



Hong Long Fisheries, Ltd:

A Transnational Crime Operation Infiltrates Timor-Leste

Mahein's Thoughts No. 15, November 22nd, 2017



The M/V Ocean Warrior with the Fu Yuan Yu fleet off the coast of East Timor. Photo Jake Parker/ Sea Shepherd.

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Executive Summary

Hong Long Fisheries, Ltd. is a branch of the Chinese company Fuzhou Honglong. It was founded in 1995 and conducts commercial fishing with a fleet of 100 fishing ships. In addition to fishing, this firm conducts other business activities such as ship maintenance, fish processing, and fish distribution in local and international markets. Hong Long Fisheries (HLF) has its address at Rua Motael Vera-Cruz, Dili. This company obtained a fishing license valid for one year (15 November 2016 to 15 November 2017) from the Ministry of Agriculture, Forestry and Fisheries (MAFF). The industrial-type fishing license permitted HLF to deploy 15 fishing ships.

HLF's ships are foreign fishing vessels that received a fishing license in Timor-Leste with a first phase investment of US \$20 million. There were high expectations that HLF's operations would yield large revenues for Timor-Leste. However, after just three months of fishing activities in the Timor Sea (off Timor-Leste's south coast), HLF was found to be catching shark species protected under Timorese law. The Government of Timor-Leste immediately took action against this practice and created a joint team to investigate HLF. The team's findings were not made public and the entire investigation process lacked transparency. Shortly afterwards HLF returned to the Timor Sea to continue its fishing activities. On 9 September 2017, HLF was again founded to have caught protected sharks. This time the amount of poached sharks totalled 225 tons. The legal process for this second case is continuing and HLF's fishing activities have been suspended. However, so far there has been no final decision.

Another related controversy appeared about the claim on HLF's fishing license that the company's owner is a citizen of Timor-Leste. Given that the firm's ships have the status of foreign fishing vessels, the dubious claim indicates that HLF paid a Timorese citizen in order to obtain a license for the company. Such actions violate the stipulation that commercial fishing licences cannot be sold or rented to third parties in Article 30 of Government Decree Law N°. 6/2004, 21 April 2004, the General Basis of the Juridical Regime for Management and Fishing and Aquaculture Legal Code.

HLF has a close relationship with another firm, Pingtan Marine Enterprise, Ltd. Significantly, ships used by HLF belong to Pingtan Marine. This suggests that Pingtan Marine Enterprise actually used HLF as an instrument in order to obtain a fishing license in Timor-Leste. Pingtan Marine has a long history of criminal activity in the nations where it operates. Indonesia actually expelled Pingtan Marine from its territory because of the firm's criminal activities. This meant that Pingtan used HLF as a front company to gain a new license in Timor-Leste.

The Ministry of Agriculture, Forestry and Fisheries failed to adequately investigate HLF's sinister history before granting it a license. Furthermore, HLF offered misleading information when applying for the license. Finally, HLF caught legally protected fish species in addition to the species that its license allows it to catch. Given the extent of the poaching and the company's history of flagrantly violating the law, it is safe to assume that this illegal fishing is intentional. Additional proof contained in this report reveals that HLF and Pingtan Marine's illegal activities are not limited to illegal fishing. They are also involved in investment fraud,

money laundering, human trafficking, forced labour, and a maritime homicide case. With regard to the investment fraud, investors have accused Pingtan Marine in a United States District Court on 24 November 2014. The homicide case involves a death that occurred on one of Pingtan's ships in Fiji's territorial waters in 2015. Furthermore, ships belonging to Hong Long Fisheries and Pingtan Marine Enterprise were arrested on suspicions of illegal shark fishing in Ecuador's Galapagos Marine Reserve on 13 August 2017.

Timor-Leste has extremely limited capacity to patrol its territorial waters, lacking patrol boats that can reliably patrol the open ocean. It also lacks experts in fisheries management to regulate and control commercial fishing (either domestic or international).

For Timor-Leste to develop sovereign capacity to protect its ocean resources and guarantee its maritime security, it must take several measures. Currently, it lacks adequate capability to manage fisheries and maintain security on the ocean. FM recommends that Timor-Leste apply to join the Regional Fisheries Management Organizations (RFMOs) to take advantage of regional capacity. Timor-Leste should also develop and implement a long-term strategy to develop sovereign capacity for fisheries management and maritime security.

Furthermore, Timor-Leste must also improve its own capacity around managing fisheries. It should particularly strengthen the processes around licensing and regulation, while also boosting its maritime security capacities to safeguard the ocean's resources. Timor-Leste must prioritize these issues for national development in order to lay the foundation for sustainable economic benefits.

Introduction

In March 2017, Fundasaun Mahein (FM) published a report describing the poaching of protected shark species by Hong Long Fisheries, Ltd. (HLF). HLF is a Chinese firm that obtained a fishing license from the Ministry of Fishing and Agriculture in November 2016. Just three months later the fishing activities of this business had become controversial in Timor-Leste because the HLF boats were engaging in the aforementioned poaching. The Government of Timor-Leste immediately took action against this practice and created a joint team to investigate HLF. The team's findings were not made public and the entire investigation process lacked transparency. Shortly afterwards HLF had returned to the Timor Sea to continue its fishing activities. On 9 September 2017, HLF was caught once again with dead sharks on board its 15 ships. This time, the amount of dead sharks totalled 225 tons.¹

Various parties in Timor-Leste condemned this practice and investigated HLF. The firm also received intensive coverage from the national and international media. The Minister of Agriculture, Forestry and Fisheries Estanislau da Silva responded strangely to this effort of increased oversight. He claimed that the shark species discovered on-board HLF's ships by environmental activists and the National Police of Timor-Leste (PNTL) were not actually protected. To justify this response, he pointed to a joint ministerial memorandum that was revised in April 2017. While the original memorandum designated all shark species as protected, the revised one stated that just some species are protected. The investigation is ongoing and fishing activity by HLF's vessels is currently suspended. But there has not yet been a final decision on this case.

