000 hectares of forest by the Congolese government.¹³⁷ According to the official journal, the company was the only bidder for the concession.¹³⁸

According to the information collected by EIA, the Group owns at least four facilities (sawmills and veneer factories) in the region and allegedly employs several hundred workers, but only does a minimum of processing in-country. The vast majority of the harvested trees, over 80 percent from 2013 to 2017, are exported as logs – in contravention of national law and the agreement signed between the company and the Government of the Republic of Congo (Figure 10).¹³⁹

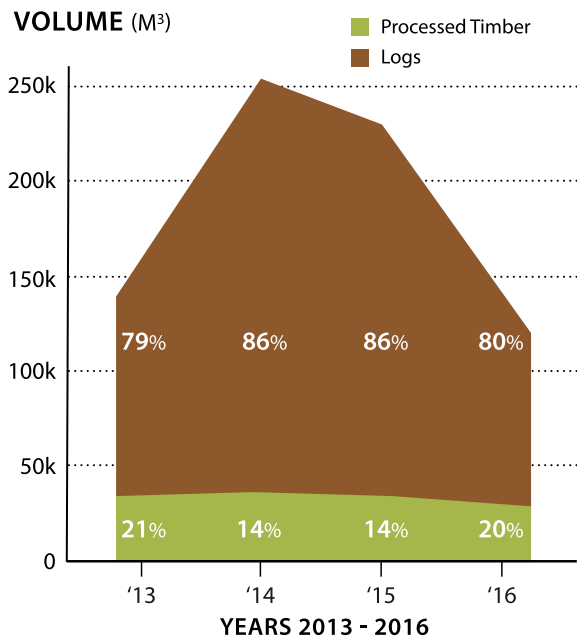


Figure 10. Evolution of the processed vs unprocessed export from the Dejia Group in Congo and Gabon (in volume).

Source: EIA, 2018, based on the Exploitation Forest Products Control Service (Service de contrôle des produits forestiers à l'exploitation, SCPFE) reports in the Republic of Congo and EIA, unpublished investigative material from Gabon

Through the creation and acquisition of at least four companies (two in the Republic of Congo and two in Gabon), Dejia Group has gained and consolidated direct access to 1.5+ million hectares of rich forests in the Republic of Congo and Gabon. This control over primary forest resources allows the Group to continuously provide China's market with imposing volumes (over 80,000 cubic meter per year on average) of large diameter okoume (*Aucoumea klaineana*) logs.¹⁴⁰ According to Dejia's executives, okoume logs sold in China are their "money maker." Unprocessed okoume logs represent nearly 60 percent on average of the timber harvested by the Group in volume over the period 2013-2016. As Dejia executives told EIA investigators, in order to meet Chinese demand, the Group refuses to be controlled by Congolese and Gabonese legal frameworks, and does not hesitate to abundantly overharvest certain species, several of them being classified as vulnerable, including okoume (for more details on forest exploitation illegalities, see Section 4).

Because national laws oblige logging companies to process part (the Republic of Congo) or the totality (Gabon) of the timber harvested, the Group has been compelled to find specific markets for these processed timber products, whether planks or veneers. According to information gathered by EIA, the Group mainly turns okoume (*Aucoumea klaineana*) logs into veneers in its Congolese facilities, and moabi (*Baillonella toxisperma*) logs into planks in the Gabonese mills, as well as some marginal volume of safoukala (*Dacryodes heterotricha*) and sipo (*Entandrophragma utile Sprague*) processed into boards.¹⁴¹ Since China's appetite for these processed products has been minimal, Dejia Group has been forced to place those in other complementary markets. This is how Dejia built strong connections with importers in the EU and in the US.

The Clients: China-EU-US

At the same time that the Dejia Group was gaining direct access to forest resources in the Republic of Congo and Gabon through the acquisition of several forest concessions, it developed a global disposal strategy for the illegally-sourced timber that covers the three major world timber markets.

In 2005, in order to consolidate his prominent supplier position in China, Mr. Xu founded Dejia Wood Co. in the Lucheng District of the Wenzhou Province.¹⁴² The company specializes in importing and wholesaling African logs, as well as production and marketing of veneer panels, laminated wood and plywood.¹⁴³ Dejia Wood Co. is known to be one of the largest wood processing enterprises in the province, and markets its products throughout China.¹⁴⁴ The company was allegedly part of the state-owned Wenzhou Group before being auctioned off in 2013.¹⁴⁵ According to

Chinese Customs data, Deji Wood Co. is the largest importer of logs from the Republic of Congo, accounting for just under a quarter of the total volume.¹⁴⁶ It is also the fourth-largest importer of logs from the entire Congo Basin.¹⁴⁷ A senior executive from the company explained to EIA investigators that Deji Wood Co. does not primarily buy its logs from the Group's companies located in the Republic of Congo and Gabon, and does not expect any "business favor" from their African sister-companies. This illustrates the complex trading and financial strategies developed by Mr. Xu, as well as the cooperation/competition dynamics in place between the different entities of the Group.

China is the primary destination of Deji Group's logs, absorbing 98 percent of the logs produced by the Group between 2014 and 2016 (Figure 11).¹⁴⁸ Conversely, the EU and the US are the primary markets for the Group's processed products, accounting together for 70 percent of the total export of processed products over the same period. In the EU, the principal markets for Deji Group's products are France, Belgium, Italy, Spain and Greece (Figure 12).

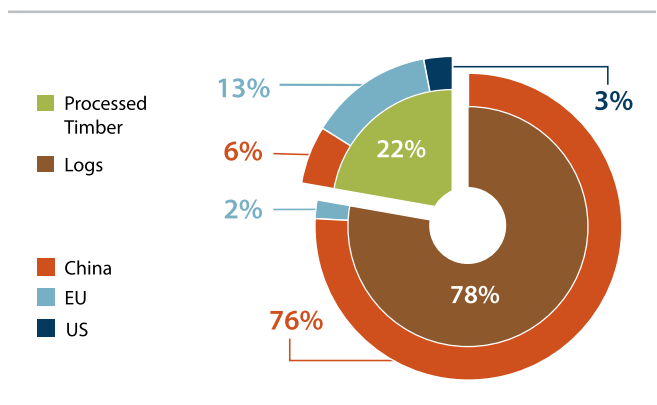


Figure 11. Destination of the Deji Group's timber export from the Republic of Congo and Gabon, in volume.

Source: EIA, 2018¹⁴⁹

Mr. Xu's empire also developed a stronghold in the United States, home of Mr. Li Yu Dong, Mr. Xu's business partner of 20 years. In addition to being the co-owner of SICOFOR, Mr. Li is also in charge of Deji Group sales worldwide. Mr. Li is affiliated with several other US companies, including

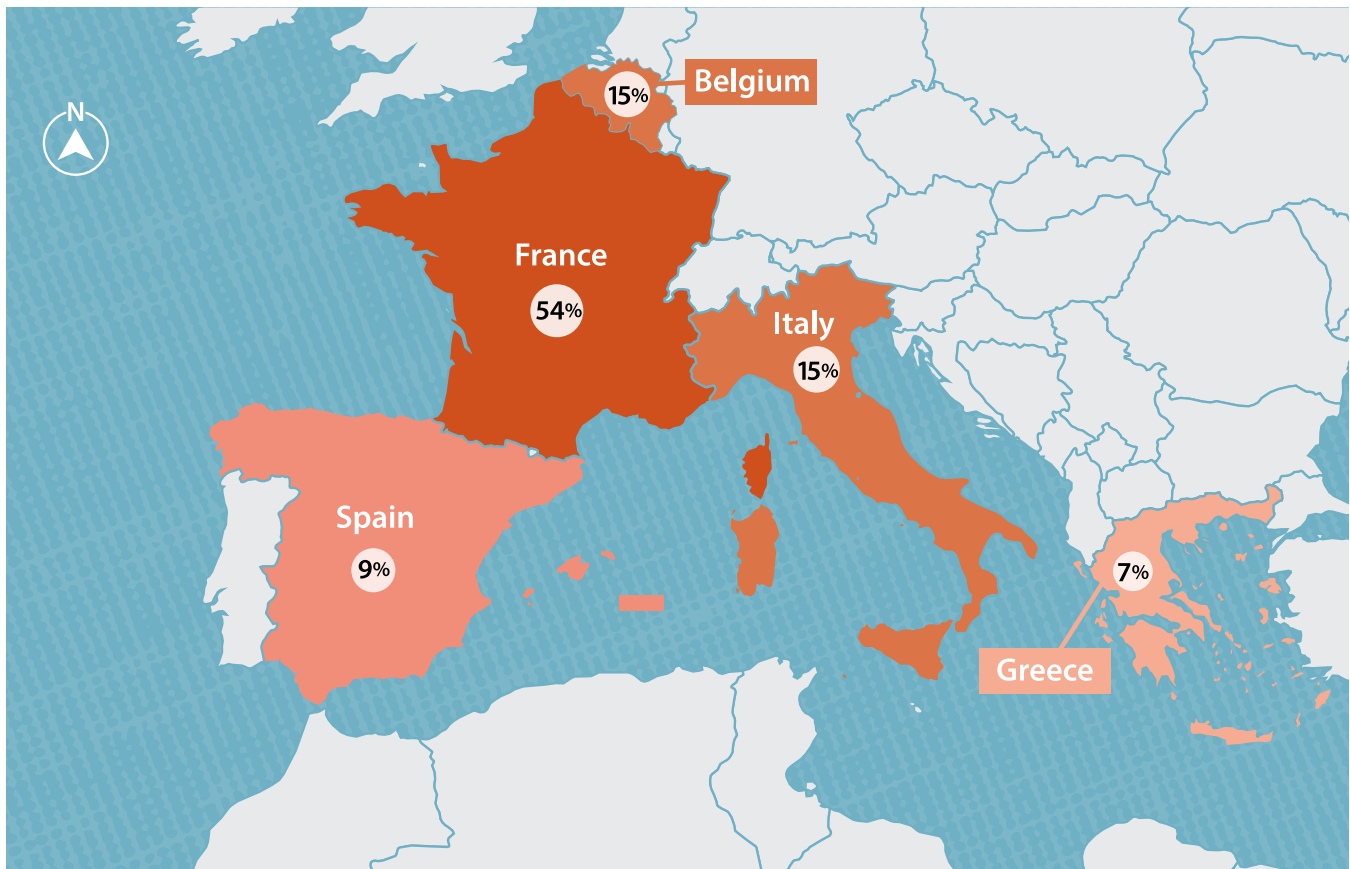


Figure 12. Deji Group principal markets in the EU.

Source: EIA, 2018, based on confidential data source

Note: The percentage represents the respective share of the export to the EU.

Dakua Timber, Inc. (Mr. Li is listed as president), Sushee Seattle Timber Trading, Inc. (Mr. Li is listed as chairman and president), and Pao Rosa LLC (Mr. Li is listed as member agent and agent). As Dejia Group executives in Gabon and the Republic of Congo explained to EIA investigators, Mr. Xu and Mr. Li together control operations and financing of the entire Group and are thus the key figures in the global stratagem. Both Africa-based managers stated that they do not know the exact profit made by the company they are managing, not even the sale figures, because it is kept secret by Mr. Xu and Mr. Li, through offshore companies based in Hong Kong.

If the logs, planks and veneers are shipped directly from Pointe Noire (the Republic of Congo) and Owendo (Gabon) to the principal ports of China, France, Belgium, Italy, Spain, and the US, the money follows different paths. The considerable advantage enjoyed by Dejia Group comes from systematic offshoring of profits from the

Congo Basin to Hong Kong. For this purpose, a cluster of offshore companies serve as intermediaries in the company's timber sales.

The Coffers: Hong Kong

In order to implement his international strategy, Mr. Xu created several companies in tax havens, including Hong Kong, in the 2000s. This is where the company Amazing Star International Limited is registered and where the company Nobel Chartering Limited maintains its address. Mr. Xu is director and shareholder of both companies, which are themselves connected to many other companies through a complex array of shareholders, directors, intermediary firms and registered addresses all over the world, as shown by the International Consortium of Investigative Journalists (ICIJ) Offshore Leaks Database, foundations and trusts from the Panama Papers, the Offshore Leaks, the Bahamas Leaks and the Paradise Papers investigations (Figure 13).¹⁵⁰

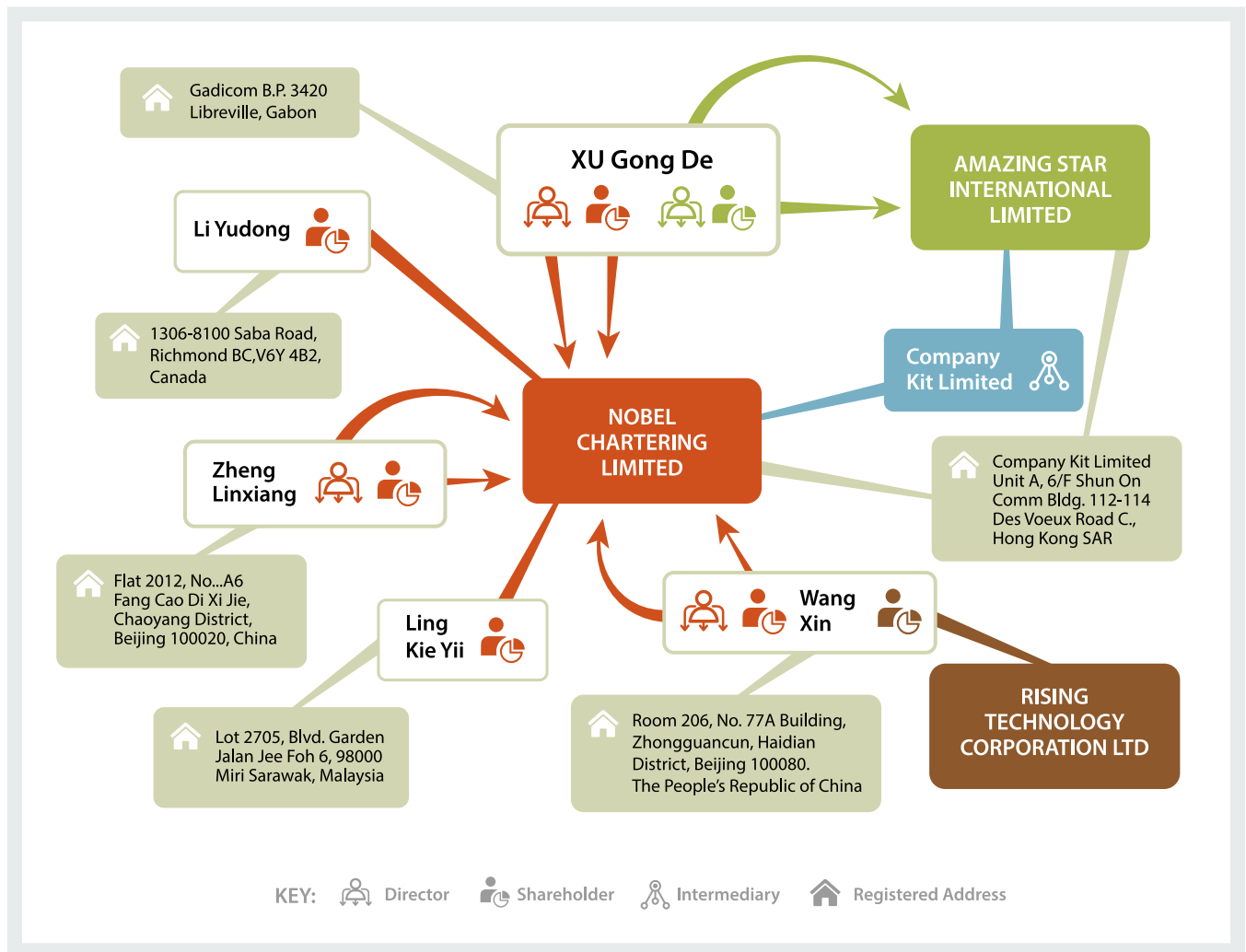


Figure 13. A dense array of companies and individuals connected to Dejia Group's offshore companies. Source: Screenshot of ICIJ Offshore Leaks website¹⁵¹



Figure 14. Mr. Ping and the UN Secretary General, Mr. Kofi Annan, in 2006 (left picture); Mr. Ping and the UN Secretary General, Mr. Ban Ki-moon, in 2011 (right picture).

Source: UN Photo/Eskinder Debebe (left); UN Photo/ Paulo Filgueiras (right)

The array of interconnected companies plays a central role in the tax evasion scheme developed by the Group and described in this report (cf. Section 4). Dejia Group's executive for Gabon explained to EIA investigators the set-up of enterprises belonging to the Group in Hong Kong: "It's the same people, same job, just declared under different companies," with the admitted purpose of hiding profits and other critical information from Chinese and African authorities.

3.3 Friends in High Places

Mr. Xu Gong De, the Dejia Group mastermind dubbed the "Chinese Trade Giant" of Central Africa, occupies key positions in influential politico-business networks.¹⁵² He participated in the Boao Forum in March 2017 – a forum of Asian business leaders, similar to the World Economic Forum in Davos; was president of the Overseas Chinese Association of Gabon; and serves as Assistant Head of the World Wenzhou Clansmen's Association.^{153,154,155,156} Mr. Xu is also a "Specially Assigned" Whenzou City Chinese Communist Party Central Committee (CCPCC) overseas member.¹⁵⁷ Dejia Wood Co. is in charge of the Vice-Presidency of the China Chamber of International Commerce, Lucheng Branch.¹⁵⁸ As well-placed informants explained to EIA investigators, the exponential growth of the Dejia Group, which over the course of 11 years (2005-2016) became the largest Chinese mainland logging company in Central Africa, has relied heavily on high-level cash-fueled patronage.

Mr. Jean Ping reportedly encouraged his relative Mr. Xu to settle and invest in Gabon.¹⁵⁹ Son of a Chinese father and Gabonese mother, Mr. Ping is considered a distinguished and influential African diplomat on the international scene (Figure 14).¹⁶⁰ During more than 30 years in the Gabonese government he successively held various ministerial functions, including Minister of Mines, Energy, and Water

Resources; Deputy Minister of Finance, Economy, Budget and Privatization; Minister of Planning, Environment and Tourism; and Minister of State in charge of Foreign Affairs.¹⁶¹ He also held the position of African Union Commission Chairman, and several important posts in the United Nations (UN), including President of the UN General Assembly.¹⁶² Mr. Ping lost the 2016 presidential election against the incumbent president, Mr. Ali Bongo, after a controversial vote counting process, fraud denunciation from Ping's camp, and political unrest.^{163,164} A SICOFOR executive told EIA investigators that Mr. Xu became a significant sponsor of Mr. Ping's campaign for presidency in the 2016 election in Gabon, in return for the continuous political support he has given to Mr. Xu's businesses:¹⁶⁵

EIA: *Is Jean [Ping] 100 percent Chinese?*

SICOFOR: *Well, his father is from Wenzhou. [The source explains his relationship with Mr. Xu and explains Mr. Xu is a relative of Mr. Ping]. And Jean's mother is the daughter of a tribal Chief.*

EIA: *Oh, so he is of mixed origin?*

SICOFOR: *Right, he is of mixed origin. He doesn't speak Chinese. But Chinese government attached a lot of importance to him. Therefore he became the Chairman of the African Union.[...] [Mr. Xu] came to Africa because of Jean's connections.*

EIA: *But back in the days, there was nothing to do here, right? Your uncle just came to Africa for Jean's connections?*

SICOFOR: *Yes. Mr. Xu was actually doing quite well financially with his business in China. But he gave up on that and came to Africa.[...] You know that [his] family has two timber companies, one cement company, one real estate and one construction company. [...] over 200 family members' businesses...*

When asked specifically if Mr. Xu became the principal sponsor of Mr. Ping’s presidential campaign as a way to pay back for the important political support he received over the years, and which allowed him to achieve his political and economic position in the Republic of Congo, Gabon and China, one of Deji Group’s executives explains: “Jean is getting money from him [Mr. Xu], he pays for everything.”

