

RM32 mil kickbacks - tip of the iceberg
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The RM32 million payment made by Japanese shipping companies to a Hong Kong agent allegedly linked to Sarawak Chief Minister Abdul Taib Mahmud and his family is only the 'tip of the iceberg', according to those involved in the lucrative timber trade.

"In reality, Sarawak logs are exported not only to Japan but also to Korea, Taiwan and several other countries.

"There are other off-shore companies besides (Hong Kong-based agent) Regent Star, to which shipping lines have been paying kickbacks or 'rebates' since 1981," a director of a Sarawak-based shipping line told malaysiakini today.

He was referring to last Thursday's report in Japan Times about nine shipping companies being accused by the Japanese government of tax evasion for failing to report income of 1.1 billion yen (RM32 million), which was alleged to have been paid as kickbacks to Taib and his family.

The payments were made to Regent Star in Hong Kong, believed to be connected to Taib, over a period of seven years up to March last year.

According to the report, the companies - which included top shipping companies Mitsui OSK Kinkai Ltd and NYK-Hinode Line Ltd - have all denied any wrongdoing.

The companies argued that the expenses were legitimate following an agreement between the shipping cartel transporting Sarawak logs to Japan and a Sarawak government-affiliated concern Dewaniaga in 1981.

The shipping firms are suspected of having made payments to the Hong Kong agent for 26 years, meaning the total income concealed is several times the figure cited by sources.

Before Sarawak decided to impose a log export quota, the state was exporting as much as 1.5 million cubic metres of logs a month - or about 18 million cubic metres annually - putting it among the world's biggest timber exporters.

Required to pay commissions

According to information from industry sources, owners of log carriers must first register with Dewaniaga Sarawak - which has an office in state agency Sarawak Economic Development Corporation.

On registration, the shippers are required to pay commissions of between US\$2.50 and US\$3 (RM8.60 and RM10) per cubic metre of timber - depending on the species of the logs - to nominated off-shore companies allegedly linked to Sarawak officials.

In addition, the owner of a log carrier seeking to transport timber exports is required to appoint Taib family-linked shipping agency Archipelago Shipping as the sole agent for shippers to pick up logs from three key Sarawak ports - Tanjung Manis, Bintulu and Miri.

This directive to use Archipelago Shipping as the exclusive agent has affected many other local shipping companies.

According to former managing director of a shipping agency, who asked not to be identified, his company at the time was acting only as agent in handling foreign vessels calling at Sarawak ports and did not own any log carrier so his company could not act as a handling agent for log carriers.

Archipelago Shipping has since changed its name to CMS Transportation Sdn Bhd.

Based on the log transportation 'commissions' of an average US\$3 per cubic metric, the total 'rebates' paid out by the cartel were estimated to amount to as much RM189 million annually at the height of the logging trade in the go-go years of the 80s and 90s.

The ex-shipping agency boss added that owners of log carriers had no alternative but to pass on the additional cost of the commissions to the buyers.

"What do you call income not going into the government coffers? This is a clear case of corruption!" he said.

Tax evasion

It is also an open secret that in the Southeast Asian timber trade, especially Malaysia and Indonesia, exporters retain a portion of their profits offshore through 'transfer pricing' to avoid paying income taxes.

In Indonesia, the government had introduced a 'check-price' on log exports to try to stop the tax evaders, but this has very little effect due to the lack of enforcement.

Transfer pricing is a system devised within the timber trade, especially by log exporters, where overseas buyers pay the full price for the timber through a third country and a portion of the profits are retained and paid into offshore accounts of certain companies or individuals.

These additional profits are not reported to the tax authorities.

Sources said that the countries exporting logs have lost "hundreds of billions of ringgits through such tax avoidance" over the past three decades.

An accountant with wide experience in auditing, when contacted by malaysiakini, asked a pertinent question.

"Why didn't our tax authorities follow the Japanese example and come down hard enough on our log producers and exporters?"

When asked about the scandal yesterday, Prime Minister Abdullah Ahmad Badawi said that he was not aware of it. Meanwhile, Taib has yet to comment on the matter.