Even more disturbingly, a separate controversy emerged about the identity of HLF's real owner. HLF's fishing license was disseminated on social media, providing further justification for suspicions that had been circulating since HLF applied for the fishing license. Until now there has been no official statement about the true owner of HLF. However, HLF is widely known to come from China.

This report seeks to uncover HLF's real owner, its links with other businesses, its activities before it began fishing in Timor-Leste, and the crimes it has committed in other nations during the last few years.

Methodology

This research was conducted over two months from September until November 2017. It involved documenting data from national and international media, as well as from reports from national and international organizations related to HLF's fishing activities in Timor-Leste's territorial waters. FM also investigated HLF's criminal activities in Timor-Leste and other countries, as well as its links with other businesses.

Finally, after finishing the research, the report was concluded via FM's method of *Security Sector Discussion* (SSD). SSD involves FM researchers analysing the data that they have collected and producing recommendations.

¹ Notisia Grupu Media National TV, 2 October 2017.

Hong Long Fisheries, Ltd.

Hong Long Fisheries, Ltd. (HLF), founded in 1995, is a branch of the Chinese firm Fuzhou Honglong. It conducts business in the fishing sector with its fleet of 100 ships. This firm also conducts other business activities, including ship maintenance, fish processing, and fish distribution in local and international markets.²

HLF has its address at Rua Motael Vera-Cruz, Dili, Timor-Leste. It received a one-year fishing license from the Ministry of Fishing and Agriculture, beginning on 15 November 2016 and expiring on 15 November 2017. This industrial-type license authorized HLF to deploy 15 fishing vessels.³

The Ministry of Agriculture, Forestry and Fisheries (MAFF) stated that the licensing process is extremely rigorous, in which national and international entities collaborate in analysing and offering their opinions. Entities involved in this process include the Private Investment and Exportation Assessment Commission of Timor-Leste and the *Sub Regional Arafura and Timor Seas* Group composed of Timor-Leste, Australia, Papua New Guinea, and Indonesia. In this process the Ministry of Fishing and Agriculture also invited experts from Australia to inspect ships and equipment used by HLF. These inspections determined that HLF was using 3 trammel-nets and gill-nets on each of its 15 ships. The fishing license to HLF also prohibited fishing in areas fewer than 18 nautical miles from the coastline of the national territory⁴ and in legally protected areas. Cairavela, Baucau District, and Com, Lautem District were designated as ports of inspection. Each ship's crew consisted of 5 Timorese individuals (for a total of 75 throughout the 15-ship fleet) and 8 foreigners (for a total of 120).

HLF also presented an investment plan to MAFF, outlining a total planned investment of US \$110 million. This plan is exhibited in the table below.

Table 01: Hong Long Investment Plan

Investment Plan	Activity	Total Investment (US\$)
Phase I	Fishing with 15 ships	20 million
Phase II	Establish support base, port, and cold-storage chamber	15 million
	Install a 100-150 hectare aquaculture base	22 million
	Build or buy 20 small fishing vessels	8 million
Phase III	Build 35 fishing vessels	45 million
Total		110 million

Source: Ministry of Fishing and Agriculture, February 2017

² Timor-Leste Ministry of Fishing and Agriculture. 24 February 2017.

³ Timor-Leste Ministry of Fishing and Agriculture. 24 February 2017.

⁴ See also Joint Ministerial Memorandum: Ministerial Memorandum N°. 01/03/GM/II/2005 about Definition of Fishing Zone. Article 2, n°. 1, e.

Hong Long's Status Under Timorese Law

Government Decree Law N^o. 6/2004, 21 April 2004, General Basis of the Juridical Regime for Management and Fishing and Aquaculture Legal Code places fishing vessels in Timor-Leste's territorial waters into one of three categories: national fishing vessel, foreign fishing vessel, and foreign vessel based within the nation.

Government Decree Law N^o. 6/2004, Article 40 states that national fishing vessels include those with the following characteristics:

- a) National fishing vessels are those that are public property or property of a public corporate body;
- b) Those that are exclusive property of a national citizen or national corporate body;
- c) Those that have at least 51% of their value belonging to national citizens;
- d) Those which belong to a corporate body whose social capital is at least 51% owned by national individuals or groups, when they cumulatively fulfil the following requirements:
 - i. Their headquarters are in the nation;
 - ii. Their CEO is a Timorese citizen
- e) Ships hired by a Timorese individual or collective and registered with the MAFF.

According to Article 41 of the same law, foreign fishing vessels are those ships that are not national fishing vessels according to the terms of Article 40. Furthermore, according to Article 42 foreign fishing vessels based within the nation are those that conduct activity from a national port, make at least 50% of their catch within the nation's borders, have at least 50% of their crews composed of national citizens, and fulfil other conditions specified by the relevant regulations.

While the articles above define the status of fishing vessels, Article 45 n^o. 1 states the requirements for their operations. This Article specifies national fishing vessels can only conduct their fishing activities:

- a) 200 meters from the coastline, for artisanal fishing ships;
- b) 3 nautical miles from the coastline, for semi-industrial fishing ships
- c) 12 nautical miles from the coastline, for industrial fishing ships.