Mr. Xu’s investment in the Republic of Congo started by taking over the company Man Fai Tai Holdings and its assets.^{166,167} The sole owner of the company, Mr. Patrick Shu Fai To – reportedly appointed as Hong Kong’s honorary consul in 1996 – shared his high-level personal connections with Deji Group’s representatives (Figure 15), helping them quickly establish a close relationship with prominent decision makers such as President Denis Sassou Nguesso (Figure 16).¹⁶⁸



Figure 15. The Director of Man Fai Tai Holdings (left), the President of the Republic of Congo (center), and Mr. Li Yu Dong, the Deji Group’s representative (right).

Source: Screenshot of BVAL’s website, presented in Mongabay, 2014¹⁶⁹



Figure 16. Deji family: Mr. Xu’s niece and her husband, arm in arm with the Congolese President.

Source: EIA

Mr. Henri Djombo, Minister of Forest Economy in the Republic of Congo for nearly 20 years (1997-2016), became one of the closest allies of the family.^{170,171} According to Mr. Xu’s nephew, it was not uncommon for him to invite and entertain Mr. Djombo’s son during holidays spent in China.¹⁷² SICOFOR’s executive, explained to EIA investigators that the Group has repeatedly bribed Mr. Djombo (see Section 4 for quote). In return, Mr. Djombo, who is reported to be a shareholder of the company but has denied it, has allegedly helped SICOFOR solve many “problems,” including avoiding sanctions for routinely violating forest laws, helping smooth log exports beyond allowed quotas, and securing access to vast tracks of natural forests.¹⁷³ In 2016, Mr. Djombo handed over to SICOFOR executive “the last available forest area” in the Republic of Congo (Figure 17) through a fraudulent process, as revealed by EIA’s investigation (see Section 4 for details.)¹⁷⁴ A month later, Mr. Djombo was promoted to the position of Minister of State in charge of Agriculture, Livestock and Fishing.¹⁷⁵

In less than 15 years, the network of companies founded by Mr. Xu has become one of the largest and most influential timber groups in the Congo Basin. The Deji Group paved the way for skyrocketing Chinese investment in the Congo Basin timber sector over the past several years, and which has accelerated during the last 12 months. Notwithstanding the economic success of Deji Group, evidence gathered by EIA’s investigation, and presented in the following section, shows how the wealth accumulated by the Group relies on multiple and routine violations of national laws in both the Republic of Congo and Gabon.



Figure 17. “The last forest area” handled by Mr. Djombo to SICOFOR general manager before the former leaves his position as Minister of Forest Economy.

Source : Screenshot of the Dépêches de Brazzaville’s website, 2016¹⁷⁶

4

Bribes and Other Crimes

EIA's investigation reveals that at each stage of forest exploitation and timber trade, Deji Group companies have repeatedly broken the most fundamental forest laws in the Republic of Congo and Gabon. EIA investigators found that these companies have bribed officials to win at least one public tender for the allocation of hundreds of thousands of hectares of forest; operated for years without approved management plans; overharvested thousands of trees; logged many non-authorized species; exported hundreds of thousands of logs beyond their allowed quota; and evaded millions of dollars in taxes through sophisticated transfer pricing schemes. The range and magnitude of illegality documented here is unprecedented in the region.

According to the representatives of Deji Group who met with EIA undercover investigators in the Republic of Congo (SICOFOR) and Gabon (SSMO), the success of a business model rooted in forest crimes has been possible because of frequent bribes paid to a wide array of officials, including Gabonese officials and government ministers. The Group's representatives explained the ongoing corruption schemes in both countries:

REPUBLIC OF CONGO

EIA: *The lower ranking guys are not a problem?*

SICOFOR: *Lower ranking guys have their own use. You just need to give them some small money. Ultimately it is the Minister [of Forest Economy, Mr. Henri Djombo] who makes the decisions... The lower ranking guys you need to pay because they can create small problems here and there for you too.*

EIA: *Do you reach out to high-level directors/ministers directly? Or do you also reach out to officials under them as well?*

SICOFOR: *We need to do both. You can't bother him [the Minister of Forest Economy] with small favors.*

EIA: *How do you give him money? Just cash?*

SICOFOR: *Just cash!*

EIA: *Is he expensive? How much do you need to give?*

SICOFOR: *Well if I put a number in Renminbi, we actually give him local money you know, but right if in RMB, at least one million [~US\$157,000].*

EIA: *It is the minimum?*

SICOFOR: *Yes, it is usually the case.*

EIA: *That's a lot of cash, I have never seen that much cash.*

SICOFOR: *Yeah, it's 100 million [CFA, equivalent to US\$173,000]. Usually it is 100 million! It is a full briefcase! A whole briefcase, full of cash. Then we give him all, including the briefcase itself!*

GABON

EIA: *The Minister of Water and Forests [Mme Estelle Ondo] cannot be so bad to ask money from you, right?*

SSMO: *She takes [money], they all take!*

EIA: *Oh so she takes money. The Governor [of Haut-Ogoué Province, Mr. Jacques Denis Tsanga]¹⁷⁷ also takes money?*

SSMO: *They all ask! They all do, from the top to the bottom!*

EIA: *So the Governor [of Haut-Ogoué Province] takes money from you...*

SSMO: *Yes, he does it very often. The Minister not very often.*

EIA: *But is that a big amount?*

SSMO: *The Governor's amount is not a lot, the big part comes from the request of the Minister. The excuse is almost always the same. The Minister told her people to tell us there is going to be some "activities," and it needs this much of money. We will need to give.*

EIA: *Is it a lot?*



A bulldozer opening a secondary logging road in a forest concession in Gabon.
Source: ANPN

SSMO: A lot! Amongst all the departments, only the Ministry of Water and Forests will take each year, at least two to three hundred thousand.

EIA: US dollars?

SSMO: No, RMB [equivalent to US\$31,000-47,000]. But this is just the minimum. If you have some problems or favors to ask, then it is a lot more! [...] This is the minimum money you need to pay to maintain the "relationship" and to keep you in their system. ”

“ **EIA:** Do you have a good relationship with the government?

SSMO: Yes, yes, with the local government etc., we communicate and build a relationship, we have to.

EIA: Pay them money?

SSMO: Absolutely! We need to! Because if we do not pay, our lives will be very difficult.

EIA: Do you pay a lot of money?

SSMO: Well with a good relationship, it is not too much. Not too bad in terms of amount we have to pay in general.

EIA: So per month, how much do you need to budget for this?

SSMO: Well it really depends on which department we are dealing with. For example, if the police or army comes, we just give them either some diesel, or cash for them to go out to buy diesel. But if the Water and Forest Ministerial

officials come, or local chiefs, province governors etc. come, we give them money. ”

Dejia Group has established, and over the years fortified, a widespread network of corrupted officials. This network is at the heart of the Group's business model, institutional culture and growth. It has been key to its establishment and expansion in the Congo Basin, starting with the rigged allocation of logging rights to vast areas of rainforest.

Dejia Group has established,

and over the years fortified, a

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heart of the Group's business model,

institutional culture and growth.

4.1 The Rigged Allocation of 100,000+ Hectares of Forest – The Republic of Congo

In the Republic of Congo, according to well-placed sources who talked to EIA investigators, the allocation of forest concessions is “gamed.” EIA’s investigation shows how, in 2016, Dejia Group used its influence to secure access to one of the last available logging concessions in the country – the 104,000-hectare Lebama Forest Management Unit (FMU) – by outbidding a competitor who allegedly paid over four million US dollars in bribes. The inner workings of the rigged concession allocation process have been revealed by a court case and a judge’s confidential decision acknowledging violations of national law related to this call for tenders.

The vast majority of forest lands in Central Africa are public.¹⁷⁸ Since the 1990s, Central African governments have primarily granted forest harvesting rights to private interests through the allocation of forest concessions.^{179,180} These rights typically entail certain social and infrastructure

obligations for the concessionaires.¹⁸¹ Given the difficulty of making an a priori assessment of the value of the forest, concessions are usually awarded through open selection processes such as tenders.¹⁸² In the Republic of Congo, the allocation is principally done by means of a call for tenders; the winner is chosen based on an evaluation and ranking – conducted by the Forest Committee (“Commission Forestière”) – of all tenders received.¹⁸³ The Republic of Congo’s forest legislation mandates that the best tender be selected, taking into account the companies’ financial and technical proposals and their capacity to carry out the key objectives of the law.¹⁸⁴

In practice, according to EIA’s investigation, the selection process has been perverted by vested interests, corruption and a network of patronage between companies and decision makers. Dejia Group has been a primary beneficiary of this broken system. In 2016, the Group’s affiliate SICOFOR was granted the 104,000-hectare Lebama FMU (in French, UFE – Unité Forestière d’Exploitation) even though another company was ranked first at the end of the selection process.^{185,186}

République du Congo
MINISTÈRE DE L'ÉCONOMIE FORESTIÈRE

Le Ministère Forêt et Dév. Durable Faune & Aires Protégées Projets Partenaires
Législations FAQ Sondage Recrutement Contacts EN

Au terme de la notation, le Directeur Général de l'Économie Forestière a dévoilé le classement qui s présente comme suit :

1. la société CFF Bois International qui a obtenu 67,5% points sur une note maximale de 86 points, soit 78,48% ;
2. la société Sino Congo Forêt (SICOFOR) qui a obtenu 65 points sur une note maximale de 100 points, soit 65% ;
3. la Société Industrielle Panneaux et Moulures (SIPAM) qui a obtenu 63,5 points sur une note maximale de 100 points, soit 63,5% ;
4. la société ATLAS Benny Entreprise qui a obtenu 51 points sur une note maximale de 86 points, soit 59,3% ;
5. la société LIBERBOIS qui a obtenu 50,5 points sur une note maximale de 86 points, soit 58,72% ;
6. la société HONG KONG Ressources qui a obtenu 50,5 points sur une note maximale de 86 points, soit 58,72% ;
7. la société NIDOS Entreprise qui a obtenu 49 points sur une note maximale de 86 points, soit 56,97%.

Figure 18. In 2015, CFF Bois International’s proposal is ranked first and the company is officially announced the winner of the Lebama FMU call for tenders.

Source: Screen-shot of the Ministry of Forest Economy website ¹⁸⁷

**Compte rendu
de la réunion de la commission forestière chargée de l'examen
des dossiers de soumission aux appels d'offres relatifs à la
mise en valeur des unités forestières d'aménagement Mimbé-
lenga et Karagoua et des unités forestières d'exploitation
Loumoungou, Lébama, Kola et Nkola.**

Brazzaville, le 09 Janvier 2016

- Pour l'unité forestière d'aménagement (UFA) Karagoua, la société SEFYD qui a obtenu 81 points, sur une note maximale de 100 points, soit 81% a été déclarée première pour l'attribution de cette UFA ;
- Pour l'unité forestière d'exploitation (UFE) Loumoungou, Société SIPAM qui a obtenu 88 points, sur une note maximale de 100 points, soit 88% a été déclarée première pour l'attribution de cette UFE ;
- Pour l'unité forestière d'exploitation (UFE) Lébama, la société SICOFOR qui a obtenu 92,6 points, sur une note maximale de 100 points, soit 92,6% a été déclarée première pour l'attribution de cette UFE ;
- Pour l'unité forestière d'exploitation (UFE) Kola, la Société Tamar Industrielles Limited qui a obtenu 97,6 points, sur une note maximale de 100 points, soit 97,6% a été déclarée première pour l'attribution de cette UFE ;
- Pour l'unité forestière d'exploitation (UFE) Nkola, la société Afrivood qui a obtenu 98,5 points, sur une note maximale de 100 points, soit 98,5% a été déclarée première pour l'attribution de cette UFE ;

Après avoir pris connaissance des conclusions de la commission technique présentées par le Directeur Général de l'Economie Forestière, le Président de la commission forestière a rappelé aux participants l'exigence de garantir la durabilité de l'activité forestière. C'est ainsi, depuis les années 2003 et 2004, le Gouvernement avait adopté la stratégie de regroupement des petites superficies pour en faire des grands ensembles susceptibles de garantir à long terme les activités et les investissements des attributaires des concessions.

En conséquence, il a été arrêté le principe de fusionner les superficies attribuées avec celles moyennes concédées déjà aux sociétés forestières en activité.

Après des débats fructueux, la commission forestière a décidé d'attribuer les unités forestières d'aménagement Mimbé-lenga et Karagoua et des unités forestières d'exploitation Loumoungou, Lébama, Kola et Nkola, situées respectivement dans les départements de la Likouala, la Sangha, le Lekoutou, le Niari et le Koukou aux sociétés ci-après :

- L'Unité Forestière d'Aménagement Mimbé-lenga, a été attribuée à la société CIB OLAM ;
- L'Unité Forestière d'Aménagement Karagoua, a été attribuée à la société SEFYD ;
- L'Unité Forestière d'Exploitation Loumoungou, a été attribuée à la société SIPAM ;
- L'Unité Forestière d'Exploitation Lébama, a été attribuée à la société SICOFOR ;
- L'Unité Forestière d'Exploitation Kola, a été attribuée à la société Tamar Industrielles Limited ;
- L'Unité Forestière d'Exploitation Nkola, a été attribuée à la société Afrivood.

La commission a par ailleurs retenu que soient remboursés aux sociétés forestières ayant financé les travaux d'inventaire, les frais y relatifs par celles à qui des concessions ont été attribuées.

Il s'agit notamment de :

- CFF Bois International par SICOFOR ;
- BSC par SEFYD

Avant de clore la réunion, le Président a remercié les membres de la commission forestière pour leur contribution et a souhaité à tous les présents et les autres participants venus de l'intérieur du pays un bon retour dans leurs localités respectives.

Commencée à 10 heures 25 minutes, la réunion de la commission forestière a pris fin à 13 heures 30 minutes.

Fait à Brazzaville, le 09 janvier 2016.

Le Président :

Henri DJOMBO

Le Rapporteur :

Joachim KONDI

Arrêté :

Article premier : Est approuvée la convention d'aménagement et de transformation conclue entre le Gouvernement congolais et la société congolaise Industrielle des Bois, en sigle "CIB", pour la mise en valeur de l'unité forestière d'aménagement Mimbé-lenga, dont le texte est annexé au présent arrêté.

Article 2 : Le présent arrêté, qui prend effet à compter de la date de signature, sera enregistré, publié au Journal officiel et communiqué partout où besoin sera.

Fait à Brazzaville, le 6 avril 2016

Henri DJOMBO

Figure 19. In 2016, the Forestry Committee ranks the Dejia Group's company (SICOFOR) first, before CFF Bois International.

Source: Congolese Ministry of Forest Economy website¹⁸⁸

Figure 20. In 2016, the Lebama FMU is granted to the Dejia Group's affiliate.

Source: EIA, 2018, based on *Journal Officiel du Jeudi 14 avril 2016*¹⁸⁹

SICOFOR's executive explained to EIA investigators:

“ **SICOFOR:** *There were five concessions up for distribution.*

EIA: *What did you need to do to get these concessions?*

SICOFOR: *Well you make an offer...*

EIA: *All official?*

SICOFOR: *Official, but you also give money. Everybody here gives money... It is all about bribing... [Of course] you'll still need to officially submit required documents. Then, they come out with a ranking.*”

As SICOFOR's executive explained to EIA, the concession allocation process actuality relies on bribes paid to several officials in order to ensure that one's proposal is ranked first. Another well-placed source explained to EIA investigators how the Minister of Forest Economy set up an ad hoc “Technical Committee” and placed it at the heart of the rigged allocation scheme. This committee

that intervened in the Lebama FMU allocation process is comprised largely of Mr. Djombo's close relations. As explained by an EIA source, and confirmed by undercover meetings, behind the formal role of the committee, which is to “pre-evaluate” the dossiers submitted by companies, its actual function is to collect bribes and share a ranking of the offers that the Forest Committee, presided over by Minister Djombo, will act upon. This well-oiled scheme has operated for years. But the sequence progressed differently in the case of Lebama FMU, casting an unprecedented light onto the perverted concession allocation system.

For the Lebama FMU, Deja Group – through its local affiliate SICOFOR – competed against the Dubai-based Golden Marble Building Materials Trading Co., represented by its local affiliate Congo First Forest Bois International (CFF Bois International).¹⁹⁰ CFF Bois International was first officially announced as winner of the tender bid in February 2015 (Figure 18). However, a year later, the concession was granted to SICOFOR (Figure 19 and Figure 20), following the shadowy process summarized in Box 1.

BOX 1

Timeline of the Lebama Concession Allocation

April 1, 2014: Decree 4005/MEFDD/CAB promulgates the call for tenders for the Lebama FMU;

February 11, 2015: The Technical Committee meets and ranks the dossiers submitted;¹⁹¹

February 13, 2015: Based on the Technical Committee's conclusions, the Forestry Committee makes public that “At the end of this rating process, the company CFF Bois International obtained 67.5 points on a maximum score of 86 points, or 78.48%. It has for the occasion, been declared first for the attribution of the Forestry Management Unit (UFE) Lebama.” The Forestry Committee makes clear that the FMU is granted to the company CFF Bois, which nevertheless has to take into account a few “weaknesses” identified by the committee in its proposal before starting the exploitation, regarding the level of investment, some equipment considerations, and financing aspects.¹⁹²

That same day, the Forestry Committee reportedly adopts Minister Djombo's position and decides to suspend allocation of the Lebama FMU to the company CFF Bois International invoking that a prior inventory of the available resources needs to be made by the forestry administration. The decision is reportedly taken to “avoid that at harvesting time, the company be hampered by the lack of resources in the area allotted, and that the ministry be responsible for it.”¹⁹³

November 16, 2015: Decree 34663/MEFDD/CAB promulgates a new call for tender for the Lebama FMU;

January 8, 2016: The Forestry Committee, presided over by the Minister of Forest Economy, decides to grant the Lebama FMU to SICOFOR;¹⁹⁴

March 3, 2016: Signature of the concession contract between the Government of the Republic of Congo and SICOFOR;¹⁹⁵

April 6, 2016: Signature of the Decree 3026 of approval of the concession contract between the Government of the Republic of Congo and SICOFOR;¹⁹⁶

April 14, 2016: Allotment of the Lebama FMU to SICOFOR is made public through the *Journal Officiel*.¹⁹⁷

First quarter 2017: The President of the Technical Committee, reportedly eaten away by remorse, confesses the corruption scheme in front of a Congolese court. The judge recognizes the fraudulent process of concession allocation and invalidates its outcomes.¹⁹⁸

Infuriated by the loss of a concession he claimed he had won, the Chief Executive Officer (CEO) of CFF Bois International, Mr. Forough Golampoor, reported in detail to EIA's undercover investigators the inner workings of a fraudulent process. Mr. Golampoor's ire at this process has its roots in a claimed loss of a previous concession in 2011. At that time CFF Bois International was competing for the 164,710-hectare Mapati FMU. According to a copy of the minutes from the Technical Committee's meeting that he presented to EIA investigators, "only one submission was filed for the granting of this [Mapati FMU] forest concession, CFF Bois International." However, a few weeks later, the concession was granted to the influential company Sciages Industriels Panneaux Moulures (SIPAM). SIPAM is reportedly "controlled" by Mr. Guus Kouwenhoven, a Dutch citizen convicted in April 2017 by the Dutch Appeals Court for war crimes and arms smuggling during Liberia's civil war and arrested a few months later in South Africa.^{199,200} Mr. Kouwenhoven allegedly shared the ownership of SIPAM with Mr. Emile Ouessou, the Republic of Congo's current Minister of Equipment and Public Works (formerly Minister of Transports and Civil Aviation and Minister of Labour and Social Security).^{201,202,203} As the CFF Bois International CEO explained to EIA investigators: "They did not submit the document. They did not win the call for tenders. We won. Documents show it, this is in 2011."

Mr. Golampoor claims to have disbursed over US\$7 million to obtain the Lebama concession, of which US\$4 million alone were paid "under the table" in bribes.