According to Article 46, identical requirements apply to foreign fishing vessels based within the nation. According to Article 47 Line b, foreign fishing vessels that receive a license to catch fish in national waters can only conduct their activities 18 nautical miles from the coastline for industrial fishing.

Article 47 line b therefore confirms that, according to its license, HLF is prohibited from conducting fishing operations fewer than 18 nautical miles from the coastline.

The investment plan illustrates that HLF intends to invest US \$20 million in the first (current) phase and to invest US \$45 million each in the second and third phases. National fishing vessels must have at least 51% of their total social capital from individuals, collective, or national corporate body from Timor-Leste according to Article 40. Foreign fishing vessels or foreign fishing vessels based within the nation, according to Articles 41 and 42, take at least



50% of their capture within the nation and have Timorese citizens comprising at least 50% of its crew.

Consequently, in order to have the status of foreign fishing vessels according to Government Decree Law N°. 6/2004, Article 41, 100% of HLF's social capital would have to belong to the company. Furthermore, its area of fishing operations would have to be more than 18 nautical miles from the coastline.

In order to have the status of national fishing vessels according to Government Decree Law N°. 6/2004, Article 40, HLF would have to have at least 51% of its total investment from Timorese individuals or collectives. With this HLF capital investment in first phase totalling US \$20 means that social capital from national citizens must be at least US \$11 million. Furthermore, under these conditions HLF could operate 12 nautical miles from the coastline.

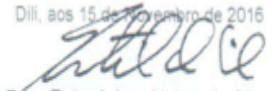
FM also found that HLF's fishing license lists the company's owner as a citizen of Timor-Leste named Delio Asunção Ximenes Texeira. Furthermore, HLF's fishing license belongs to the commercial type.

Hong Long Fisheries' Fishing License



REPÚBLICA DEMOCRÁTICA DE TIMOR-LESTE
MINISTÉRIO DA AGRICULTURA E PESCAS

LICENÇA DE PESCA COMERCIAL/COMMERCIAL FISHING LICENCE
PESCA INDUSTRIAL/INDUSTRIAL FISHING
N.º : LC.HLFE-A0019-B004-TL

Licença de Pesca Comercial/ Commercial Fishing License : INDUSTRIAL (1)		Ref: 1. Karta Pedidu 26/03/2016 2. Relatório Inspeção No. 164/DNIP/XI/2016	
Empresa/Company/Owner : Delio Asunção Ximenes Texeira		Espécies cuja captura é autorizada/Authorized accompaniment fauna	
Nome da Empresa/Name of the Company : Hong Long Fisheries, Lda. Rua Motaél Vera-Cruz, Dili Timor Leste		Percentagem de fauna acompanhante autorizada/ Percentage of authorized accompaniment fauna: (Diploma Ministerial N.º 03/05/GM/I/2005)	
Identidade do Capitão em Anexo/ Vessel Master Identification Attach :		Espécies cuja Captura é Proibida/Prohibited Species: (Diploma Ministerial Conjunto N.º.11/GM/VII/2015)	
Identificação da Embarcação/Vessel Identification :		Tamanhos e Pesos Mínimos de Espécies a Capturar/Size and the Minimum Weight of Species Caught Allowed: (Diploma Ministerial Conjunto N.º.12/GM/VII/2015)	
1 Nome da Embarcação/Vessel Name : Fu Yuan Yu 9621		1. Área de Pesca/Fishing Area:	
2 Porto de Registo da Embarcação/ Port of the Vessel Registration : Fuzhou China (RPC)		Cordenados/Cordinates	
3 N.º de Registo/Registration Number : 350100100060402		1. Costa Sul	Oeste: Lat/Long: 09°44'00"S - 125°22'00"E 11°19'00"S - 126°13'00"E Leste: Lat/Long: 08°49'00"S - 127°34'00"E 10°16'00"S - 128°24'00"E
4 Indicativo de Chamada/Call Sign : 412440476			
5 Com Pavilhão de/Flag of Country : Timor-Leste (3)			
6 Sinal de Identificação da Embarcação/ Vessel Identification Signal : HLFE 15 TL		2. Zona Proibida/Prohibited Area	
7 Artes de Pesca Autorizadas em Anexo/ Authorized Fishing-gears (Attach) :		1. E proibido pescar nas áreas menos de 18 NM da Costa/Not authorize to fishing below then 18 NM from coastal area. 2. Zonas protegidas, nos termos da lei ou dos respectivos planos de gestão/Prohibited areas, based on law or respective management plan.	
8 Tipo/Type : Rede Tres malhas (Tammel-net)		Porto Base/Port of Cheking Point: Cairaveia (Baucau) e Com. (Lautém)	
9 Número/Number : Anexo/Attach		Tripulantes/Crews :	
Nota/Note :		1. Leste-timorese/East Timorese 5 Pessoas/Persons 2. Estrangeiros/Foreigners 8 Pessoas/Persons	
Distribuição de Cópias para/Copies Distributed to :		Número de Transmissão/Transmission Number : Um (1)/One	
1 Direcção Nacional de Alfândega/ National Directorate of Custom;		Período de Validade da Licença/License Validity Period :	
2 Autoridade Portuária/ Port Authority;		Um (1) ano/One (1) year	
3 F-FDTL (Componente Naval)/ Timor-Leste Navy;		Validade da licença/This license is Valid from :	
4 PNTL (Unidade Polícia Marítima)/ Timor-Leste Marine Police;		15 de Novembro de 2016	
5 Chefe Capitania do Porto de Dili/ Dili Harbour Master;		Até /Until : 15 de Novembro de 2017	
6 Porto de Pesca Com/ Com Fishing Port			
7 Arquivo da Empresa/ Company Archives;			
8 Direcção Nacional de Quarentena e Bio-Segurança/ National Directorate of Quarantine and Bio-security;		Dili, aos 15 de Novembro de 2016	
9 Direcção Nacional de Emigração/ National Directorate of Emigration.		 Eng. Estanislau Aleixo da Silva Ministro	

Sources: Ministry of Fishing and Agriculture, 2017

FM determined that HLF's ships are foreign fishing vessels, not national fishing vessels or foreign fishing vessels based within the nation. Therefore HLF ships are prohibited from fishing in areas fewer than 18 nautical miles from the coastline.

This evidence means there is a high likelihood that HLF paid a Timorese citizen to help them obtain the fishing license. This violates Article 30 of Government Decree Law N.º. 6/2004, which states that commercial fishing licenses cannot be sold or rented to third parties.

Relationship between Hong Long Fisheries and Pingtan Marine Enterprise

Out of HLF's 15 ships, FM identified fishing licenses for only 3 of them. The embarkation identification for these 3 is described in the following table.

Table 02: Hong Long Fisheries Ships

No.	Commercial Fishing License	Name Embarkation	Registered Port of Embarkation	Flag of Country	Fishing Area
1.	Industrial Fishing, N.º: LC.HLFE-A0019-B004-TL	Fu Yuan Yu 9621	Fuzhou, China (PRC)	Timor-Leste	South coast; fishing prohibited in areas fewer than 18 nautical miles from coastline.
2.	Industrial Fishing, N.º: LC.HLFE-A0005-B003.2-TL	Fu Yuan Yu 9607	Fuzhou, China (PRC)	Timor-Leste	South coast; fishing prohibited in areas fewer than 18 nautical miles from coastline.
3.	Industrial Fishing, N.º: LC.HLFE-A0018-B004-TL	Fu Yuan Yu 9620	Fuzhou, China (PRC)	Timor-Leste	South coast; fishing prohibited in areas fewer than 18 nautical miles from coastline.

Source: Commercial Fishing license Hong Long Fisheries, Ltd.

The three ships identified in the above table are listed as HLF property in the HLF fishing license. However, FM found that these ships are identified as property of Pingtan Marine Enterprise Ltd. on Pingtan's Website.

The Pingtan Marine website lists these ships as Pingtan Marine's property.

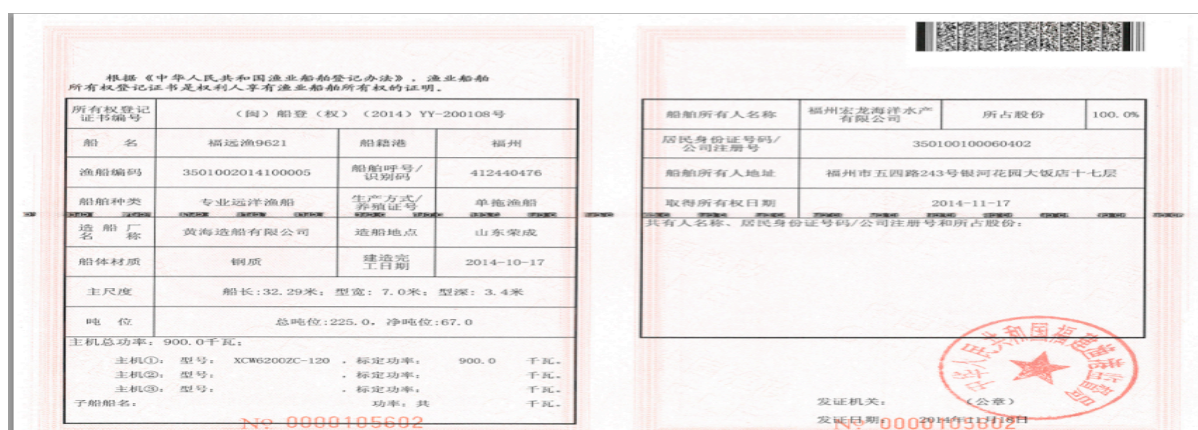


Our Vessels

Vessel Name	Former Name	Fishing Method	Area of Fishing	Completion Date	Gross Tonnage	Net Tonnage	Current Ownership Status	Ownership Certificate	Valuation Report
FU YUAN YU 9620	FU YUAN YU 776	Drift Net	Indo-Pacific waters	10/17/2014	225	67	In the process of transfer	Ownership Certificate	Valuation Report
FU YUAN YU 9621	FU YUAN YU 777	Drift Net	Indo-Pacific waters	10/17/2014	225	67	In the process of transfer	Ownership Certificate	Valuation Report
FU YUAN YU 9607	FU YUAN YU 761	Drift Net	Indo-Pacific waters	08/25/2014	225	70	In the process of transfer	Ownership Certificate	Valuation Report

Sources: Pingtan Marine Enterprise Ltd. Available here: <https://www.ptmarine.com/fishing-operations/our-vessels>

This same website also publishes the certificate of ownership for Pingtan Marine's ships. FM accessed the certificate belonging to the ship Fu Yuan Yu 9621.