Five years later history repeated itself with the Lebama FMU allocation. But this time the Dubai-based group resolved to not let go of their investment so easily. CFF Bois International's CEO told EIA investigators that he had invested all his assets in preparation of the proposal. Mr. Golampoor claims to have disbursed over US\$7 million to obtain the Lebama concession, of which US\$4 million alone were paid "under the table" in bribes. According to Mr. Golampoor, one million US dollars in bribes still needed to be paid in order for the process to be reviewed and to enable his full control of the 104,000 hectares of forest. After the official announcement granting the Lebama FMU to SICOFOR, he claimed he used his well-established

connections in the Republic of Congo to arrange meetings and plead with officials of the forest administration, the Minister of the Forest Economy, and even the President (Figure 21). Mr. Golampoor stated that he was "offered" two other concessions located in the north of the country in compensation for the rigged call for tenders, but that he declined because he was solely interested in the considerable profitability forecast from Lebama concession.



Figure 21. Mr. Golampoor (left) and his assistant Mr. Koumba (right) after their meeting with the Minister of Forest Economy. Source: Screenshot of the Congolese Ministry of Forest Economy website²⁰⁴

A few months after the official decision granting the concession to SICOFOR, Mr. Golampoor's "best friend" – according to him – was appointed Minister of Justice in the Republic of Congo. The situation suddenly seemed to turn to his advantage. The President of the Technical Committee, Mr. Jacques Branle Nkawe, agreed to testify in Congolese court where he confessed to the fraudulent allocation process, denounced the dishonest officials, and pointed out Dejjia Group's role in changing the Committee's decision. According to the court's decision (shown by Mr. Golampoor to EIA undercover investigators), when asked by the judge if SICOFOR had won the concession, the President of the Technical Committee answered loud and clear "no" and further explained that "this awarding process was nothing other than a fraud for the simple reason that the real ratings were modified." According to his testimony, apart from him several members of the committee were involved in the process, including the Director of Forests, Mr. Emile Opika; the Senior Forests Advisor, Mr. Gregoire Nkeoua; the Director of Forest Resources Valorization; the Chief of Staff of the Minister of Forest Economy, Mr. Michel Elenga; and the Policy Officer, Mr. Jacques Kanwe (Figure 22).

As Mr. Golampoor told EIA's investigators, summarizing Dejjia's influence over the final decision: "What they did: they paid the Minister. Or whatever, I don't know. They played."



Figure 22. CFF Bois International’s CEO, Mr. Golampoor, presenting the confidential court decision acknowledging the fraudulent concession allocation and the officials directly involved.

Source: EIA

In his claim filed to the Congolese courts, Mr. Golampoor told investigators that he is asking for 85 billion XAF (~US\$160 million) as compensation for the prejudice against CFF Bois International. The court’s decision has been kept confidential so far. Given its importance, he explained to EIA investigators, over US\$100,000 in bribes were offered to the President of the Technical Committee to withdraw his testimony; he has been threatened through anonymous calls, and his office was broken into and vandalized by individuals presumably looking for the copy of the court decision. CFF Bois International’s CEO also claims that Mr. Xu met the Congolese President accompanied by the Chinese Consul in order to stifle the legal process. Questioned by EIA investigators, Mr. Golampoor revealed the inner workings of the perverted system:

“ CFF Bois International: It [the concession] was mine, I won.[...]”

EIA: But they [Dejia Group] are very close to the government.

CFF Bois International: I am close also!

EIA: But they pay people.

CFF Bois International: I have been paying people also! And I pay people also!”

The admissions from SICOFOR’s executive and CFF Bois International’s CEO are in line with the findings from the Independent Monitor (IM) in the Republic of Congo (Box 3). In a report made public in July 2016, the IM exposed multiple irregularities in the granting process for five concessions, including Lebama FMU and Lemongo FMU, totaling approximately two million hectares.²⁰⁵ Irregularities included an allocation made two months before the deadline to submit tenders had even passed (the Forest Commission met on January 8, 2016 when the call for tenders was in principle open until March 8, 2016), and the granting of concessions to offers with incomplete dossiers.²⁰⁶ These findings were subsequently corroborated by the independent auditor of the Timber Legality Verification System (TLAS), under the VPA, commissioned by the EU.²⁰⁷ But although the IM had recommended revoking the allocations, the independent auditor criticized this recommendation on the grounds that it was not justified by Congolese law.²⁰⁸ This assessment deserves to be reviewed in light of the new evidence brought by EIA exposing a high-level and systematic corruption scheme as well as the fact that a plaintiff formally contested the result of the concession allocation process, and a Congolese court ruled in his favor.



Logging yard in Pointe Noire harbor (Republic of Congo).

Source: EIA

Forest Monitor: The Independent Eyes on the Forest on Behalf of Congolese State

Independent forest monitoring (IFM) has been a key feature of international efforts to improve forest governance since the 1990s. The Mandated Independent Monitor (MIM) is typically a civil society organization or a service provider that signs a Memorandum of Understanding with the government in order to gain access to relevant sites (logging concessions, sawmills, ports, ministerial department, etc.) and official documents (harvest authorization, invoices, official statement logbooks, etc.) Through officially-sanctioned investigations, the MIM aims to provide specific, credible and verifiable information on forest law enforcement and governance issues.^{209,210}

IFM has become a component of the Voluntary Partnership Agreements (VPAs) – a pillar of the EU’s Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan that entered into force in 2003 in response to rising international concerns about the social, economic and environmental impacts of illegal logging and related trade.²¹¹ Each VPA is a bilateral trade agreement negotiated between the EU and a timber-exporting country. While parties enter into a VPA voluntarily, the agreement becomes legally binding when both parties have ratified it.²¹² The Republic of Congo’s VPA entered into force on March 1, 2013.²¹³



Forest in the Republic of Congo.
Source: EIA

The Republic of Congo-EU VPA acknowledges the important role for independent observers to monitor forest law enforcement and governance: “Implementing the VPA is subject, inter alia, to the proper functioning of a legality verification system, timber traceability and an independent audit of the system. Congolese civil society, a stakeholder in the process, is to help implement the Agreement by means of a formal local structure based on the results of and experience gained in the Independent Forest Monitoring project carried out in the Republic of Congo between 2007 and 2009.^{214,215,216} IFM was initially implemented by two international NGOs, Resource Extraction Monitoring (REM) and Forest Monitor (FM), and the national civil society organization Cercle d’Appui à la Gestion durable des Forêts (CAGDF) was integrated as a partner in January 2014.

and then validated by the “Review Committee,” composed of representatives of the IM-FLEGT, the Forestry Administration, civil society and donors. Once published, the credibility of the reported observations and recommendations cannot be contested.²¹⁷

The Protocol Agreement signed between these civil society organizations and the Government of the Republic of Congo through the Ministry of Forest Economy allows the IM to gain access to relevant non-public information. An official report from the IM, prior to its publication, is examined

The responsibilities of the IM and its legal mandate are formalized in Article 83 of the final draft of the Republic of Congo’s new Forest Code, expected to be passed in 2019: “An independent observer, member of national civil society organizations and recognized by the government, conducts independent or joint field missions alongside the agents from the administration of water and forests and produces regular reports and recommendations on compliance with forest legislation. The reports and recommendations of the independent observer are published after validation by a review committee.”²¹⁸

EIA investigators found that Deji Group has obtained at least one concession of over 100,000 hectares fraudulently. Above and beyond the findings related to the Deji Group's case, this investigation reveals the multiple layers of corruption and bribery at the heart of a profoundly dysfunctional system charged with allocating logging rights over immense tracks of rainforest in the Republic of Congo. The "regulated markets" that have laws prohibiting the entry of illegally-sourced timber, such as US and the EU, should take immediate measures against timber associated with this fraud, imported from the Republic of Congo.

4.2 Overharvesting and Cutting Unauthorized Species – Gabon and The Republic of Congo

According to the Gabonese Forest Code (Law No 16/01 of 2001), the "protection of ecosystems and the conservation of biodiversity" is the first pillar and guiding principle of forest exploitation.²¹⁹ The Code stipulates in Article 41 that the volume harvested annually can only differ marginally from the annual volume allowed.²²⁰ Yet the SSMO factory manager explained to EIA investigators that when prices are high, the company disregards its legal obligations. According to him, when the company is authorized to harvest 8,000 cubic meters of a particular species they usually cut 14,000 cubic meters: overharvesting by 75 percent. This admission was confirmed by SSMO's executive. Asked by EIA investigators if the company respects the harvesting rules in practice, SSMO's executive explained:

EIA: *So you overcut?*
SSMO: *Yes, we overcut and we deal with the administrations...*
EIA: *And dealing with them is not easy?*
SSMO: *It's costly!*
EIA: *You pay?*
SSMO: *Yes, extremely costly!*
EIA: *Their appetite is big?*
SSMO: *Big, I am telling you honestly. Very big!*
EIA: *How big? I thought usually you can settle it with 10,000RMB [~US\$1,500], no?*
SSMO: *Very much depending on what to settle... This kind of settlement [for overcutting] requires a lot more than 10,000RMB.*
EIA: *It does not need 1 million RMB [~US\$150,000]?*
SSMO: *No but if you want to settle just this, you need at least 50,000 RMB [~US\$7,500]. Note this is the bare minimum, under the condition that you know the right guy. This is the problem over here...*
EIA: *Over here?*
SSMO: *Yes, government officials are corrupt, they always ask for money, and Chinese are usually willing to pay... Well, also, Chinese companies are not clean anyway...*

Like Gabon, the Congolese legislation strongly emphasizes the "fundamental principle" of rational forest exploitation through the Article 45 of the Forest Code (established in 2000 under Law No 16-2000) which must guarantee the "durability" of the forest and "avoid its destruction" for ecological, social and economic reasons.²²¹ Article 149 of the Congolese Forest Code requires logging companies' harvest to remain strictly within their annual allowance for both the total harvested volume each year and the harvest per species.²²² Deji Group's affiliates in the Republic of Congo, both Sino Congo Forêt (SICOFOR) and Congo Deji Wood Industry (CDWI), have repeatedly been found by the IM in breach of national laws and regulations that guarantee reasonable and sustainable volumes of forest exploitation.²²³ The IM has shown that these companies have exceeded their harvest allowance, logged dozens of non-authorized species, felled many trees smaller than the minimum exploitable diameter, routinely falsified log markings, and repeatedly failed to mark logs.²²⁴ The forest monitors also discovered that the companies had mis-declared their production and manipulated records in order to hide the overharvesting of certain species.²²⁵

The IM has shown that these companies have exceeded their harvest allowance, logged dozens of non-authorized species, felled many trees smaller than the minimum exploitable diameter, routinely falsified log markings, and repeatedly failed to mark logs.

The multiple reports from the Republic of Congo's Independent Monitor (IM) offer a unique chronological perspective on the persistent and evolving wrongdoings of Deji Group. As presented in Table 2, between January 2012 and December 2017, SICOFOR's operations have been monitored five times by the IM in the Republic of Congo (once in 2011, twice in 2012, once in 2014, and once in 2017) and CDWI's concession four times (once every year from 2012 to 2015).²²⁶ The companies were found to be breaking fundamental logging rules every time. They were

also repeatedly found guilty of not respecting social obligations with neighboring communities as required by the agreements between the companies and the Government of the Republic of Congo.²²⁷ Analysis of the publicly available information regarding IM visits to Deji Group’s concessions demonstrates very little improvement over the years (Table 2).²²⁸ In some respect, the unlawful activities have even increased over the years. In one of the most recent reports (2017), the IM demonstrated that SICOFOR had illegally cut 1,768 trees in 2016, both harvesting more trees than allowed for certain species, as well as harvesting non-authorized species.²²⁹ SICOFOR executive explained to EIA investigators how breaking forest laws is a core element of the company’s business strategy in the region:

“EIA: When you cut, what if you cut outside of your AAC [Annual Allowable Cut or “Assiette Annuelle de Coupe” in French]?”

SICOFOR: Bribes. Here everything is done through bribing. You just need to spend money. [...] So it is like this: every year they give a designated area to cut, divided, and it goes on each year. It has constraints on size [of the trees], amount of trees you can cut, and total cubic meters allowed. But you most definitely cannot be limited by these constraints. If you did, you would not survive.”

			Failure to mark felled logs and stumps	Logging outside allocated concession bound-aries	Logging of unauthorized species	Overharvest of annual authorized volume and Tax evasion manoeuvres	Failure to timely submit management plan	Failure to comply with concession agreement and social obligations	Failure to timely submit logging operations documents	Mishandling of logging records, Misdeclaration and Non respect of logging rules	Timber export without authorization, Failure to comply with log export quota	Illegal concession allocation
2012	SICOFOR	Gouongo	REM #6			REM #6				REM #6	REM #9	
		Letili				REM #6				REM #6	REM #9	
		Ingoumina-Lelali	REM #6		REM #6	REM #6				REM #6	REM #9	
	CDWI	Kelle-Mbomo				REM #4		REM #4	REM #4	REM #9		
2013	SICOFOR	Gouongo										
		Letili										
		Ingoumina-Lelali										
	CDWI	Kelle-Mbomo			REM #14	REM #14						
2014	SICOFOR	Gouongo			CADGF #6	CADGF #6						
		Letili	CADGF #6		CADGF #6	CADGF #6	CADGF #6	CADGF #6	CADGF #6			
		Ingoumina-Lelali			CADGF #6	CADGF #6						
	CDWI	Kelle-Mbomo	CADGF #4		CADGF #4	CADGF #4			CADGF #4			
2015	SICOFOR	Gouongo										
		Letili										
		Ingoumina-Lelali										
	CDWI	Kelle-Mbomo	CADGF #7		CADGF #7	CADGF #7		CADGF #7	CADGF #7			
2016	SICOFOR	Gouongo	CADGF #14	CADGF #14		CADGF #14		CADGF #14	CADGF #14	CADGF #14	CADGF Analysis Paper #10	
		Letili	CADGF #14	CADGF #14		CADGF #14		CADGF #14	CADGF #14	CADGF #14	CADGF Analysis Paper #10	
		Ingoumina-Lelali	CADGF #14	CADGF #14		CADGF #14		CADGF #14	CADGF #14	CADGF #14	CADGF Analysis Paper #10	
		Lebama										CADGF Analysis Paper #9
	CDWI	Kelle-Mbomo								CADGF Analysis Paper #10		

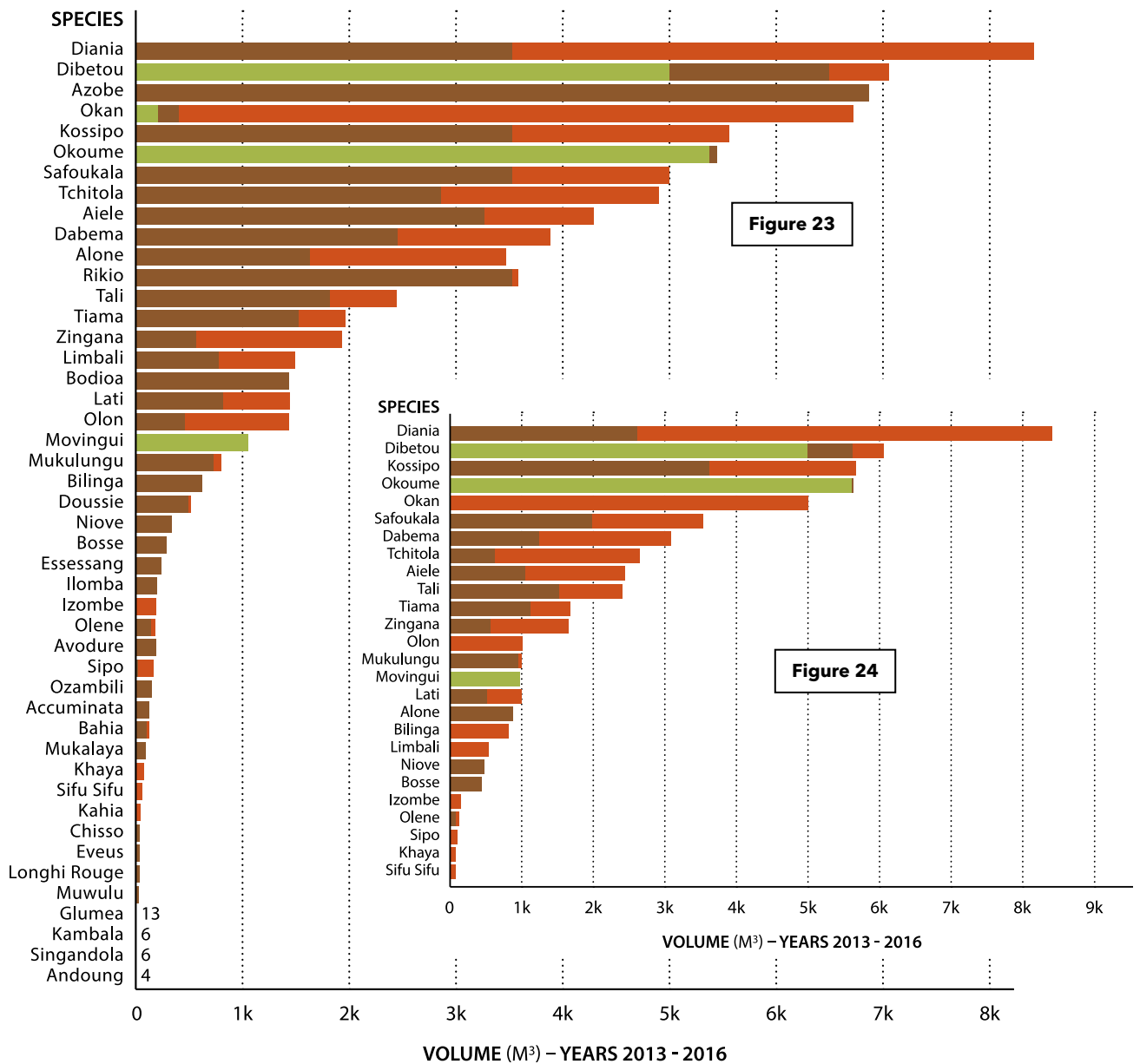
Table 2. Overview of illegalities identified by the Forest Independent Monitor in SICOFOR and CDWI concessions.

Source: EIA, 2018, based on IM reports mentioning SICOFOR and DWI’s operations, available at: <http://www.opentimberportal.org>

EIA analysis of SICOFOR's production data between 2013 and 2016 reveals the scale of the overharvesting practices put in place by the Group.²³⁰ According to EIA analysis, SICOFOR's overall timber production between 2013 and 2016 fell within its enormous harvest allowance of over one million cubic meters of timber. However, on a species level, the company regularly overharvested far beyond its legal allowance within its three concessions.²³¹ Between 2013 and 2016, EIA estimates that 17 percent of SICOFOR's timber production came from overharvested species.²³² The company overharvested 46 different species on its three concessions by a total volume of 84,363 cubic meters

or 15,012 trees, 37 percent of which were from vulnerable or endangered species (Figure 23).

This overharvesting can be broken down into two types of illegalities. First, the company overharvested species that were included in each of its concessions' annual allowance. SICOFOR exceeded its allowed harvest volume of 25 of these species by five to 6,407 percent (Figure 24).²³³ This included nine species – *Rhodognaphalon brevicuspe* (alone), *Nauclea diderrichii* (bilinga), *Guarea spp.* (bosse), *Lovoia trichilioides* (Dibetou), *Khaya anthotheca* (khaya), *Aucoumea klaineana* (okoume), *Entandrophragma utile*



(sipo), *Entandrophragma angolense* (tiama), *Microberlinia brazzavillensis* (zingana) – listed as vulnerable and one species – *Testulea gabonensis* (izombe) – listed as endangered on the IUCN Red List of Threatened Species.

Second, the company also harvested a total of 30 species for which it lacked authorization to harvest. Six of these species – *Rhodognaphalon brevicuspe* (alone), *Lophira alata* (azobe), *Mitragyna ledermannii* (bahia), *Anopyxis klaineana* (bodioa), and *Azelia Africana* (doussie), *Entandrophragma utile* (sipo) – are listed as vulnerable on the IUCN Red List (Figure 25). It is worth noting Dejia

Group’s appetite for vulnerable or endangered species (Figure 26). Between 2013 and 2016, the Group overharvested over 30,000 cubic meters of vulnerable or endangered species according to the IUCN Red List. For instance, over 5,600 cubic meters of okoume (*Aucoumea klaineana*), listed as vulnerable on the IUCN red list, were cut by SICOFOR on its Letili concession without authorization in 2016—the equivalent of 933 trees.²³⁶

Investigation findings corroborate what EIA investigators were told by Dejia executives: the Group, in order to meet the market demand, does not respect the basic rules of

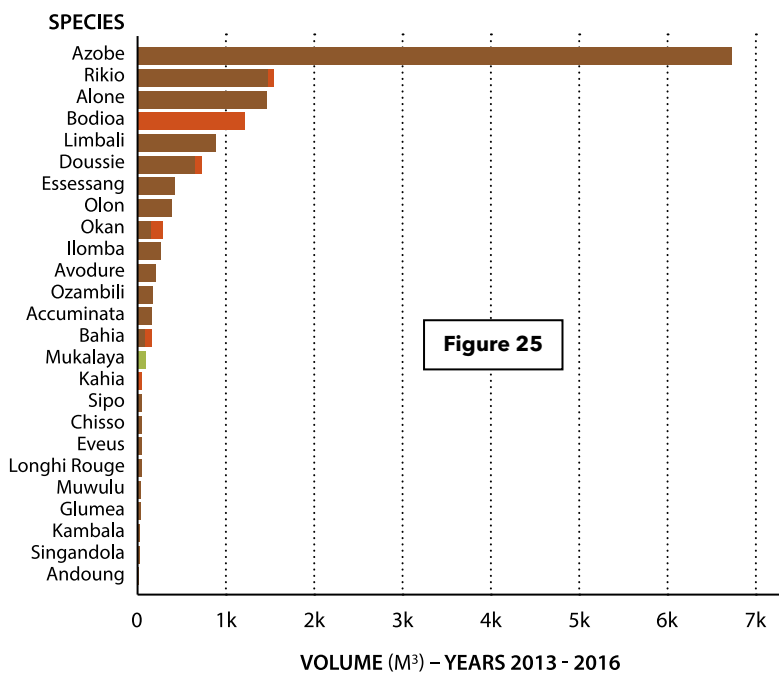


Figure 25

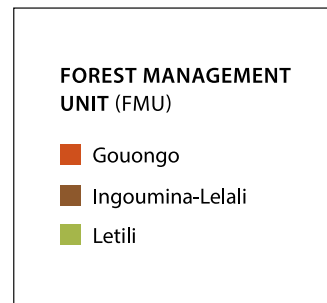


Figure 23. Illegal harvest by species by SICOFOR between 2013 and 2016 (by volume)
Source: EIA, 2018²³⁴

Figure 24. Overharvest of authorized species by SICOFOR between 2013 and 2016 (by volume)
Source: EIA, 2018²³⁵

Figure 25. Harvest of unauthorized species by SICOFOR between 2013 and 2016 (by volume)
Source: EIA, 2018

Figure 26. Illegal harvest of vulnerable and endangered species by SICOFOR between 2013 and 2016 (by volume)
Source: EIA, 2018

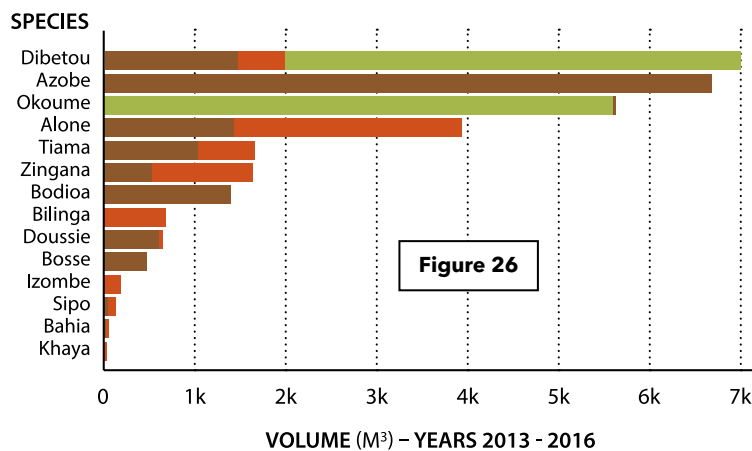


Figure 26

forest management. EIA's results indicate that the flaws identified by the IM during their routine field visits to Deja's companies in the Republic of Congo are only the tip of the iceberg.

4.3 Exploiting the Forest without Approved Management Plan for 10+ years – The Republic of Congo

Like in most of the forested countries of the world, the commercial exploitation of the forests in the Republic of Congo and Gabon is governed by the companies' forest management plans.²³⁷ This essential and controversial tool aims at guaranteeing the "sustainability" of the exploitation.^{238,239} The elaboration and respect of comprehensive forest management plans – which has arguably been one of the major evolutions of the logging sector in the tropics over the past 50 years – has, in principle, moved the sector from the typical "mining exploitation" of the forests to a "sustainable" use that ensures the renewal of natural capital, the preservation of biodiversity, and the balanced socio-economic development of the neighboring populations.^{240,241,242}

EIA's in-depth investigation demonstrates that in the Republic of Congo, Deja Group, through its affiliate SICOFOR, has operated for almost 12 years without an approved management plan.

The company has, according to EIA estimates, logged more than 1 million cubic meters sold all around the world, without using the most fundamental forestry tool that is at the heart of the Congolese legal framework regarding the exploitation of the national forests.²⁴³

In 2006, SICOFOR signed a Management and Processing Agreement (MPA, "Convention d'Aménagement et de Transformation" in French) with the Government of the Republic of Congo that included five forest concessions, Cotovindou, Tsinguidi, Letili, Ingoumina-Lelali and Gouongo, covering over 800,000 hectares.^{244,245} According to article 12 of the agreement, the company had one year to engage the elaboration process of the sustainable management plan for its five forest concessions. In 2009 the

forest concession Tsinguidi was returned to the Congolese State, without an established management plan (Figure 27).²⁴⁶ The company formally engaged the process only a year later, in 2010, through a contract signed with the National Center for Inventory and Management of the Forest and Fauna Resources (NCIMMF, "Centre National d'Inventaire et d'Aménagement des Ressources Forestières et Fauniques" in French) for four concessions (Cotovindou, Letili, Ingoumina-Lelali and Gouongo).²⁴⁷ In 2011, the forest concession Cotovindou was then returned to the Congolese State, without established management plan.²⁴⁸

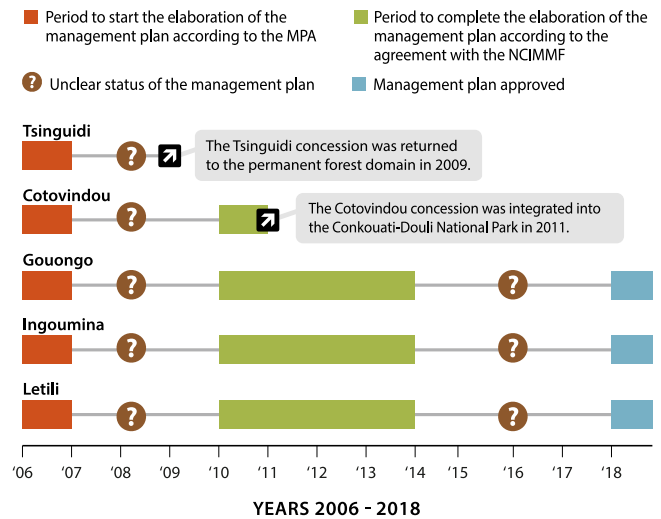


Figure 27. Forest Management Plan status of SICOFOR's forest concessions

Source: EIA, 2018 based on SICOFOR's MPA²⁴⁹

In its Article 4, the contract signed with the National Center for Inventory and Management of the Forest and Wildlife Resources (Centre national d'inventaire et d'aménagement des ressources forestières et fauniques – CNIAF) provided a detailed and comprehensive timeline by which SICOFOR was expected to present well-articulated forest management plans for its concessions.²⁵⁰ According to the timeline, the company had four years – thus until 2014 – to present a specific management plan for each of the three concessions being exploited. None of the management plans had been approved by the Congolese government in 2014, 2015, 2016 and 2017. It was only in January 2018, that the management plans for the Letili, Gouongo and Ingoumina-Lelali forest concession were officially approved by the Minister of Forest Economy, Mrs. Rosalie Matondo, a full 12 years after the concessions were granted and began to be logged by SICOFOR.²⁵¹ The status and evolution of the management plans from these three concessions between 2010 and 2018 has yet to be clarified. This exemplifies the situation of "illicit formalization" when companies do not fully comply with forest legislation yet operate within a semi-legal/illegal sphere.²⁵²



Dejia Group's sawmill in Gabon.
Source: EIA

4.4 The "For-Show Factories" Scheme: Turning Export Quotas Upside Down – The Republic of Congo

In order to address illegal logging, encourage the development of a domestic processing industry and capture more value from wood production, both the Republic of Congo and Gabon have adopted laws that prohibit or considerably limit the export of unprocessed timber products. Gabon announced an export ban of all logs in late 2009 (enforced since mid-2010).^{253,254} In the Republic of Congo, Article 48 of the Forest Code states unambiguously that "products from natural or planted forests must be transformed in the Republic of Congo, so that exports do not relate to raw material but to finished or semi-finished products."²⁵⁵ Only one exception is admitted in the Republic of Congo: "High-quality wood, destined for certain industries not yet established in the country, is exported with the authorization of the minister in charge of water and forests within the limits of 15 percent."²⁵⁶ In other words, when specific technology required to process certain secondary products is not available in country, then a company is allowed to export a maximum of 15 percent of its production as logs. The remaining 85 percent of the annual production must be processed domestically, and may only be exported as sawn boards, veneer or a similar processed wood product.^{257,258,259} Instead, Dejia Group has turned its export obligation upside-down for at least the past five years – EIA estimates that the group exported up to 90 percent of its production in the Republic of Congo as logs.

Dejia Group has a long track record of illegal log export. In 2012, the Congolese forestry administration suspended the export of roundwood by CDWI and SICOFOR for a period of over seven months (May 10, 2012-December

31, 2012).²⁶⁰ Both CDWI and SICOFOR were later found non-compliant with the order, reportedly having exported 14,811 cubic meters and 84,538 cubic meters during the period of suspension, the equivalent of approximately 20,000 trees.^{261,262} In January 2012, CDWI and SICOFOR were fined over US\$250,000 for infringing the 85/15 log export quota, and have reportedly failed to pay the quarter of a million dollars they owe to the Congolese government.²⁶³ The following year, in 2013, SICOFOR was again found guilty of exporting logs in excess of its quota.²⁶⁴ In fact, during the "Back to Factory" Operation launched by the government, SICOFOR's logs were seized while they were about to be exported in contravention of the 85/15 quota.²⁶⁵ The company's logs were stopped and sent back to the plant to be processed in accordance with the law.²⁶⁶ One of the enforcement officials explained the situation to journalists: "Unfortunately, even before the end of 2013, some companies like SICOFOR, Asia-Congo Industries and Taman Industries Limited are far beyond [the quota], with a total in excess estimated 55,370 cubic meters."²⁶⁷ EIA's investigation demonstrates that this breach of the export quota has been a common practice by Dejia Group in Republic of Congo.

EIA estimates, based on SICOFOR and CDWI's export data, that the companies' log exports reached an average of 86 percent of their production (round wood equivalent) between 2013 and 2016.²⁶⁸ As illustrated in the chart below (Figure 28), the company has reversed the log export quota, processing an estimated nine to twenty percent of its annual production while exporting the rest as round wood.²⁶⁹ Of the 707,517 cubic meters of timber exported by SICOFOR and CDWI between 2013 and 2016, the companies exported a total of 657,583 cubic meters as logs, when according to the log export quota they should

have exported only 113,618 cubic meters in this form. The company thus exported 543,965 cubic meters of logs beyond the 15 percent quota. This volume represents over 100,000 logs worth US\$82,973,292 exported in breach of the quota.²⁷⁰

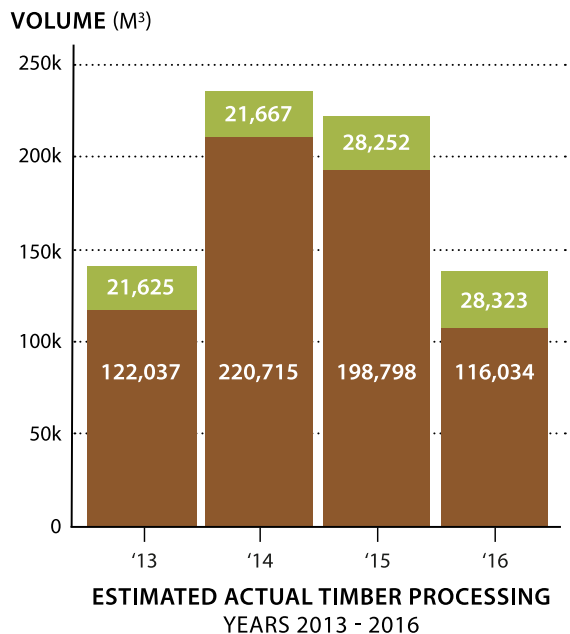
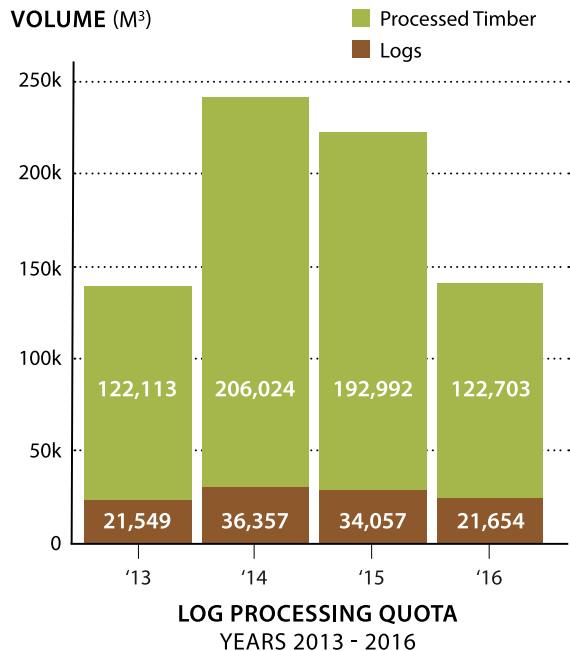


Figure 28. Deji's production of logs and processed timber: the authorized vs the actual volumes, in Round Wood Equivalent (RWE). Source: EIA, 2018 based on SCPFE export data

As SICOFOR's executive told EIA investigators, the primary objective of Deji Group in the Congo Basin is securing the continuous export of logs to China:

EIA: So how is it honestly? Are you making any money logging your concessions?

SICOFOR: The real money-maker for the forest industry is to export, to export logs. But there is a percentage limit for log export, 15%, 85% needs to be processed. Of course we will not be constrained by that; otherwise, we'd be out of business. [...]

EIA: Then what do you do?

SICOFOR: Well, we "work it."

EIA: When you "work it" then you would do what, give them money? What if they penalize you?

SICOFOR: Penalizing is also about money, right. You can always bargain on penalties... Everything in this country can be negotiated, and I mean, except for who becomes president, everything else is!

EIA: So after you gave them money then they do not penalize you?

SICOFOR: Right. They take your money and they grant you an "exemption," a "special quota," and so you will not be penalized.

EIA: So it is the Minister [Djombo]?

SICOFOR: Yes, it is the Minister here. He will always give you exemptions.

In 2014, Deji Group was indeed given an "exemption" that allowed the company to export 40 percent of its production as logs, instead of the 15 percent stated by the law – exceptionally granted when processing technologies are not available in country. This exemption was personally granted and signed by Mr. Djombo, Minister of Forest Economy (Figure 29), the same person whom SICOFOR's executive claims to bribe on a constant basis to solve the company's major "problems," and whose son was reportedly invited by Mr. Xu's family for vacation in China.²⁷¹

The Minister's reasons for justifying the increase of SICOFOR's log export quota from 15 to 40 percent raise several questions. One justification relates to the investment made by the company in a processing facility; yet this investment should in theory lead to improved processing capabilities rather than extra volume of round wood for export. Another justification highlights the "efforts deployed for the finalization" of the management plan – yet, as EIA investigation shows (cf. section 4.3), SICOFOR's management plan was not approved until five years later. Finally, the Minister's exemption letter refers to the ongoing construction of housing for workers in the concessions. This is particularly confusing: it is unclear why a considerable extra log export quota is necessary when a small part of the production is used within the concession to build rudimentary houses for workers.



Figure 29. The “exemption” awarded to SICOFOR by the Minister of Forest Economy.

Source: EIA, 2018

As explained by a well-placed source, in order to export up to 90 percent of its production as logs the company has also obtained special favors from the customs and forest administrations, in particular from the Forest Products Export Control Service (“Service de contrôle des produits forestiers à l’exportation” or SCPFE in French). SCPFE, one of whose main responsibilities is to ensure that the log export quota is respected, has granted Export Verification Certificates (“Autorisation de Vérification à l’Export” or AVE in French) to SICOFOR and CDWI despite the fact that the quota for logs was fully exhausted.^{272,273}

The reality of Deji Group’s implementation of the Republic of Congo log quota is quite distant from what national law requires. It also is at odds with the official narrative presented by the Minister of Forest Economy, Mr. Djombo, who over 10 years ago declared that SICOFOR was actively engaged in “100% processing of all its log production.” The Minister explained: “This activity is part of a good strategy that demonstrates SICOFOR’s commitment to a large production, the implementation of which starts right now and aims above all to maximize the contribution of the company to the national economy on the basis of integral processing. This will allow, in the short and medium term, compliance with the quotas required by law, namely 85% processing and 15% export. This is because SICOFOR has invested an estimated 2 billion CFA [US\$~3.6 million] for the rehabilitation of the plant’s master units, the acquisition and the transport of new equipment in order to achieve 100% processing of all its log production.”²⁷⁴

In practice, Deji Group’s processing facilities are only adding value to a very small proportion of Deji’s timber. As

explained by Deji’s executive: “We just keep the factories running in order to obtain export licenses. To keep our [exporter] status active. If you don’t pay tax, hire people, etc. you will not be granted status, then you cannot do anything here.” This strategy is made apparent by EIA’s analysis of the expected productivity to which the company committed when it signed its contract with the Congolese Government, versus the actual productivity achieved several years later.²⁷⁵ As Figure 30 shows, SICOFOR’s level of productivity of processed timber between 2013 and 2016 for the Ingoumina-Lelali concession is between 2 and 10 percent of that to which they committed.²⁷⁶

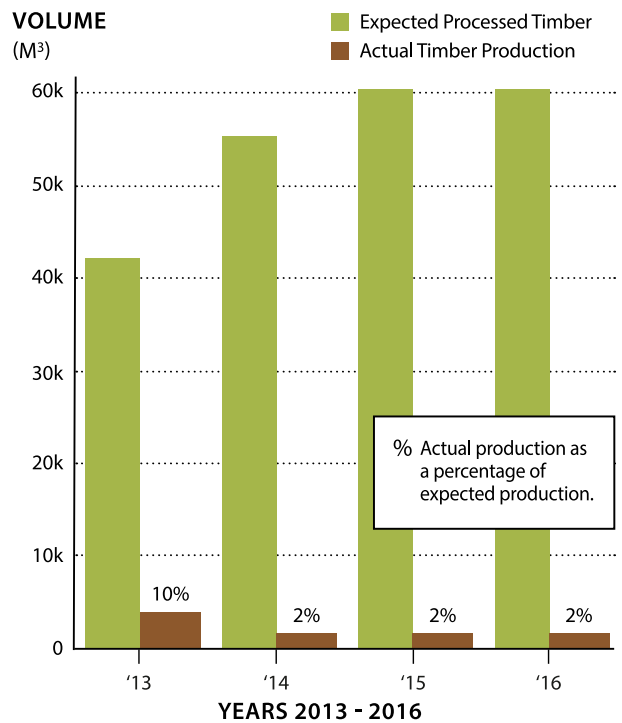


Figure 30. The Extremely Low Level of Processing Productivity in Ingoumina-Lelali FMU.