根据《中华人民共和国渔业船舶登记办法》，渔业船舶所有权登记证书是权利人享有渔业船舶所有权的证明。

所有权登记证书编号	(闽) 船登(权) (2014) YY-200108号		
船名	福远渔9621	船籍港	福州
渔船编码	3501002014100005	船舶呼号/识别码	412440476
船舶种类	专业远洋渔船	生产方式/养殖证号	单拖渔船
造船厂名	黄海造船有限公司	造船地点	山东荣成
船体材质	钢质	建造完工日期	2014-10-17
主尺度	船长: 32.29米; 型宽: 7.0米; 型深: 3.4米		
吨位	总吨位: 225.0; 净吨位: 67.0		
主机总功率: 900.0千瓦;			
主机①: 型号: XCW6200ZC-120, 额定功率: 900.0 千瓦;			
主机②: 型号: , 额定功率: 千瓦;			
主机③: 型号: , 额定功率: 千瓦;			
子船船名: , 功率: 千瓦;			

船舶所有人名称: 福州宏龙海洋水产有限公司 所占股份: 100.0%

居民身份证号码/公司注册号: 350100100060402

船舶所有人地址: 福州市五四路243号银河花园大酒店十七层

取得所有权日期: 2014-11-17

共有名称、居民身份证号码/公司注册号和所占股份:

发证机关: (公章)

发证日期: 2014年11月17日

№ 0000105602

Sources: Pingtan Marine Enterprise Ltd. Available here: <https://www.ptmarine.com/fishing-operations/our-vessels>

The above facts prove clearly demonstrate the close relationship between HLF and Pingtan Marine. All the evidence indicates that Pingtan Marine used HLF in order to obtain a fishing license in Timor-Leste. Given Pingtan Marine's long history of criminal activity in the region, a front company provided a convenient means of obtaining a new license.

Criminal Activities of Pingtan Marine Enterprise

Aside from the aforementioned failure of Hong Long Fisheries Ltd (HLF) to disclose its relationship with Pingtan Marine Enterprise (PME) and the latter's banning from Indonesia, PME has been involved in criminal activities inclusive of investor fraud, poaching, human trafficking and forced labour (slavery), for the financial benefit of PME's Chairman⁵. These activities will be critically analysed, with a focus on determining the implications for Timor-Leste if the current investigations being conducted by the Public Prosecutor and Anti-Corruption Commission (CAC) and Ministry of Agriculture, Forestry's and Fisheries (MAFF) do not result in prosecutions and the cancellation of HLF/PME's fishing license in Timor-Leste.

Investment Fraud by Pingtan Marine

The NASDAQ-listed Chinese fishing giant, Pingtan Marine Enterprises (PME), is China's second largest distant water fishing fleet. However PME has a long history of engaging in activities to deceive its shareholders and clients, regarding its ownership, related party transactions, share values, licensing and the status of its fishing fleet. These activities include cases of class action lawsuits by investors in the US against NASDAQ-listed PME for large-scale investment fraud. These cases were lodged on 24 November 2014⁶ and 23 June 2017⁷.

Investor concerns were first raised about PME in the US in June 2014, following a detailed financial review by respected market analyst, Michael Sarcodote⁸:

"To the unwary, Pingtan Marine Enterprise (PME) appears to embody the best of the Chinese economic miracle: rapid growth, low valuations, and seemingly limitless future possibilities. Unfortunately, the shining growth story is clouded by worrisome bookkeeping, a corporate structure that seems designed to circumvent investors' legal claims, and huge related-party transactions that seem to transfer assets from shareholders to the CEO's family. While management has gotten rich from Pingtan Marine Enterprise, American investors will probably end up losing most or all of their money."

The report by Sarcodote was followed by a class action lawsuit against PME by investors, lodged in the Central District Court of California on 24 November 2014, for violation of federal security laws, alleging (among other actions):

"(4) Defendant Xinrong Zhuo's wife, Ping Lin, is the majority shareholder of Fuzhou Honglong Ocean Fishery Co. Ltd. ("Hong Long"). Pingtan and Hong Long engaged in many improperly disclosed related party transactions.

(5) Due to the failure to properly report these related party transactions, Pingtan's financial statements during the Class Period were materially false and misleading."

⁵ Aurelius Value, *Pintang Marine: A Fraud That Finances Human Trafficking and Poaching*, 2017, Retrieved 4/10/2017, <http://www.aureliusvalue.com/research/pingtang-marine-fraud-finance-human-trafficking-poaching/>

⁶ Legal class action lawsuit against Pingtan Marine Enterprises, lodged 24 November 2014 - http://www.rosenlegal.com/media/casestudy/201_2014-11-24-PingtangComplaintWEB.pdf

⁷ Legal class action lawsuit against Pingtan Marine Enterprises, lodged 23 June 2017 - http://securities.stanford.edu/filings-documents/1062/PMEL00_05/2017623_f01c_17CV03807.pdf

⁸ Seeking Alpha, Michael Sarcodote – Fishy Business at Pingtan Marine Enterprise (13 June 2014), <https://seekingalpha.com/pro/checkout/2265463?notice=pro>

On 10 May 2017, a more detailed, 4-month financial investigation by financial analyst Aurelius Value (conducted by Indonesian and Chinese investigators) alleged large-scale investor fraud (estimated at US\$910M) and related criminal activities, including forced labour, illegal fishing, and human trafficking schemes⁹. Investigation of contradictory statements by PME regarding the identity of its Chairman and CEO, both as Hong Kong national “Xinrong Zhuo”, and within Chinese documents as “Longxiong Zhuo,”¹⁰ has revealed *“that the Chairman and his family sit atop a syndicate of related party companies that variously engage in international crimes of fraud, poaching, and even human trafficking.”*¹¹

Further, financial statements submitted to the US Securities and Exchange Commission (SEC) by PME and analysed by Aurelius Value, reveals that PME has been *“used as a financing mechanism that has already funnelled \$910 million from investors to the syndicate though related party transactions that appear to be largely fraudulent.”* This analysis of transactions among the Zhuo family-owned companies financed by Pingtan (summarised below) helps to reveal the scale of PME’s fraudulent activities conducted against the interests of its shareholders, for the financial benefit of Xinrong Zhuo and family members.

Key Zhuo Family Companies Financed By Pingtan

Related Party	Comments	Ownership Disclosure
Fuzhou Honglong Ocean Fishery Company Limited	Received \$720 million from Pingtan through fraudulent ship transactions.	Majority owned and controlled by "Xinrong Zhuo's" wife.
PT. Dwikarya Rekasa Abadi	Indicted for serious crimes including human trafficking	Controlled by Zhuo Family, domiciled in Indonesia
PT. Avona Mina Lestari	Charged with forging documents and illegal fishing	Controlled by Zhuo Family, domiciled in Indonesia
Hai Yi Shipping	Owner of the MV Hai Fa which received an Interpol Purple Notice	An affiliate controlled by "Xinrong Zhuo"
Fuzhou Haoyouli Fisheries Development Co., Ltd	Recipient of poached fish and sharks registered to Pingtan's address	Controlled by a Zhuo Family Member, Sunqiang Zhuo
Hong Fa Shipping Limited	Has Received roughly \$60 million in payments for shipping services	Owned by "Xinrong Zhuo"
Haifeng Dafu Enterprise Co. Ltd.	Has received roughly \$10 million in payments for shipping services	Controlled by "Xinrong Zhuo"
Fuzhou Yishun Deep-Sea Fishing Co., Ltd	Has engaged in ship transactions with Pingtan	Owned by "Xinrong Zhuo"

Sources: Pingtan SEC Filings

Significantly, the financial investigation by Aurelius Value has led (again) to a major class action lawsuit by PME investors against NASDAQ-listed [PME](#) securities and some of its officers for investor fraud, filed in the District Court of California on 23 June 2017.¹² Rosen

⁹ Aurelius Value, *Pintang Marine: A Fraud That Finances Human Trafficking and Poaching*, 2017, Retrieved 4/10/2017, <http://www.aureliusvalue.com/research/pingtang-marine-fraud-finance-human-trafficking-poaching/>

¹⁰ Ibid

¹¹ Ibid

¹² Legal class action against Pingtan Marine Enterprise (Pingtan) & Fuzhou Honglong Ocean Fishery (Hong Long) for investor fraud – <http://www.rosenlegal.com/cases-1125.html>

Law Firm, a global investor rights law firm, filed the lawsuit on behalf of purchasers of the securities of PME, to seek to recover damages to PME investors for alleged violations by PME of US federal securities laws.

According to the lawsuit¹³, the defendants (PME) “made false and/or misleading statements and/or failed to disclose that: (1) Pingtan is banned from Indonesia; (2) Pingtan has used investor capital to finance illegal activity; and (3) as a result, Pingtan’s public statements were materially false and misleading at all relevant times. On May 10, 2017, Aurelius Value reported that Pingtan had concealed that it is banned from Indonesia and its involvement in, among other illegal activities, forced labor, illegal fishing, and human trafficking schemes. Following this news, Pingtan stock dropped \$1.16 per share or over 28% to close at \$2.95 on May 10, 2017, damaging investors.”

Failure to Disclose in Timor-Leste

In the case of Timor-Leste, the fishing license granted to HLF by MAFF is another case of fraudulent activity by PME, including failure to properly disclose its true identity and the relationship between HLF and PME. As such, FM contends that the Government of Timor-Leste was blatantly deceived into allowing PME to conduct unauthorised fishing in Timorese waters, under the auspices of a legitimate fishing license with HLF.

As with investors, HLF has failed to properly disclose to the Government of Timor-Leste:

- (1) The close business relationship between Hong Long Fisheries (HLF) and Pingtan Marine Enterprises (PME), i.e. Ping Lin, the majority shareholder of Fuzhou Hong Long Ocean Fishery Co. Ltd. (“Hong Long”) is the wife of Xinrong Zhuo (CEO of Pingtan Marine Enterprises); from June 1995 to September 2006, Xinrong Zhuo served as the supervisor at Fuzhou Hong Long Ocean Fishery Co., Ltd.¹⁴
- (2) PME and HLF have been banned from operating in Indonesian waters (since February 2015);
- (3) PME and HLF are currently being sued by the Indonesian Government for ‘fish theft’ (September 2015)
- (4) PME and HLF have been the subject of legal class action in the US (24 November 2014)
- (5) Dwikarya, another business affiliate owned by PME, has also been found guilty by Indonesia of illegal fishing and other criminal activities, including illegal trade in protected species, human trafficking and forced labour (5 October 2015)¹⁵

Significantly, PME’s failure to disclose is despite the Timorese Government actively seeking and receiving written assurance from HLF that PME was not involved in its fishing operations in Timor-Leste. This assurance was sought after Timor-Leste authorities had been alerted

¹³ Legal class action lawsuit against Pingtan Marine Enterprises, lodged 23 June 2017 -

http://securities.stanford.edu/filings-documents/1062/PMEL00_05/2017623_f01c_17CV03807.pdf

¹⁴ Xinrong Zhuo, Chairman and CEO, Pingtan Marine Enterprise Ltd - <https://www.ptmarine.com/about-pingtan-marine/board-of-directors>

¹⁵ Supreme Court of Indonesia, decision of Marine and Fisheries Minister of the Republic of Indonesia vs. PT. Mutual Dwikarya Abadi - <https://putusan.mahkamahagung.go.id/putusan/d815b0a618b4cdd85adac7d9e96901e8>

that PME had boasted of securing new fishing licenses in Timor-Leste in a public press release on 4 August 2016 to PME investors^{16,17}.