Source: EIA, 2018²⁷⁷

Deji Group has invested in several “for-show factories” that are purposefully kept closed, at low productivity, or equipped with outdated technology, in order to gain access to forest concessions and maximize the volume of round logs exported to China. In Gabon, one of Deji’s factories was found in violation of Gabonese industrial norms, with “rudimentary” installation.²⁷⁸ During a field visit by the Ministry of Forest Economy in 2012, the delegation found employees working in “medieval conditions, with manual and antiquated machinery.”²⁷⁹ According to EIA’s analysis, Deji Group’s violation of the log export quota is not the exception but the rule in the Republic of Congo (Box 3).

The Republic of Congo: Still Primarily a Round Wood Exporter

In 2016, Republic of Congo’s Forest Economy Minister claimed that “The exploitation patterns from the past no longer correspond to current issues. We are bringing our industry to a restructuring, a serious transformation that will absorb almost all the wood that is coming from the forests.”²⁸⁰ But the reality is that the Republic of Congo’s primary wood export to international markets is still logs. In 2007, a year after the 85/15 quota law was passed, this anomaly was reported and justified as part of a necessary transition period for industry to adapt.²⁸¹ Almost ten years later, the “anomaly” still persists. Between 2014 and 2017, the country has exported a total of 3,755,917 cubic meters of timber; on average 75 percent of its production (round wood equivalent) as logs and 25 percent as processed products (Figure 31).²⁸² As Figure 32 shows, all but four logging companies operating in the Republic of Congo have breached the 85/15 quota rule, on average between 2014 and 2017. This across-the-board violation of the national law applies to almost all the companies, independent of the origin of their capital and the number of years of experience in the country.

Figure 31. Annual export from the Republic of Congo from 2008 to first half 2017: log vs processed timber, in Round Wood Equivalent (RWE).

Source: EIA, 2018 based on SCPFE Annual report 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016 and 2017.

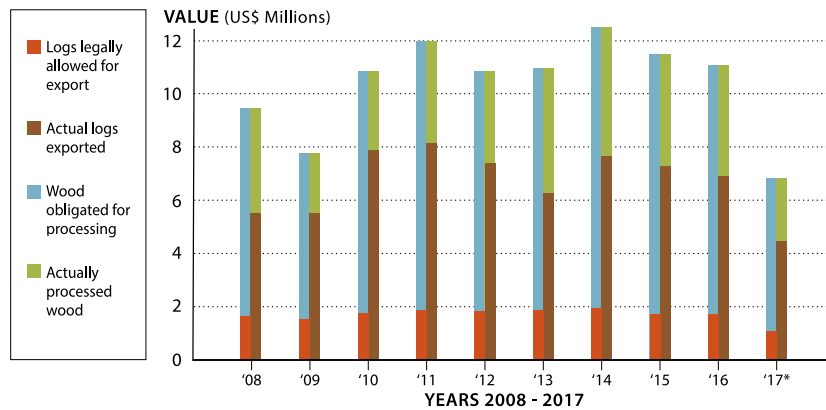
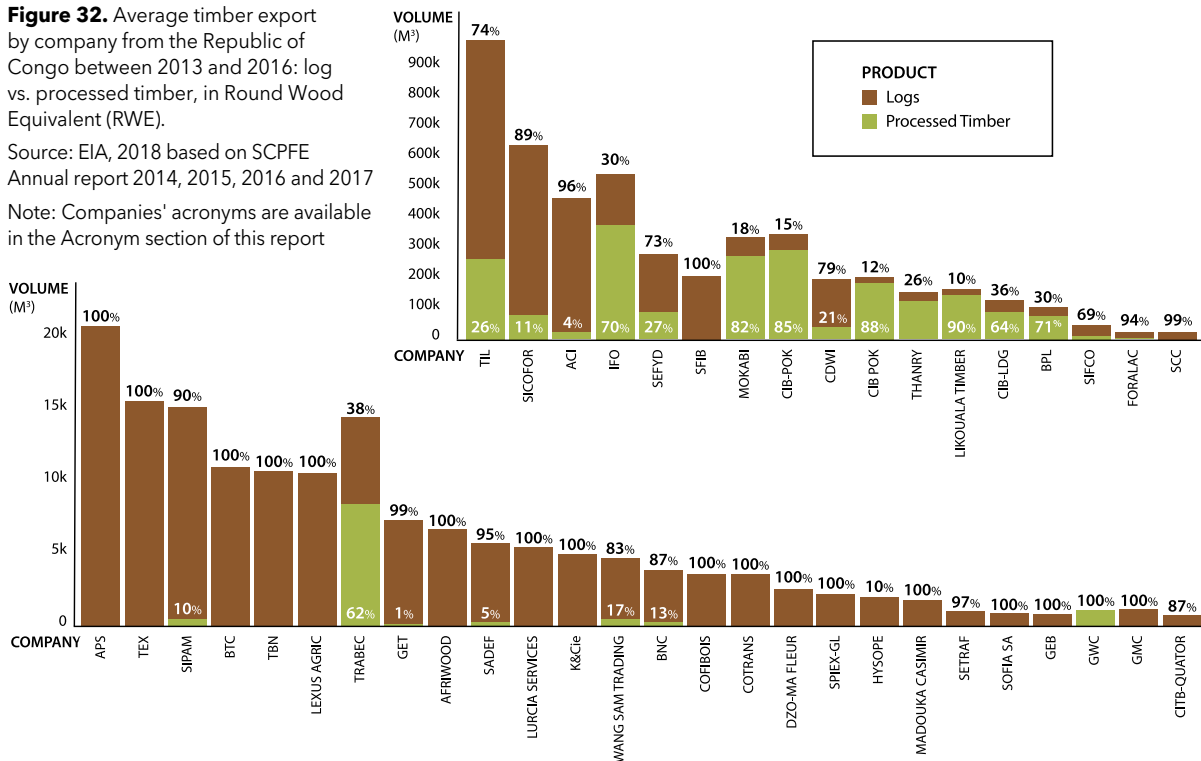


Figure 32. Average timber export by company from the Republic of Congo between 2013 and 2016: log vs. processed timber, in Round Wood Equivalent (RWE).

Source: EIA, 2018 based on SCPFE Annual report 2014, 2015, 2016 and 2017
 Note: Companies' acronyms are available in the Acronym section of this report



4.5 Millions of Dollars Diverted Each Year from African Governments – Gabon and The Republic of Congo

The EIA investigation shows that Deji Group has been involved in considerable profit laundering activities, in particular through the mechanism of transfer mispricing. According to EIA analysis for the period 2013-2016 as well as admissions from executives, through this scheme, the company has been able to avoid tax payments between 2.7 and 6.7 million dollars per year, and most likely much more, to Congolese and Gabonese governments. Well-placed sources also informed EIA investigators that the company has disregarded the log export quota and most of subsequent surcharge tax, depriving the Congolese economy from important revenues at a time the country is experiencing economic hardship with a significant drop in export revenues, unprecedented levels of external debts, and bonds leading to major dysfunctions in public services.^{283,284,285}

As the SSMO executive explained to EIA investigators, the Group's timber sales from the Republic of Congo and Gabon are managed through an "extra layer" or "middleman" located in Hong Kong that belongs to the same company and plays an essential role in the financial flows:

EIA: So you guys sell to Penrod [one of the US buyers] directly?

SSMO: Well, we add an extra layer... It is how we operate.

EIA: "Add an extra layer" in where? Here?

SSMO: No, in Hong Kong.

EIA: Your company in Hong Kong? So it is still your company, is it?

SSMO: Yes, it is the same boss, but we use different names. [...] But the shipper's name is always us. So they act like a middle man.

EIA: A middle-man that is your own company... So it's like an offshore company?

SSMO: Yeah, everyone does that.

EIA: To maximize your profit and save tax?

SSMO: Yeah!]]

In a later conversation with EIA investigators, SSMO executive clarifies:

EIA: I heard financing in Hong Kong could possibly be easier. Maybe you can get more cash flows. What else do you know is good about Hong Kong?

SSMO: Hong Kong has always been a great place.

EIA: What do you mean? You can get things done more easily in Hong Kong?

SSMO: [Nodding] Tax evasion.



Investigation carried out by the Gabonese authorities after the crack-down on logging companies.

Source: ANPN

EIA: Well, avoiding paying taxes here [Gabon] or in China?

SSMO: Both sides of course! Shipments for Europe and America, all goes through Hong Kong. Asian and China markets, well also it goes through Hong Kong[...] Why companies in Hong Kong? It is for here! We make the books look like there is no or very little profit in here!]]

The company's "profit laundering" scheme consists of moving profit earned in the Republic of Congo and Gabon by the sale of high-value timber, where it would incur 30 percent tax, into a tax haven, with the aim of minimizing tax liability.

The way of doing this is via transfer mispricing, or transfer pricing manipulation.²⁸⁶ As SSMO manager explains to EIA investigators, "the objective of the scheme is to hide profits made in Gabon and the Republic of Congo." Deji Group's affiliates in the Congo Basin sell at an artificially low price, invoicing for less than the value of the wood and timber products they are selling to Deji Group affiliates in Hong Kong; this results in an apparently low sale value, low profit and thus low corporate taxes. The Hong Kong affiliate then resells the same product to the final consumer, in China, the US or the EU, at market price. Most of the apparent profit is made by Deji Group's subsidiaries in Hong Kong, even though these companies act purely as a transactional middleman; as the SSMO executive explained to investigators, the product is directly shipped from the Congo Basin to the end client's country. Because

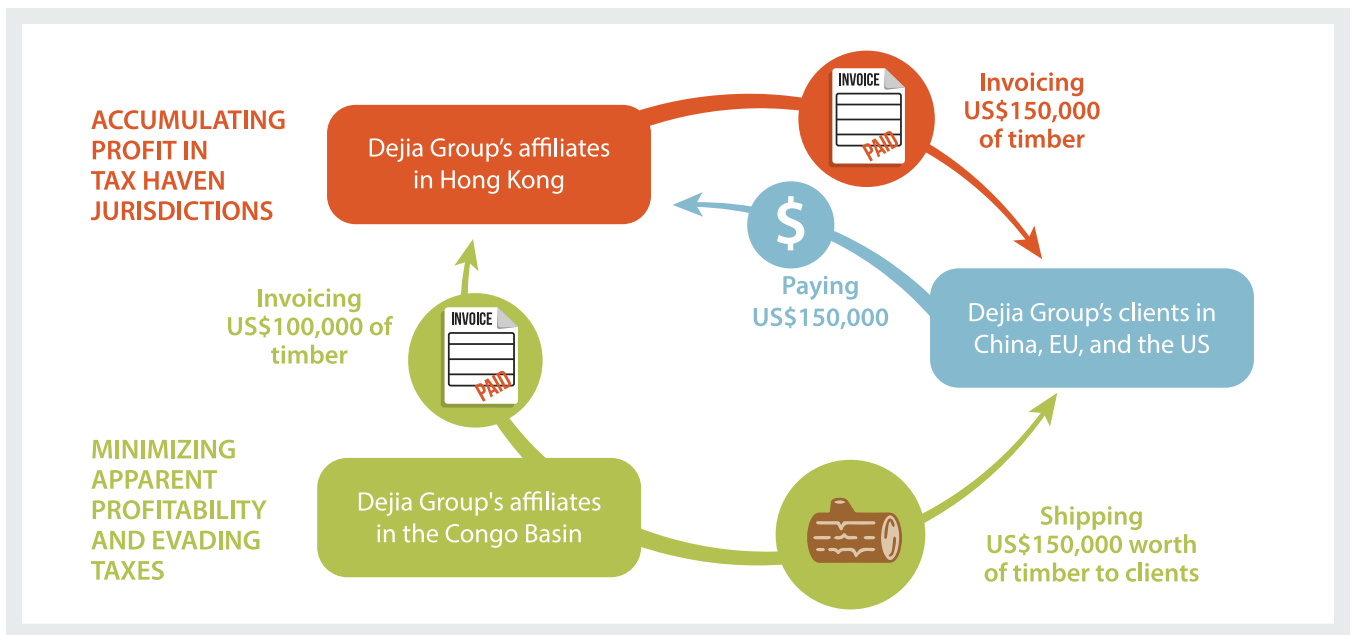


Figure 33. Deji Group's financial flows.
Source: EIA, 2018

Deji Group's subsidiaries operate in Hong Kong, a notorious tax haven, the group manages to pay very little tax whatsoever.²⁸⁷ With this financial arrangement, much of the profit is thereby diverted from the tax jurisdictions of its origin countries, the Republic of Congo and Gabon, and the value of the tax that should have been paid is fraudulently expatriated. The scheme is summarized in Figure 33.

The Secretary General of the Gabon Overseas Chinese Association (GOCA) explained to EIA investigators that the strategy employed by the Deji Group is widespread in the Chinese timber business community:

EIA: So how do the [Chinese] companies avoid paying taxes usually?

GOCA: Well, most of the companies are not interested in paying taxes. The big public companies are better... 80-90% of [Chinese] companies are a total mess with their accounting systems. When it comes to paying taxes, they make their books appear to be having a loss, so they only pay that 1% sales tax, income tax is free, since the profitability is so low.

EIA: Don't you think the government knows about this?

GOCA: Of course the government knows that, they can come in to get you any moment they want.[...] Another way to avoid paying taxes is through an offshore company. You leave all your profit to your offshore company, there is no profit in your local company here, thus you pay no tax!

EIA: So say profitability is 30%, how much profit should one show here?

GOCA: Well depending how much you are willing to show. If one does not want to show any profit, then he shifts everything to his offshore company, in Hong Kong, for example.[...]

EIA: Yes, and how much could they save a year?

GOCA: They could save a lot!

EIA: A few millions [Yuan, equivalent to several hundred thousand US dollars]?

GOCA: No, no, not that little! Depending on how big your company is, much more than that. ”

In order to estimate the impact of the profit laundering on Congolese and Gabonese governments, EIA analysts compared the declared sale value by SICOFOR, CDWI, SSMO, and SBM to a proxy of the actual sale value, with calculations based on the international market prices and the volume produced by each company (see Box 4). The analysis offers a conservative view of the profit laundering scheme developed by the Group. The results of the analysis show that on average between 2013 and 2016, Deji Group declared an annual sale value of US\$32 million; however, when using standard regional prices, the actual average annual sale value is US\$ 75.6 million. Under this breakdown, the Group has been able to hide on average US\$44.6 million in sale each year. According to EIA analysis, through this underpricing technique and the overall scheme of showing little to no profit in the Republic of Congo and Gabon, the Group avoided payment of between US\$2.7 and US\$6.7 million in corporate tax every year from 2013 to 2016.



Seattle's port (Washington State).
Source: EIA

BOX 4

Quantifying Mispricing Practices

To calculate the impact of Deji Group's profit evasion mechanism, as explained by Deji executives to EIA investigators, EIA compared the Group's reported export sale values reported annually by the SCPFE with Central African log, veneer, sawn wood, and plywood FOB prices reported by the International Tropical Timber Organization (ITTO).^{288,289} EIA found that export values declared by Deji Group were significantly lower than standard regional prices. For example, in 2014 SICOFOR reported the average value of Okoume logs exported as US\$104/m³, whereas the ITTO reported the average price of Okoume logs exported from Central Africa as US\$ 218/m³ for this same year.^{290,291} This is a conservative estimate, given that Chinese customs data shows that the average price of Okoume logs imported from the Republic of Congo was US\$ 297/m³ in 2014.²⁹²

To compare average annual product prices from the ITTO and Deji Group, EIA used the annual average FOB price for okoume plywood, logs, and veneer from Central Africa as reported by the ITTO in combination with Deji Group's declared annual export value by product as reported by the SCPF.²⁹³ Seeing consistent underpricing of Deji Group's exports, EIA estimated the actual value of Deji Group's exports using average regional prices as reported by the ITTO. The ITTO Loyale Merchant (LM) price for Okoume logs was used to conservatively estimate log value, the first and second grade of Okoume sawn wood (FAS GMS) price was used to determine the value of sawn wood, and the quality of face and back Okoume veneer (BC/C) price was used to determine the value of veneer, as well as plywood. These prices were converted from Euros to Central African Francs (CAF) and multiplied by Deji Group's annual export volume by product as reported by the SCPF in order to estimate the Group's actual annual export value.



Log yard in the Pointe Noire's port in the Republic of Congo.
Source: EIA

In the case of the Republic of Congo, the profit laundering is only one component of a broader income loss. The Congolese Finance Law²⁹⁴ provides companies with the possibility to pay a 15 percent surcharge tax on the value (Free on Board, FOB or Free on Truck, FOT) of exported species when they exceed their allotted 15 percent quota of log exports.²⁹⁵ The IM has already pointed out the massive lack of payment of fines and penalties by the companies in the Republic of Congo.^{296,297} In 2014 and 2015, companies had reportedly paid only twelve percent and seven percent respectively of the fines and penalties due to the Congolese government.²⁹⁸ According to a well-placed informant from the industry, SICOFOR as well as several other companies located in the Southern provinces of the Republic of Congo, have repeatedly failed to pay the corresponding surcharge tax for the extra logs that the company exported between 2013 and 2016.²⁹⁹ The informant told investigators that a company like SICOFOR avoids paying between one and three million US dollars in surcharge tax every year.³⁰⁰ EIA's analysis confirms that this is on average the amount that SICOFOR should have paid to the Congolese government for the export of logs in excess of their annual quota. The comparison per species of the volume of logs actually exported by SICOFOR compared to the volume the company was allowed under the 15/85 log quota, indicates that the company owed the government of the Republic of Congo over US\$2.5 million in 2015 and over US\$1.5 million in 2016. According to EIA analysis, for the export of Okoume logs alone above the 15/85 quota, SICOFOR should have paid over US\$1.6 million in 2015 and over US\$1.2 million in 2016 to the Congolese government.

Recently, a Congolese commission of inquiry revealed the "timber mafia" practices in the country, bringing to light particularly the case of a company that exported

over 14,000 cubic meters of timber out of the country without paying any royalties to the government.³⁰¹ The investigation, followed closely by the current Minister of Forest Economy in the Republic of Congo, Mrs. Rosalie Matondo, points to multiple "complicities" and structural malfunctioning in the forest administration and customs.³⁰²

The myriad of forest crimes committed by Dejjia Group and exposed by EIA is unparalleled: "for-show" factories that processed less than 10 percent of that which the company officially committed to with the government; harvest of over a million cubic meters of tropical species without any approved management plan; manipulation of public call for tenders for vast tracks of rich and highly productive forests; overharvest of 46 different species – equivalent to 15,000+ trees – over a third of which were vulnerable or endangered; and between a minimum of US\$2.7-6.7 million stolen every year from governments. This represents a multilayered system of exploitation that has propelled Dejjia to be one of the most influential and fast-growing timber groups in Africa. Breaking each of the most fundamental rules of forest exploitation and governance has only been possible through millions of dollars of bribes, paid in cash, as explained by Dejjia executives to both Forest Ministers and their staffs. EIA investigation reveals more broadly the fundamental flaws of the logging sector in two major Congo Basin countries. As EIA undercover investigators were repeatedly told by well-placed sources from the logging sector, Dejjia Group's practices are the "business as usual" way of exploiting the forests in the region. This level of forest crime can only be fully understood by taking into account other links in the supply chain, in particular the complicit importers who have placed Dejjia's timber products on the US market for over a decade. The details of their role are presented in the following section.

5

The Contamination of US Timber Supply Chains

The massive volume of illegal timber produced and exported by Deji Group has primarily been absorbed by the Chinese market, which represents 75 percent of the Group’s exports. China’s high volume of demand, plus an absence of either a prohibition on illegal timber trade or requirements for due diligence by importers, make it the world’s primary destination for illegally harvested and/or traded wood.³⁰³

Yet with the help of a complicit importer and a negligent manufacturer, Deji Group has been able to place approximately US\$22 million of illegally-sourced products in the US over the past ten years. The most important product sold by Deji Group to its US clients, okoume veneer, is turned into premium plywood products that have been marketed throughout the country as environmentally friendly and even promoted for green building-certified construction.³⁰⁴ This toxic supply chain involves one of America’s largest plywood mills, dozens of local lumber yards, and even major home improvement hardware store chains – Menard’s and Home Depot. For years, these retailers have sold to unwitting customers products made of stolen wood from the Congo Basin – indirectly funding transnational financial crime.

5.1 Deji Group: a Major Supplier of African Tropical Timber to the US

For more than ten years, Deji Group has been exporting its timber products to the US. The Group is one of the largest exporters of timber to the US from Gabon and the Republic of Congo. Between 2013 and 2018, its exports accounted, on average, for more than one-third of all the timber from these two countries (Figure 34), and it accounted for almost half of all US timber imports from these two countries in 2016.³⁰⁵ That same year, Deji Group companies sold more than US\$5 million worth of timber products to US clients.³⁰⁶ Between 2007 and 2018, the Group shipped approximately US\$25 million worth of timber products (12,821 tons) to the US market.³⁰⁷

The vast majority of the timber products imported by US companies from Deji Group are okoume (*Aucoumea klaineana*) veneers, usually declared as sawn sheet wood with a thickness less than six millimeters under the Harmonized Commodity Description and System Code (HS) 440890. Okoume trees only grow in a specific area that crosses the Republic of Congo, Gabon, Equatorial Guinea, and to a small extent Cameroon (Box 5). EIA estimates that between 2013 and 2017, Deji Group has exported 39 percent of all the okoume coming into the US, making Deji the largest single supplier of okoume to the US.³⁰⁸

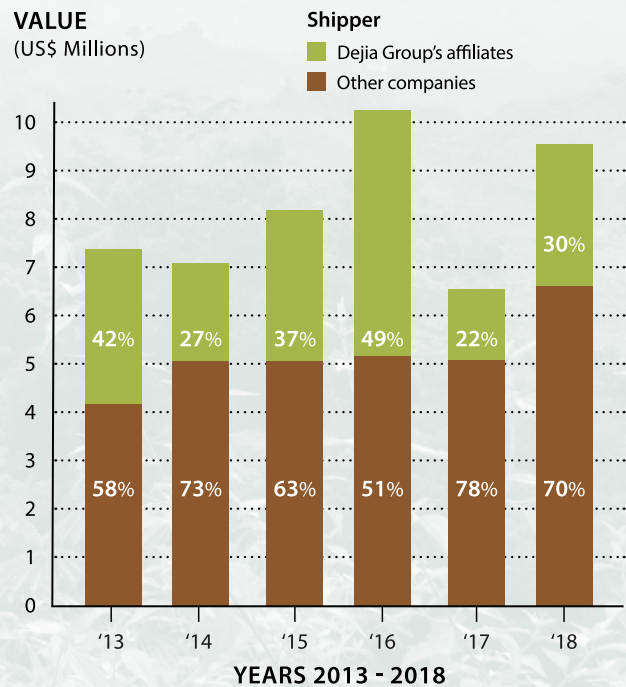


Figure 34. Deji Group’s share of the Republic of Congo and Gabon timber exports to the US (by value).

Source: EIA, 2018 based on the Port Import/Export Reporting Service (PIERS) data

BOX 5

Okoume: the Vulnerable Species at the Heart of Africa’s Tropical Timber Trade

Okoume (*Aucoumea klaineana*) is one of the most heavily-logged timber species in tropical Africa.^{309,310} This massive global trade flow originates from the species’ relatively small and unique area of distribution, concentrated in the Republic of Congo, Gabon, and Equatorial Guinea (with a marginal part of its range also found in southern Cameroon.)

Okoume is a species that demands light and can grow up to 60 meters tall.³¹¹ While it regenerates well in natural treefall gaps and fallow shifting cultivation fields, its population may not rebound under selective logging systems.³¹² For this reason, and due to drastic reductions in the natural population, caused mainly by heavy exploitation that started in the middle of the 19th century, the species is listed as “vulnerable” on the IUCN’s Red List.³¹³

Okoume timber is considered one of the best for plywood manufacturing.³¹⁴ The wood presents a lustrous pinkish-brown to light red color with a uniform texture. The grain is usually straight to slightly wavy and may be interlocking.³¹⁵ Due to its physical characteristics, okoume is mainly used as veneer, in particular as the “face” layer in high-end panels used for decorative purposes. Light and resistant, the panels are used in diverse transport industries (cars, caravans, planes, yachts) as well as in construction, furniture, carpentry, sport equipment and cigar boxes.³¹⁶

Dejia’s veneer sheets exported to the US are usually packaged into stacks with the basic product information (quality, dimension, and origin) and the name of the US buyer displayed on the side (Figure 35). Once in the US, these veneers feed into the high-end plywood supply chain, which includes a few importers and plywood makers, and a vast array of wholesalers/retailers throughout the country (Figure 36). The final product, according to retailers with whom EIA investigators met, is commonly used for home renovation, remodeling or exterior siding for new construction.



Figure 35. Stacks of Okoume veneer exported by the Dejia Group to the US.
Source: EIA

KEY: ■ Gabon ■ Republic of Congo ■ US

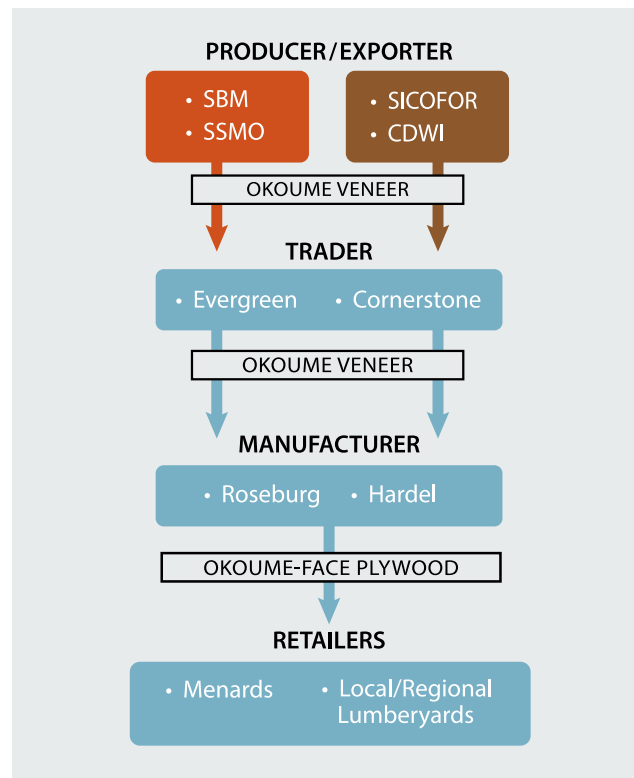


Figure 36. Dejia’s Africa-America Supply Chain.
Source: EIA, 2018

5.2 Evergreen: the Leading Importer of Okoume in the US

Despite the significant quantity of okoume sold to the US, Deji Group only maintains a few clients in the US: Evergreen Hardwoods, Inc. ("Evergreen," www.eghardwoods.com/); Penrod International, Inc. ("Penrod," www.thepenrodcompany.com/home.php); and Cornerstone Forests Products ("Cornerstone," <http://www.cornerstoneforestproducts.com/>). Of note, Evergreen's and Cornerstone's supplies are managed by the same person, Mr. Jim Green, who is both the supply manager of Evergreen and the owner of Cornerstone as he explained to EIA investigators.

Evergreen has become by and large the principal importer of Deji Group's timber products in the US, accounting for 79 percent of the shipments from January 1, 2013 to December 31, 2017, and 95 percent of those in 2017 alone (Figure 37).³¹⁷ The vast majority of shipments are discharged on the Seattle port (Washington State).³¹⁸

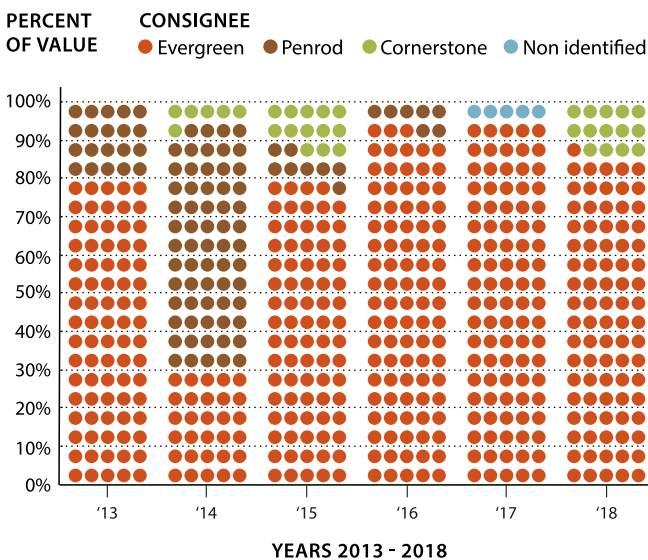


Figure 37. Deji's US clients
Source: EIA, 2018 based on US customs data obtained from PIERS

Evergreen portrays itself as a global importer and wholesaler of industrial and veneer faces, which claims to have "global connections" and sources in Africa, Central and South America, Western Europe, as well as the US and Canada.³¹⁹ The company imports from very different countries, including many high risk ones, such as Brazil, China, Colombia, Equatorial Guinea, Cote d'Ivoire, Russia and Thailand.³²⁰ The company is based in Seattle (Washington State) and has regional offices in North

Carolina, Oregon and Pennsylvania. According to the company's website, major customers cover many US states including California, Minnesota, Indiana, Texas, Mississippi, Florida, Georgia, South Carolina, North Carolina, Virginia and Vermont.³²¹



Figure 38. Mr. Jim Green, the historic business partner of Deji Group in the US.
Source: EIA

Evergreen's president, Mr. Arthur Pond, is a well-known figure in the US wood sector. He founded the company in the late 1970s. He told undercover EIA investigators that he had entrusted to Mr. Jim Green the role of Executive Vice-President of Evergreen (Figure 38). The plan, as explained by Mr. Green to EIA investigators, was for him to take the reins of the company once Mr. Pond stepped aside. But it appears that Mr. Pond may have changed his mind about retiring, as Mr. Green explained to EIA investigators, "he [Mr. Pond] likes the cash and wants to die at his desk."

Evergreen has established a tight business relationship with Deji Group. Mr. Green told EIA undercover investigators that the two companies have been business partners for 12-15 years. Mr. Green himself, who manages the supplier relationships and orders for Evergreen, claims to be good friends with Deji Group's sales manager and co-owner of SICOFOR, Mr. Li Yu Dong. According to Mr. Green, both men have been in regular contact over the years through frequent calls and in-person meetings. Via this exclusive relationship, Mr. Green has developed a close understanding of Deji Group's business in the Congo Basin. As he explained to EIA investigators: "I'm lucky with Mr. Li, I know those guys." In this way, Evergreen has positioned itself as the largest importer of okoume to the US, accounting for at least 43 percent of all imports between 2013 and 2017 in value.³²²

In the process of achieving this prominent position, Evergreen's executive in charge of sourcing has willingly traded for many years with Deji Group, while knowing of the Group's tactics, in particular the use of offshore companies. As noted above, Evergreen was



SICOFOR's truck taking the road to the port.
Source: EIA

by far Dejjia Group's largest US partner, and as such was the primary focus of EIA's investigation.

5.3 Dejjia-Evergreen: The Unholy Alliance

As presented in the details of Section 4 of this report, EIA investigators were told by Dejjia Group's executives how the Group has operated for years on the margins of the Congolese and Gabonese laws. According to these executives and EIA's analysis, Dejjia Group's affiliates in the Republic of Congo and Gabon do not respect the fundamental rules of the forest legality dictating what species can be harvested, where, and in what quantity.^{323,324} As a factory manager explained to EIA investigators in Gabon, depending on the market prices, the over-exploitation is frequently as high as 75 percent. EIA's analysis shows that in the Republic of Congo, the Group has over-harvested over 40 species.³²⁵ In particular, okoume, the Group's primary species exported to the US, has been extensively overharvested in at least one Forest Management Unit, by over 4,000 cubic meters between 2013 and 2016.

EIA undercover investigators were also told by Dejjia Group's executives how the Group's business model includes multiple offshore companies located in Hong Kong that allow the Group, through the illegal financial practice of underpricing, to avoid corporate tax in Africa.³²⁶

Dejjia Group's executive in Gabon explained to EIA investigators that the government documents they provide are only for show.

The underpricing scheme has allegedly been used for all the timber exported by the Group, including shipments destined for US clients. Underpricing is forbidden under Gabonese law.³²⁷ The former General Director of the tax administration, Mr. Joël Ogouma, explained: "The benefits or aids granted [by a company registered in Gabon] to companies belonging to the same group may be considered as part of normal management only if the company undertaking those demonstrates the existence of its own interest of doing so. The general interest of the group is not sufficient to justify such practices."³²⁸ Congolese law also combats mispricing. The purpose of Article 120 of the Congolese General Tax Code (2012), and its amendments in the subsequent annual Finance Laws, is to prevent the



transfer overseas of profits normally taxable in the Republic of Congo, by allowing the administration to reintegrate the profits irregularly transferred into the actual profits declared by the company.³²⁹ Tax evasion through underpricing occurs, according to Congolese law, when abnormal advantage (against the principle of open market competition) is given by a Republic of Congo-based company to another company that belongs to the same group.³³⁰

As EIA investigators were told multiple times by the Group's executives, Deji's ability to operate in the margins of the law for years is tightly connected to corruption schemes that involve officials of many ranks and from a variety of administrations. Corruption and traffic of influence are severely condemned by Congolese and Gabonese law.^{331,332} Corruption is tightly engrained in Deji Group's logging, processing and exporting activities, including the ones that relate to timber products placed on the US market.

Evergreen's representative told EIA undercover investigators that he knows well how the logging business is conducted in the Republic of Congo and Gabon, in particular by his suppliers. As he expressed, he does not care about the legal origin of the product, as long as documents are provided to him to cover the purchase:

Mr. Green: *The way this amendment [to the Lacey Act] is written [...] the more paperwork you have the better. [...] That's just what I tell people: 'fill out the questionnaire, just get me this documentation, I don't care, I don't even want to know. I'm not worried that you're stealing from a national park. I don't care. I just need to have documentation in case somebody accuses me and wants to look.'*

Deji Group's executive in Gabon, in charge of the local affiliate SSMO, explained to EIA investigators that the government documents they provide are only for show. According to him, US clients frequently reuse the same documents several times as supporting manifests for their imports, despite the fact that these documents do not reflect the reality of the logging activity. He claimed that the US clients conducted little to no verification of the legal origin of the timber they purchase:

EIA: *And they [US clients] just look around?*
SSMO: *Yes, they just look around. They just take a look at the production in our factory, just to make sure our factory is running well. First couple years, they would check our inventory. Now, they pretty much just look around, check that the factory is still running, and then they leave.*

EIA: What exactly are they looking at now?

SSMO: Well, they just check that our factory still exists and is still running. [...] Last year when they came, I sent them to the [national] airport and then to the factory. They left the second day and they did not even say a word! ”

This use of documents as a cover is explained by Mr. Green:

“ **Mr. Green:** It is all about for me collecting documentation. I am not judging it. I am not. It's just like, 'OK, that's this. And maybe we got it interpreted. We got it.' And then a year from now I come back, and say 'I need all that again.' ”

Mr. Green confirmed to EIA investigators that he is well aware of the existence of the Deji Group's affiliate in Hong Kong and use it for its transactions with the Group:

“ **EIA:** In terms of sale, we use off-shore company based in Hong Kong.

Mr. Green: Yeah.

EIA: We route everything through Hong Kong. It's not a problem?

Mr. Green: No, no.

EIA: That's very good.

Mr. Green: We wire money all over the world. [...] That's how we work now. Li's company, they have another company in Hong Kong, incorporated there, with Euro account there.

EIA: People think the same way...

Mr. Green: Yeah! Ha ha ha! ”

Mr. Green, as supply manager of Evergreen and CEO of Cornerstone, is well aware of the bribing schemes

happening in the Congo Basin logging sector. He knowingly has placed timber on the US market that has been harvested, processed or exported through bribes. In a conversation with EIA investigators, he claimed to have been directly involved in bribing schemes, in order to meet his client's demand:

“ **Mr. Green:** I know from being in these places [the Republic of Congo, Gabon], it's not like here. There's a lot of graft. Everyone wants a bribe, everyone needs to be greased to make things work. I don't care, I understand that, that's how it works. I do that. I do that even from here. I send people money to make sure things happen. You just have to do that. In terms of... We just need to compile documentation so that if someone ever says 'Hey! You know... We think that... You know...' At least I can say: 'Well, they [suppliers] filled out the questionnaire, and we have all these documents.' The worst that can happen to me is that I pay a fine. ”

The US company Evergreen appears to have willingly traded with companies involved in forest crimes and may have been involved in the bribery scheme. The company has placed thousands of tons of illegally-sourced timber onto the US market, thereby contaminating major US-made plywood supply chains.

5.4 How Illegal Tropical Wood Becomes a US "Green" Product

Evergreen represents the first link in the US side of Deji Group's supply chain. Once imported into the US by Evergreen and Cornerstone, the okoume veneers from the Republic of Congo and Gabon are processed



A worker stacking up okoume veneers in Deji Group's affiliate in Gabon.

Source: EIA

to make plywood for which okoume is the visible face – the core layers often consisting of temperate softwood veneer, with a water resistant phenolic resin (Figure 39).³³³ All layers are glued together in a few mills located on the West Coast, including one run by the company Roseburg.



Figure 39. Typical plywood showing okoume veneer on its face.
Source: EIA

Roseburg is one of the largest entities in the US plywood sector.³³⁴ A company representative met by EIA claimed that it ranks third or fourth in the US plywood industry and is by far the largest on the West Coast. The company would be on par with Boise Cascade Company, a public company traded on the New York Stock Exchange.³³⁵ Founded in 1936, Roseburg has become, according to the company's website, "America's single broadest mix producer of green wood building products, owner of the largest capacity sawmill in the country, and the greatest exporter of wood chips in the US. Roseburg's engineered wood products facility is also one of the largest facilities in the nation."³³⁶ Based in Dillard (Oregon State), Roseburg has over 3,000 employees throughout the US.³³⁷ Roseburg's Hardwood Veneer Coordinator, Mr. David Deardorff, told EIA investigators that its okoume-related product represents up to 10 percent of the company's production and is only used for one of their key construction wood products, called "Breckenridge Siding," or "America's Most Trusted Wood Siding" (Figure 40).

Mr. Deardorff, Roseburg's Hardwood Veneer Coordinator, told EIA investigators that the company has been working with Evergreen for probably 35 years, and that they are Roseburg's major okoume supplier. Mr. Deardorff shared very detailed knowledge of the origin of the okoume veneer, and explained that okoume is coming from Gabon and neighboring countries in Africa. In the business for about 25 years, Mr. Deardorff said he has never been to Gabon, but instead Evergreen, via Mr. Green, plays the essential role of "liaison guy" with the producer countries.



Figure 40. Roseburg's premium Breckenridge siding with okoume face manufactured in the US.
Source: Screenshot of the Roseburg's brochure hosted on The Home Depot server³³⁸

He also explained to undercover investigators that keeping Evergreen as an intermediary is part of Roseburg's strategy to inoculate itself; as he explained that it puts it back on Evergreen, "if there was anything shady" with any product from Lacey Act perspective. To give a sense of volumes involved here, Cary Bradley, Roseburg's Softwood Veneer Coordinator, estimated that at the company's peak production a few years ago, they were making between 40,000 and 50,000 plywood pieces weekly in okoume alone, requiring up to two to three containers per week of okoume veneers. Breckenridge is still, according to the representatives from the company, an important product for Roseburg, but produced in lesser quantity.