Following the granting of HLF licenses in Timor-Leste by the Government of Timor-Leste (4 August 2016), PME and HLF have continued not to disclose important information to the Government of Timor-Leste, including:

- (1) PME and its companies, including HLF, have (again) been alleged to have engaged in illegal fishing and mass investor fraud and used investor capital to finance other illegal activities, including poaching and trade in protected species, human trafficking and forced labour (Aurelius Report, 10 May 2017)¹⁸.
- (2) A HLF and PME vessel was apprehended and suspected of illegal shark fishing in the Galapagos Marine Reserve (13 August 2017)¹⁹. Importantly, the vessel, the *Fu Yuan Yu Leng 999* – was the same large mothership that was caught illegally fishing with HLF trawlers in Timor-Leste waters in February 2017. The container vessel contained ~6,600 frozen sharks (~300 tonnes), including protected and endangered species. There is strong evidence that 4 HLF and PME tuna longliners (Fu Yuan Yu 7866, Fu Yuan Yu 7861, Fu Yuan Yu 7865, and Fu Yuan Yu 7862) caught and provided the poached sharks to the transport ship²⁰. The crew of the *Fu Yuan Yu Leng 999* were arrested and imprisoned in an Ecuadorian jail. The ship was impounded (to be later sold off). On 28th August 2017, the 20 Chinese crew were convicted and received 1-4 years jail²¹ and the company fined US\$5.9M or A\$7.8M. News of the raid and convictions received global media coverage^{22,23,24}.

Following the Galapagos incident, PME has repeatedly publicly denied its ownership of the *Fu Yuan Yu Leng 999* and its close business relationship with HLF²⁵.

¹⁶PR News, 'Pingtang Marine Enterprise Obtains Access to Fishing Licenses from Timor-Leste - Company-Controlled Vessels Expected to Operate in Timor-Leste' – 4th August 2016 - <http://www.prnewswire.com/news-releases/pingtang-marine-enterprise-obtains-access-to-fishing-licenses-from-timor-leste-300309146.html>

¹⁷ Sydney Morning Herald, *Economy of scales: Depleted stocks force Asian fisherman into Australian waters*, February 25 2017, Retrieved 5/10/17, <http://www.smh.com.au/national/economy-of-scales-depleted-stocks-force-asian-fishermen-into-australian-waters-20170224-guklc2.html>

¹⁸ Op cit. Aurelius Value

¹⁹ National Geographic, 'Thousands of Sharks Found on Boat in Huge Illegal Haul' - <http://news.nationalgeographic.com/2017/08/wildlife-watch-galapagos-illegal-shark-fishing/>

²⁰ Caixin, 'How Did 6,223 Sharks End Up on Ship With No Fishing Equipment?' - <http://www.caixinglobal.com/2017-09-28/101151735.html?cxg=web&Sfrom=twitter>

²¹ Reuters, 'Ecuador jails Chinese fishermen found with 6,000 sharks' - <https://www.reuters.com/article/us-ecuador-environment-galapagos/ecuador-jails-chinese-fishermen-found-with-6000-sharks-idUSKCN1B81TS>

²² 'Chinese fishermen jailed for massive illegal fish and shark haul in the Galapagos Islands' - <http://www.news.com.au/technology/science/animals/chinese-fishermen-jailed-for-massive-illegal-fish-and-shark-haul-in-the-galapagos-islands/news-story/6498a0d0fa7d62b808f1383622c87aa9>

²³ <https://www.usatoday.com/story/news/nation-now/2017/08/29/chinese-crew-fined-jailed-after-ecuador-finds-thousands-protected-galapagos-sharks-onboard/600769001/>

²⁴ <http://www.independent.co.uk/news/world/americas/china-poachers-galapagos-islands-illegal-fishing-hammerhead-sharks-thousands-ecuador-prison-sentence-a7920361.html>

²⁵ <https://qz.com/1060639/galapagos-shark-fishing-bust-who-are-the-ghost-poachers-who-supplied-the-fu-yuan-yu-leng-999/>

However, detailed investigations by Aurelius (10 May 2017) and also, Caixin (4 September 2017)²⁶ reveal that Fuzhou Honglong (HLF) has [close links](#) to PME, and that the largest stakeholders of the two companies are members of the same family. Caixin further found Fu Yuan Yu 7861 and Fu Yuan Yu 7862 listed as vessels in the Pingtan Marine Enterprises' longline fishing fleet, in an 11 May 2017 press release²⁷ by the company. Authorities in Fujian province have also confirmed that the *Fu Yuan Yu Leng 999* belongs to Fuzhou Honglong Ocean Aquatic Products.²⁸

Pingtan Marine and Human Trafficking

PME through its Indonesian affiliate, Dwikarya, has been found guilty by the Indonesian Supreme Court of committing "*major crimes among which are forced labor and human trafficking*"²⁹. A certified translation of Indonesian Supreme Court documents obtained by Aurelius Value verifying this can be found below³⁰.