Mr. Deardorff explained that his company requests "some paperwork" and specifically "all kinds of Lacey paperwork," that Evergreen signs for them. He claimed that this paper trail strategy helps to show "enough due diligence" so that Roseburg sourcing managers do not have to go themselves to the "hot spot" in Africa, even though this is something that could be requested under the Lacey Act. He acknowledged that according to the Lacey Act, conducting due diligence on the legal origin of the wood is not only the importer's responsibility, it applies to the entire supply chain, including companies like Roseburg. Concerning Roseburg's due diligence obligation, giving the example of the timber coming from Gabon, he added: "it always scares me."

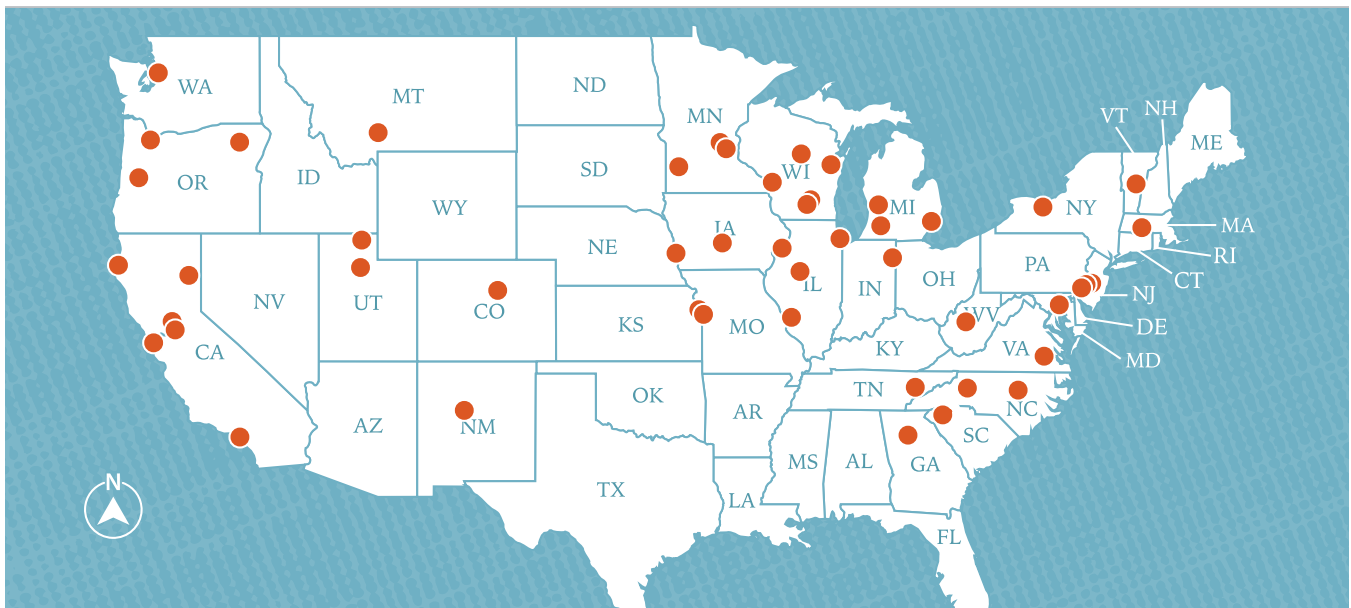


Figure 41. An illegally sourced product available all over the US for the construction industry.
 Source: EIA, 2018 based on Roseburg’s web dealer locator³³⁹

The company’s sourcing strategy appears to rely strongly on keeping Evergreen as an intermediary and a potential shield in case of any inquiries or checks from US authorities.

5.5 A Product Available All Over the US

Once manufactured, the Breckenridge siding is made widely available for the US construction industry. The Roseburg web dealer locator tool identifies 169 wholesale distributors and suppliers across the US, in a total of 40 states. (Figure 41).

EIA investigators contacted most of the dealers identified on Roseburg’s website in order to assess their level of knowledge regarding the product and its origin. Of the 50 dealers contacted that confirmed selling Breckenridge siding, less than five percent accurately located the veneer’s origin as Africa. Most of the dealers claimed the okoume veneer came from South America, China, Indonesia or even the US.

As one of Roseburg products’ dealers in Oregon explained to EIA investigators, when asked about the popularity of the product, it is an item that “everybody is selling. It is going on all sorts of houses.” According to the Roseburg products’ dealer, “new tract home neighborhoods” would use it frequently. According to him “pretty much any sheet wood that has a re-sawn texture on it” would be Breckenridge, most of the time painted with a non-natural color. He concluded “It is a really nice product. It’s a look.” As this dealer explained, he does not sell directly to the public, but rather to retail yards, which in turn transact with the final consumers.

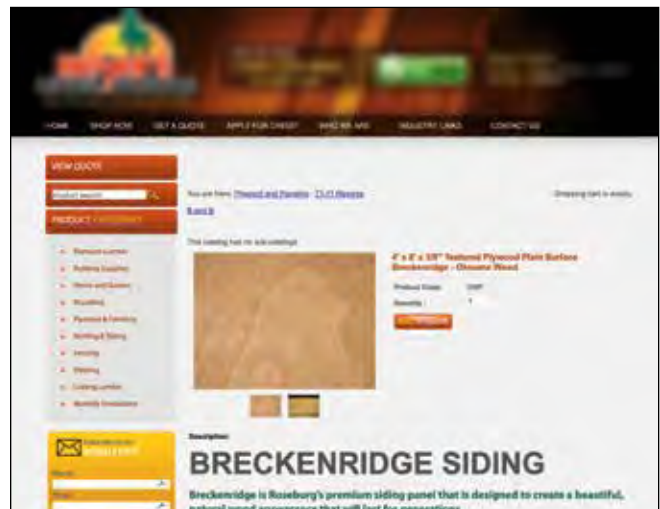


Figure 42. A typical local lumberyard website offering the Breckenridge panel in Missouri.
 Source: Screenshot of anonymous website³⁴⁰

He claims his principal markets for the Breckenridge okoume-face siding are Washington state and southern California. According to several dealers, the product became popular when “US cedar” (*Chamaecyparis lawsoniana*) became rarer and more expensive, and cedar siding companies went out of business. The species was classified as “rare” in 1998 by the IUCN, and since then the population has slowly increased thanks to conservation strategies efficiently put in action.³⁴¹ African okoume-faced panels emerged as an affordable and readily-available substitute, offering the “elegant rough cedar” look described by Roseburg’s brochure.³⁴²

With this attractive characteristic, many local lumberyards and hardware chain stores have unwittingly promoted and sold for years an illegally-sourced timber product (Figure 42).

The product has also been sold by major hardware store chains including Menards, which promotes Breckenridge siding on its website (Figure 43).³⁴³ The Menards product information page identifies the Roseburg Breckenridge product as being made from okoume. Menards, headquartered in Wisconsin, is the third-largest hardware store in the US (after The Home Depot and Lowes).³⁴⁴ The chain has approximately 300 stores in 14 states, concentrated in the Midwest. In 2016, Menards was ranked 37th on the Forbes list of America's Largest Private Companies.³⁴⁵

Home Depot was also offering Breckenridge siding product until as recently as December 2017, when it disappeared from the company's website (Figure 44).

Over the past ten years, millions of US citizens have been exposed to illegally-sourced timber products coming from the Republic of Congo and Gabon. This has only been possible because of the negligent role of the manufacturer and the complicity of the American importer. US consumers have unwittingly supported the perpetuation of high-level corruption, illegal logging and massive tax evasion in the Republic of Congo and Gabon. Together, Deji Group and their US clients have evaded enforcement efforts in the Republic of Congo, Gabon and the US, as described in the following section.

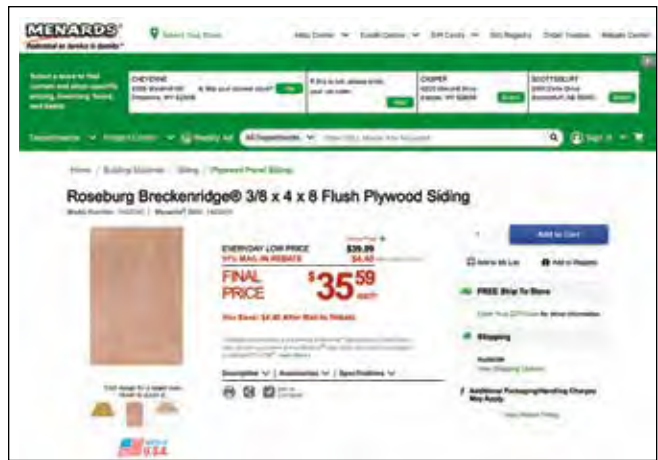


Figure 43. The Deji Group's okoume available on Menards' website.

Source: Screenshot of Menards' website³⁴⁶



Figure 44. Breckenridge showing on The Home Depot's website in second half 2017.

Source: Screenshot of The Home Depot's webpage³⁴⁷



Roseburg former CEO, son of the company founder, in front of a stack of Breckenridge siding.

Source: Roseburg's website

6

Efforts to Tackle the Problem: Too Little, But It Is Not Too Late

Dejia Group's forest crimes and related corruption schemes appear to have escaped scrutiny for years. The Group has been able to dodge enforcement actions through a cash-fueled nexus with public servants in Africa. It also has exploited a strategic alliance with importers, grey areas in the implementation of demand-side laws in the US, and the unequal implementation of timber import regulations among European Member States to continuously place its products in the principal "regulated markets" – where legislation prohibits the import of illegal timber of the world. The voluntary guidance approach taken by China to guide Dejia Group companies' behavior in the Republic of Congo and Gabon has proven to be ineffective in slowing its illegal activities.

6.1 The Republic of Congo: Time to Change the Status Quo

In the Republic of Congo, Dejia Group executives repeatedly explained to EIA investigators how the multilayered frequent bribery that the Group has developed over the years has immunized its companies against any kind of purposeful law enforcement activities (see Section 4). Dejia's executive in the Republic of Congo told EIA investigators:

EIA: *Then what do you do?*

SICOFOR: *Well, we "work it."*

EIA: *When you "work it" then you would do what, give them money? What if they penalize you?*

SICOFOR: *Penalizing is also about money, right. You can always bargain on penalties... Everything in this country can be negotiated, and I mean, except for who becomes president, everything else is!*

EIA: *So after you gave them money then they do not penalize you?*

SICOFOR: *Right. They take your money and they grant you an "exemption," a "special quota," so you will not be penalized.*

The inquiry commission set up by the current Minister of Forest Economy to investigate the "timber mafia" could prove to be an important step forward in the fight against corruption.

Congolese legislation related to forests is generally coherent and unambiguous.³⁴⁸ However, one critical exception is the broad discretionary power given to senior officials – in particular the Forest Economy Minister – or in some cases the lack of clarity regarding where the executive's power ends.³⁴⁹ As EIA's investigation demonstrates, the Minister benefits from important leeway to personally "negotiate" the fines with companies that are found to be non-compliant with national laws.



Folder (left-hand picture) containing the paper-trail related to the “transactions” (right-hand picture) that happened between SICOFOR and the Congolese administration in 2013.
Source: EIA

The former Minister of Forest Economy frequently exempted foreign companies from their obligation to process their wood locally, in contravention of the national forest code.^{350,351} The Ministers also have regularly delayed the requirement to submit a forest management plan, opening the door to ambiguous “illegal legalization,” as described in this report. Also of concern is the influence of the Minister and his/her acolytes on the allocation of forest concessions through the creation of an ad hoc “Technical Committee” (see Section 4).

Enforcement of the existing law has been partial and intermittent in the Republic of Congo. Isolated operations have taken place without changing the structural flaws and gaps that plague the sector. In 2013, during operation “Back to Factory” 55,000 cubic meters of logs were stopped at the port of Pointe Noire because their export would have breached the logging companies’ export quota.³⁵² In 2015, the Congolese authorities seized 750 cubic meters of illegal timber from Cameroon.³⁵³ The same year, the Forest Economy Minister launched the “Clean Timber” operation, mainly focused on the artisanal sector.³⁵⁴ In this context, Mr. Djombo, then Minister of Forest Economy, demanded of the loggers, “Do not give money to the forest administration agents anymore. We want a clean administration. And we will organize this sector.”³⁵⁵

More recently, the Minister of Forest Economy set up an inquiry commission to investigate the “timber mafia” in the country. The crackdown specifically targeted the illegal export of logs by the Atama-plantations company, and led to the arrest of Mr. Reuban Ratnasingam, the General Director of the company.³⁵⁶ Interestingly, the inquiry commission’s report directly incriminates the complicity

of public servants from both the customs and the forest administration.³⁵⁷ This recent operation, which targets both the giving and receiving-hand of the bribing scheme, arguably represents a step forward in the fight against impunity for illegal logging and related crimes.

The former Minister of Forest Economy frequently exempted foreign companies from their obligation to process their wood locally, in contravention of the national forest code.

Still, no court cases for timber-related crimes are known to have been brought during the last 10 years, and not one person has been imprisoned for illegal logging in the Republic of Congo.³⁵⁸ The forestry authorities in the Republic of Congo do not make use of systematic methods for identifying illegal activities remotely, such as satellite remote sensing, or analysis and comparison of different kinds of reported and recorded data on timber harvesting and trade.³⁵⁹ Deja companies in the Republic of Congo have escaped scrutiny in all of the above cases.

In this context, the work of the Independent Monitor (IM – see Section 4) has brought more transparency to a particularly opaque sector. After Ghana, the Republic of Congo was the second VPA signed in the world.³⁶⁰ The reports of the IM provide important and substantiated information about illegal practices. The specific infractions reported by the IM have frequently been sanctioned by the authorities, but not always.³⁶¹ As a result, the IM has observed numerous cases, including Deji Group companies, in which logging companies have continued to breach the same regulations despite having been caught and fined. For this reason, but also because of the very nature of the IM's modus operandi, independent monitoring has thus far been unable to address the systemic and underlying problems of the logging sector in the country.

Ongoing efforts to update and improve the legislative framework have led to significant progress, such as the formal recognition of the independent monitoring functions as a vital element of the sustainable management of the national forest resources.³⁶² The Independent Monitor's legal mandate and the mode of collaboration with the forest administration are defined in Article 83 of the draft bill of the new Forest Code, expected to be passed in 2019.³⁶³ Independent monitoring is clearly defined as an activity performed on behalf of Congolese state.

6.2 Recent Crack-Downs in Gabon Must Be Replicated and Deepened

Regarding Deji Group's ability to avoid meaningful sanctions for its crimes, the situation in Gabon is similar to the one in the Republic of Congo. The Group has achieved the same status of "untouchable." As in the Republic of Congo, encouraging developments have taken place over the past year that if replicated and intensified could help put an end to the impunity enjoyed by Deji Group.

The corruption scheme established in Gabon, involving many public servants at many levels and in several institutions, was revealed by a Deji factory manager to undercover EIA investigators:

EIA: *Do you have a good relationship with the government?*

SSMO: *Yes, yes, with the local government and others, we communicate and build relationships, we have to.*

EIA: *Pay them money?*

SSMO: *Absolutely! We need to! Because if we do not pay, our lives will be very difficult.*

EIA: *Do you pay a lot of money?*

SSMO: *Well with a good relationship, it is not too much.*



Crack-down against illegal logging in Gabon.
Source: ANPN

Not too bad in terms of amount we have to pay in general.

EIA: *So per month, how much do you need to budget for this?*

SSMO: *Well it really depends on which department we are dealing with. For example, if the police or army comes, we just give them either some diesel, or cash for them to go out to buy diesel. But if the Water and Forests Ministry officials come, or local chiefs, province governors etc. come, we give them money.*”

There is no formal IM in place in Gabon, unlike in the Republic of Congo. For this reason, the information available about the logging sector, including that regarding compliance with legislation, is particularly difficult to ascertain. An alternative, generally referred to as "External Monitoring," has emerged – through the adaptation of the Last Great Ape organization (LAGA) model by the NGO Conservation Justice to address illegal logging in Gabon.^{364,365} In 2012, Conservation Justice launched the project "Supporting the Fight Against Illegal Logging" ("Appui à la Lutte contre l'Exploitation Forestière Illégale" or ALEFI in French).³⁶⁶ Through independent investigations, facilitation of arrests and assistance to the government in prosecution of individuals involved in illegal logging, the project led to a crackdown on rosewood traffickers, resulting



in several public arrests, and with significant media coverage. In November 2015, some 30 people – including two representatives of the Ministry of Water and Forests – were arrested for trafficking kevazingo (*Guibourtia spp.*), a highly sought after group of precious wood species.^{367,368} Recently, following the exposure of a well-oiled corruption system, two provincial directors of the forest administration and high-level public servants for the Ministry of Water and Forests have been suspended and prosecuted.³⁶⁹

Conscious of the extent of illegalities in the logging sector, the Gabonese government adopted on 2 May 2013 a National Action Plan to Combat Illegal Logging (“Plan d’Action National de Lutte contre l’Exploitation Forestière Illégale au Gabon” or PANEFI in French). The plan aims to systematically track down companies that operate on the margins of the legal forest framework by increasing surveillance and systematizing the punishment of bribing activities.³⁷⁰ Soon after, the government arrested the managers of two logging companies and charged a number of government officials with corruption.^{371,372} Another effort aimed at illegal logging was launched in 2016, with the creation by the government of a “Special Court” specifically in charge of the traffic of plants.^{373,374} Unfortunately, the institution was judged unconstitutional and quickly dismantled without any prosecution.^{375,376}

In 2017, Gabonese authorities launched a series of operations against illegal logging in two provinces (Estuaire and Ogooué-Ivindo) that revealed widespread illegal practices by logging companies and the deep roots of corruption.³⁷⁷ These enforcement operations reportedly involved approximately 60 people that were given a mandate to control the logging operations in one of the most important regions for timber production in Gabon, under the order of the Public Prosecutor.³⁷⁸ The agents found evidence of massive harvesting of protected species, routine overharvesting, frequent harvesting below the authorized diameter, and sophisticated fiscal evasion through which millions of dollars escaped the country.³⁷⁹ During the investigation, managers or representatives from seven logging companies were held in custody, including Yan Shu Guo (from Compagnie Dan Gabon - CDG), Li Dongxing (General Manager of Xing Wang Bois), Chen Wixing (Deputy General Manager of Wan Chuan Timber Sarl - WCTS), Claude Liu (General Manager of KHLL), and Zhao Dongchen (Representative of GCIC). Most of the companies implicated were Asian-owned and managed by Chinese citizens.^{380,381} The results of this crackdown by Gabonese authorities against illegal logging operators directly exposes Chinese companies flouting their public commitments to legality, as detailed in the following section.

6.3 China's Voluntary Guidelines for Overseas Companies: "Just a Slogan"

The Chinese government's move to encourage trade and overseas investments in forestry has not been accompanied by effective domestic policies that ensure that the timber harvested and imported into China comes from legal sources.^{382,383} In this regard, China has primarily concentrated on issuing several voluntary guidelines intended to positively influence Chinese companies' behavior abroad. These guidelines include: the "Guide on sustainable overseas silviculture by Chinese enterprises" (2007) by the Ministry of Commerce (MofCom) and the State Forestry Administration (SFA); the "Green credit policy" (2007) by the China Banking Regulatory Commission (CBRC), People's Bank of China and State Environmental Protection Administration; the "Guide on sustainable

overseas forest management and utilization by Chinese enterprises" (2009) by MofCom and SFA; and the "Guidelines for environmental protection in foreign investment and cooperation" (2013) by MofCom and the Ministry of Environmental Protection.^{384,385,386,387,388} The guidelines present general recommendations, and have proven largely ineffective in practice.^{389,390} The last draft document issued by SFA in 2014 to prevent illegal logging and trade and promote sustainable forestry practices is a case in point.³⁹¹ The guidance urges operators and investors from China to respect local laws and regulations, to pursue sustainable forestry operations, and follow ethical business practices. Compliance to these norms is by definition voluntary.³⁹² Both company executives and workers met by EIA investigators in Gabon and the Republic of Congo were either not aware of these guidelines, or simply ignored them. Some of them openly joked that the guidelines exist just "for show" (Box 6).

BOX 6

Voluntary Company Commitments for Show

On June 22, 2016, twelve Chinese forestry companies managing about 5 million hectares of concessions in Gabon – more than 80 percent of total forests under Chinese operation in the country – participated in an event hosted by the Center for International Trade of Forest Products under China's SFA, with the support of the Gabonese Ministry of Water and Forests and the World Wildlife Fund (WWF).³⁹³ At the event, the companies committed to responsibly manage their operations through the "Sustainable Forest Management Declaration" and pledged to prevent the risk of illegal logging through complying with the requirements of "The Guide on Sustainable Management and Utilization of Overseas Forests by Chinese Enterprises" issued by SFA.



Figure 45. The Chinese executives that publicly committed to follow the voluntary guidelines, but who told a different story to undercover EIA investigators.

Source: Screenshot of WWF webpage³⁹⁴

A few days earlier, EIA's investigators had met undercover with eight of the executive managers present at the meeting. Company representatives freely admitted to investigators that their pledge for sustainability is only for show. One after another, the eight executives revealed that the voluntary guidelines existed merely as a "slogan" with no consequences in actuality. They explained that they never took the guidelines seriously, let alone implemented them, and that they were never asked to do so by Chinese authorities. The answers given by five of them are particularly illustrative of their views and level of implementation of the guidelines:



Zhangjiagang: the most important harbor for the import of African logs into China (Jiangsu Province).
Source: EIA

KHLL

EIA: We heard about this self-disciplinary principle by SFA [...] do you know what I'm talking about [...]

KHLL: Oh, I know that! That doesn't actually mean anything! They'll come visit in June. We'll go have meetings with the Gabon counsellor in tourism as well. ”

Wan Chuan Timber SARL (WCTS)

EIA: Have you heard of this guideline on Chinese enterprises, or overseas enterprises? Is it binding for your operation? It isn't. Is it?

WCTS: It's hardly relevant. [...] They've come here several times and had many meetings with us. Basically a mere formality. It's just formality. ”

Société de sciage de Moanda (SSMO)

EIA: What about requirements from the Chinese government? For example, I participated in a public hearing by SFA last year, or the year before. They announced this guideline thing for Chinese enterprises operating overseas. Is it binding for your business?

SSMO: Never heard of it. Not binding at all.

EIA: You've never heard of it?

SSMO: No [...] People always say that you should establish a nice image. But the problem is nobody can restrain from greed. [...] Anyway, I've never heard of it. ”

Sunly

EIA: Does Chinese government exercise much more strict management over your company [SOE]?

Sunly: Over us? Not that bad.

EIA: SFA invited us to this public hearing thing on some Guidelines of Chinese enterprises investing overseas, or whatever enterprises... does it have any binding force on your operation?

Sunly: Probably not.

EIA: No binding force at all?

Sunly: I think it's too challenging for any policy to be implemented from 20 thousands kilometers away. ”

Pengxin and Gabon Overseas Chinese Association (GOCA)

EIA: They always bring up that the Chinese government published a self-discipline for enterprises operating overseas... any chance you've heard about that?

Pengxin: Yes, that's the thing we did the other day. [...] It's nothing like legal binding.

GOCA: Yes, it's just a slogan. As for how to actually implement it...

Pengxin: Basically it says you shouldn't eat wildlife or hunt wildlife. ”

6.4 Cover Paperwork Instead of Due Care: The Current Limits of Lacey Act Implementation

Despite high profile cases against major US offenders of the Lacey Act, for over a decade US companies have continued to place illegally-sourced timber products from Deji Group on the US market. The deterrent effect of highly emblematic cases reaches its limits when relatively small size shipments of common product, such as tropical veneers, with low risk of origin or species misdeclaration, are continuously introduced in the US over a long period of time. Despite the high impacts of the trade on unique forest ecosystems, communities and national economies, it has stayed below the radar. The absence of systematic controls of US importers' due diligence systems has allowed them and their clients to hide behind paper trails.

The Plants Amendment to the 100-year old US Lacey Act, passed in 2008, makes it an offense to acquire, import or transport wood and other plant products that have been obtained in violation of source country laws.³⁹⁵ A few high-profile enforcement cases in recent years have had an important impact, and delivered a powerful message for US importers and overseas exporters, including China.³⁹⁶ In 2012, the iconic US firm Gibson Guitars entered into a criminal enforcement agreement with the US Department of Justice, acknowledging import of and trade in illegally harvested ebony from Madagascar. This resulted in a mandatory compliance plan and combined penalties and forfeitures of US\$600,000.³⁹⁷

In September 2015, US customs stopped 71 shipping containers – transported by the Peruvian company “Amazon Line” and filled with suspected illegal rainforest



Representatives of Lumber Liquidators leaving the federal courthouse after pleading guilty to five counts of violating the Lacey Act. Source: EIA

timber from Peru.³⁹⁸ Based on collaboration with Peruvian inspectors who informed their US counterparts that over 90 percent of the load consisted of illegal timber, US authorities carried out a search warrant at one of the importers, Global Plywood, in California.^{399,400} In January 2017, the US government announced the destruction of 24 pallets from the seizure destined for another US importer.⁴⁰¹ US authorities followed up in October of the same year by banning a repeat Peruvian exporter from placing wood products on the US market for three years.⁴⁰²

The case shows the importance for US authorities to be able to perform regular and routine control of the due diligence systems put in place by importers.

In 2016, Lumber Liquidators, the largest flooring retailer in the US, was sentenced for committing a criminal felony for smuggling illegal wood products from the Russian Far East into the United States via China.⁴⁰³ The company had to pay over US\$13 million in penalties and fines. In addition, Lumber Liquidators was placed on a five-year probation period and is required to implement a Lacey Act Compliance Framework to verify that all wood imports into the United States originate from legal sources.⁴⁰⁴ The Lumber Liquidators' case serves as a cautionary tale and a guide to other US importers about the need to practice careful due care when buying timber products through China's complex and obscure supply chains (Box 7).⁴⁰⁵

While these high-profile cases serve as a deterrent, this report shows, as an example, that a handful of US companies – Evergreen, Cornerstone and Penrod – have continued to import illegally sourced okoume veneer from the Deji Group. The long period of time, the relatively small quantities (a few containers every other month), and the low risk of misdeclaration of the country of origin and of the species have offered a cover for what is one of the most impactful logging operations ever exposed in the tropics. This indicates the urgent need in the US to systematically detect and investigate illegally-sourced timber coming into the country “under the radar.” The case shows the importance for US authorities to be able to perform regular and routine control of the due diligence systems put in place by importers – in particular from high-risk countries of origin and/or critical species.

Lumber Liquidators' Plea Agreement: An Instructive and Cautionary Tale on Due Diligence

The Compliance Plan⁴⁰⁶ outlined as a component of the Lumber Liquidators' plea agreement provides an important framework for what a company should do in the exercise of due diligence to exclude illegal timber from the supply chain. This due diligence process, which provides a useful model for all companies sourcing from high risk forests, consists of four key components:

Risk Assessment

A risk-based approach is at the heart of due care. In evaluating risk, the company will consider a range of factors including, but not limited to: reported instances of illegal or unethical logging in the region, or related to a specific product; protected status of the species; country-level corruption rating from third-party sources; unusual "deals" or sales methods; relative market and offer prices. The risk evaluation requires the importing company to conduct an internet search in order to determine what most recent legality concerns have been identified. The company will then designate each supplier and product as low, medium, or high risk and set out specific restrictions to address identified risk.

Vendor Validation and Evaluation

An important way of avoiding violation of the law is not engaging with suppliers of products non-compliant with requirements of the Lacey Act. Self-reported information provided by vendors is insufficient to address such compliance, and additional procedures are required to independently verify such data. Recommended procedure includes the risk assessment protocol described above, as well as a sample purchase order evaluation, in-person audit, and the assessment of document validity.

Purchase Order Review

The importing company is responsible for implementing a risk-based approach to ensure that purchase orders comply with Lacey. A company therefore must be able to prove an unbroken and verified chain of custody that starts in the forest and ends at its door. The review of the purchase order should include assessment of the documents relative to the harvest location and legality, as well as analysis to detect mismatch in terms of quantity, timing, geographies, etc. A thorough review needs to be conducted before a shipment is imported into the United States from a medium- or high-risk supplier.

Auditing and Monitoring

The person in charge of the due diligence process shall ensure appropriate monitoring of the compliance program, including field and desk audits and any necessary corrective action.

Due diligence has been defined by the US industry as "A risk evaluation system of preventing unnecessary harm to either party involved in a transaction prior to establishing a relationship in the exercise of due care."⁴⁰⁷ A sound due diligence system is recognized as a central element of the due care obligations that every importer has to meet in order to import wood products into the US in accordance with the Lacey Act.⁴⁰⁸ For this reason,

the profound adaptation of the Lumber Liquidators due diligence system is arguably the most prominent aspect of Lacey Act Compliance Framework agreed to by the company. As stated in the Lacey Act Compliance Framework: "Lumber Liquidators will exercise due care and diligence through the research, review, and validation of relevant information regarding merchandise sold in its stores."⁴⁰⁹



Congolese communities denouncing illegal logging.
Source: EIA

Using the ‘the more paperwork you have the better’ as a cover strategy in lieu of conducting meaningful verification of legal origin of the timber goes against the principle of due care.

The strategy adopted by Evergreen to avoid sporadic detection and handle checks, as explained by its supply manager, Mr. Green, is clear: “the more paperwork you have the better.” He explains his strategy in case of control:

“ Mr. Green: *We just need to compile documentation so that if someone ever says ‘Hey! You know... We think that... You know...’ At least I can say: ‘Well, they [suppliers] filled out the questionnaire, and we have all these documents.’ The worst that can happen to me is that I pay a fine.*”

Unaware that he was talking to EIA undercover investigators, Mr. Green makes reference to EIA’s awareness raising work and explains:

“ Mr. Green: *I just went through a big dust-up with a big customer here that I sell a lot of okoume to... People go to these trade meetings and people from EIA stand up there and say ‘All okoume from West Africa is illegal.’ Next thing you know I’m getting emails from everyone. These people have compliance officers and their whole job is to collect the documents.*”

Despite the serious concerns raised by EIA about the high risk of illegality and fraudulent documents covering okoume timber from Africa, Mr. Green claims that he is able to reassure his nervous customers simply by sending them more documents. This approach and his strategy in case of control “the more paperwork you have the better” go against the principle of due care, and shows the limits of the current fulfillment of the due care obligation by US okoume buyers. Due care is not about compiling papers to cover known or strongly suspected illegally-sourced timber. In the context of the Lacey Act implementation, due care is about honest determination, evaluation and mitigation of risks in order to ensure legal wood sourcing.



6.5 The Un-Level European Playing Field that Benefits Traffickers

The European Union Timber Regulation (EUTR) seeks to prevent illegally-harvested timber and timber products from being placed on the EU market.⁴¹⁰ Since its introduction in 2013, the law has gained more and more traction. The EUTR is implemented in every EU Member State via national legislation and enforced by national authorities.⁴¹¹ As a result, important differences exist in practice of enforcement among member States. These have a bearing on how effectively the EUTR can protect European markets from illegal timber from Deji Group.

In the past few years, a handful of EU countries have stepped up their enforcement of the EUTR, in particular Sweden, the Netherlands, the United Kingdom (UK) and Denmark.⁴¹² In 2016, a Swedish court ruled that a Swedish company had violated the EUTR for importing teak from Myanmar without complying with its due diligence obligations.⁴¹³ A year later in the Netherlands, another company was fined because it placed non-compliant Burmese teak on the market, and Danish authorities placed injunctions on all Danish operators placing Burmese teak on the country's market.^{414,415} In March 2018, the UK operator Hardwood Dimensions (Holding) Ltd. was fined for failing to check the legality of timber imports from

Cameroon.⁴¹⁶ The London-based furniture retailer Lombok has become the first UK business retailer to be punished for breaching EUTR regulations.⁴¹⁷ This case set an important precedent regarding the companies' obligations to fully trace their supply chains back to where the timber has been harvested.

Despite these encouraging developments, only a minority of EU countries have shown some commitment enforcing the EUTR. Many others are lagging behind, especially in key countries importing Deji Group timber, including Belgium, Greece, Spain, Italy, and France.⁴¹⁸ In 2016, a report from the European Commission indicated that Greece and Spain were still non-compliant with EUTR legislation.⁴¹⁹ In 2017, in what was the first case of its kind, the Commission took legal action against Belgium for not carrying out enough checks on companies operating on the Belgian market.⁴²⁰ The report further elaborates that, given the limited number of penalties applied so far, it is difficult to determine whether they are "effective, proportionate and dissuasive," as required by European law.

The "soft" enforcement approach

taken by competent authorities in

Belgium, France, Greece, Italy, and

Spain is showing its limits.

The "soft" enforcement approach taken by competent authorities in Belgium, France, Greece, Italy, and Spain is showing its obvious limits.⁴²¹ This approach, which features measures such as advice letters and warnings sent to companies with injunctions and notices of remedial action without including non-compliance penalties, has failed to dissuade many European importers from doing business with Deji Group. The unlevel playing field created by unequal EUTR enforcement does not meet the EU standard and should be corrected as soon as possible.⁴²²



Conclusion

Despite the Lacey Act and the EUTR, US and European businesses and citizens remain exposed to illegally sourced timber from the Congo Basin. Despite forest codes that state the incontrovertible logging companies' obligations regarding the rational use of the forest and the conservation of unique ecosystems, Congolese and Gabonese national forests have been devastated. Based on an in-depth analysis of a particular Africa-America timber supply chain, EIA's new investigation reveals how companies located on both sides of the Atlantic have bypassed the rule of law.

Besides this particular toxic supply chain, EIA's extensive research shows the structural flaws of the Congolese and Gabonese "business as usual" logging sectors – countries that together represent about 60 percent of the area set aside for forest exploitation in the whole of the Congo Basin. The rampant corruption that involves multitudes of administrators, from field officers to high-level ministers, as described on many occasions to EIA investigators by well-placed sources, deserve immediate attention. The same is true for the colossal fiscal evasion schemes that the logging companies have developed to avoid tax from African states, transforming the sector from one that contributed to the state's budget to one that represents a national burden.

EIA's findings also reveal an unfortunate truth – the efforts made by over 30 countries to protect their businesses and their citizens against illegally-sourced timber is fundamentally undermined when key global timber market players, including China, choose not to require legal origin of the timber they import.

Based on an in-depth analysis of
a particular Africa-America timber
supply chain, EIA's new investigation
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have bypassed the rule of law.



Typical logging road in Gabon.
Source: EIA

EIA Recommendations

The “business as usual” degradation of the second largest tropical forest in the world, and the array of negative impacts on regional governance, call for urgent actions. EIA recommends:

GABON AND THE REPUBLIC OF CONGO

- Immediately suspend the operations of the Deji Group’s affiliates in both countries and thoroughly investigate its logging, trading, processing and exporting practices;
- Launch an anti-corruption and tax evasion crack-down across the timber sector;
- Strengthen the regulatory frameworks with dissuasive measures against illegal logging and related financial crimes;
- Join the global effort for true public transparency in the forest sector, through the release of key information on logging operations and related trade in both countries.

UNITED STATES

- Conduct an investigation into the import of illegal timber by Evergreen Hardwood, Inc. from Deji Group, including related corruption practices and participation in financial crimes;
- Investigate the operations of the Deji Group’s affiliates located in the US;
- Clarify the due diligence obligations (risk determination, evaluation and mitigation) for timber importers under the Lacey Act;
- Improve routine analysis and oversight of declarations; systematically request information about importers’ due diligence systems and conduct frequent audits of their sourcing practices, particularly those related to timber flows from high risk countries and involving sensitive species; and conduct more civil forfeitures of illegally-sourced timber and wood products.

EUROPEAN UNION

- Investigate all imports from the Deji Group’s affiliates, as they have an incredibly high likelihood of illegality under the EUTR and likely rely on non-compliant due diligence systems by European importers;
- Given the systemic flaws exposed in this report, all timber products coming from both the Republic of Congo and Gabon should be considered high risk under the EUTR, and subject to the highest required level of due diligence.

CHINA

- Prohibit the import of timber and wood products that have been harvested, transported or traded illegally; and work in cooperation with the Republic of Congo and Gabon to put an end to the specific illegal activities highlighted.
- Enforce the second provision to Article 164 of the National Criminal Law that criminalizes bribes given to non-Chinese public officials, and investigate Mr. Xu’s operations.

INTERNATIONAL ORGANIZATIONS

- Support the Republic of Congo and Gabon’s efforts in retrieving the funds lost due to fiscal evasion, and encourage reforms against fiscal crimes in the export-oriented forest sector.



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ACRONYMS

ACI	Asia Congo Industries	K&Cie	Kimbala et Compagnie
APS	Atama Plantation Sarl	LEED	Leadership in Energy and Environmental Design
BNC	Bois Niari Congo	MIM	Mandated Independent Monitor
BTC	Bois Tropicaux du Congo	MofCom	Ministry of Commerce (China)
BPL	Bois et placages de Lopola	MOKABI	Société Mokabi Rougier
CADGF	Cercle d'Appui à la Gestion Durable des Forêts	PIERS	Port Import/Export Reporting Service
CDWI	Congo Dejia Wood Industry	REM	Resource Extraction Monitor
CEO	Chief Executive Officer	SADEF	Société Agricole et de Débusquage des Forêts
CFA	African Financial Community	SCC	Société Congolaise de Courtage
CFF Bois	Congo First Forest Bois	SCPFE	Service de contrôle des produits forestiers à l'exploitation
CIBN	Congolaise Industrielle de Bois du Niari	SEFYD	Société d'Exploitation Forestière Youan Dong
CIB-LDG	Congolaise Industrielle de Bois (Loundoungou Toukoulaka FMU)	SETRAF	Société d'Etudes et des Travaux Forestière
CIB-POK	Congolaise Industrielle de Bois (Pokola FMU)	SFIB	Société Forestière et Industrielle de Bois
CITB-QUATOR	Congolaise Industrielle de Transformation de Bois	SICOFOR	Sino Congo Forêt
DRC	Democratic Republic of Congo	SIFCO	Société Industrielle et Forestière du Congo
EIA	Environmental Investigation Agency	SIPAM	Sciages Industriels Panneaux Moulures
EU	European Union	SFA	State Forestry Administration (China)
EUTR	European Union Timber Regulation	SPIEX	Société de Prestation Import et Export
FLEGT	Forest Law Enforcement, Governance and Trade	SSMO	Société de Sciage de Moanda
FMU	Forest Management Unit	TBN	Bois Tropicaux du Niari
FORALAC	Société Forestière Agricole Industrielle et Commerciale	TEX	Transit Express
GEB	Groupe Ekasi Bongo	THANRY	Société Thanry Congo
GET	Global Expérience Timber	TIL	Taman Inudtries Limited
GOCA	Gabon Overseas Chinese Association	TLAS	Timber Legality Verification System
HYSOPE	Hysope Sarl	UN	United Nations
ICIJ	International Consortium of Investigative Journalists	UNESCO	United Nations Educational, Scientific and Cultural Organization
IFL	Intact Forest Landscape	US	United States of America
IFO	Industrie Forestière de Ouesso	VPA	Voluntary Partnership Agreement
IM	Independent Monitor	WCTS	Wan Chuan Timber Sarl
Interpol	International Criminal Police Organization		
ITTO	International Tropical Timber Organization		
IUCN	International Union for the Conservation of Nature		

ENDNOTES

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ENDNOTES (continued)

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