3. The boats conducted illegal transshipment;
4. The boats violated the fishing territorial area line (catching fish outside their territorial sea);
5. The physical condition of the boats is not in compliance with the Fishing Permit Requirement such as the boats conducted a mark down and used fishing equipment which is not according to the Fishing Permit Regulation (based on the findings during the field verification);
6. The boats are indicated to have committed major crimes among which are forced labor and human trafficking practice (based on the findings during the field verification and interview with the company);

Source: Certified Translation Page 5

The Threat to Timor-Leste

Although PME is not directly indicted by these documents, Indonesia's Minister Susi has indicated that PME's "*ownership, trade and management dealings*" with Dwikarya, Avona and two other Indonesian affiliates "*had violated the law to a serious extent*"³¹. Considering the widely documented evidence accrued by *Associated Press* and the *New York Times* regarding the nexus between IUU (illegal, unreported, and unregulated fishing), human trafficking, drug smuggling, money laundering and ocean murders³², FM remains highly concerned that the IUU conducted by HLF/PME in Timorese waters may have involved such activities, and that furthermore potential future IUU in Timor-Leste may involve the activities of organisations involved in transnational organised crime (OC).

²⁶ Caixin, 4th September 2017, Chinese Ship Accused of Ecuador Shark Smuggling Linked to Fujian Fishing Giant <http://www.caixinglobal.com/2017-09-04/101140487.html>

²⁷ Pingtan Marine Enterprise provides update on its operations - <https://www.prnewswire.com/news-releases/pingtan-marine-enterprise-provides-update-on-its-operations-300456083.html>

²⁸ Caixin, 28th September 2017, How Did 6,223 Sharks End Up on Ship With No Fishing Equipment? <http://www.caixinglobal.com/2017-09-28/101151735.html?cxg=web&Sfrom=twitter>

²⁹ Op cit. Aurelius Value

³⁰ Ibid.

³¹ Ibid

³² Ibid

The following quote from Aurelius Value highlights the real potential threats to human rights and Timor-Leste's national security that can be posed by IUU operators (like Pingtan Marine Enterprises) involved in transnational OC working and operating in Timorese waters:

Men and children from poor families are [tricked by traffickers](#) with false financial promises and then “drugged, kidnapped, and enslaved” on fishing boats [with](#) “horrific violence; the sick cast overboard, the defiant beheaded, the insubordinate sealed for days below deck in a dark, fetid fishing hold.” Similar accounts of sea-slavery, including “fellow workers shot and killed by the captain” have been reported by the [South China Morning Post](#) and [The Guardian](#)³³.

Significantly, neither HLF nor PME are currently able to credibly deny their involvement with such serious, organised transnational criminal activities and human rights violations.

Further, there is already one documented case of an ocean murder on a HLF vessel in Fiji in 2015, with details of the investigation by the Fiji Police Force found below³⁴. FM firmly believes further investigations will reveal additional evidence of HLF and PME organised transnational criminal activities and human rights abuses.

Police opens murder case

Mere Naleba
Thursday, August 20, 2015

POLICE have confirmed the Asian national whose body was rescued from the Chinese fishing vessel [Fu Yuan Yu #557](#) was murdered.

The deceased was with 63 other crew members of the vessel that was grounded on Mabulica reef in Gau last Thursday.

The suspect was also on board the vessel and was taken in by police soon after the crew members arrived in Suva on board the MV Lomaiviti Princess II late Friday afternoon.

Police spokeswoman Ana Naisoro confirmed police had established the [deceased was killed](#).

FU YUAN YU 557

Owner Name: [FUZHOU HONGLONG OCEAN FISHING CO.,LTD](#)
Owner Address: 17, GalaxyGardenHotel, 243WusiRd, Fuzhou
Master Name: Chen Qing Tan
Master Nationality: China
Reg Port: Fuzhou
Built in Country: Japan
Built in Year: 1997
Crew: 31

Source: Fiji Times, WCPFC

Financial Incentives for Cancelling Hong Long Fisheries License

The fishing license granted to HLF by MAFF was for a mere US \$312,450 for a 12-month period allowing up to 1500 tonnes of fish to be caught by the 15 vessel HLF fleet³⁵. However, PME itself has boasted that each of the 15 vessels it has operating in Timor-Leste can generate revenue of up to US \$3 million annually³⁶. Beyond PME already undertaking illegal and unregulated fishing in Timor-Leste, demonstrated by their targeting of protected species, use of drag and gill nets, and use of false flags, the financial loss for Timor-Leste cannot be

³³ Ibid

³⁴ Ibid

³⁵ Ministry of Agriculture, Forestry's and Fishing, Timor-Leste, February 2017

³⁶ Op cit. Sydney Morning Herald

underestimated, nor can the impact this is having on Timor-Leste's fish stocks and food security for a nation already experiencing high levels of malnutrition³⁷.

For a regional comparison of how other small regional states are regulating and protecting their fisheries, one only has to look to the Vessel Day Scheme (VDS) implemented by the eight member states of the Parties to the Nauru Agreement (PNA)³⁸. VDS is a fisheries "management system to conserve resources and secure economic benefits to the participating countries through sustainable development³⁹". VDS sets a specified number of days annually for licensed fishing operators to conduct tuna fishing, with a minimum daily per vessel of US \$8,000 for the privilege of fishing in the waters of PNA member states⁴⁰. Put into the Timorese context, a similar VDS for 15 fishing vessels per day would generate US \$120,000 per day, which is over a third of the annual revenue gained from the currently suspended HLF/PME license. Extrapolated to 30 days the revenue US \$3,600,000, and for 90 days US \$10,800,000. This would not only allow Timor-Leste to gain much greater financial benefits from licensing Foreign Fishing Vessels (FFV), but allow some time for Timor-Leste's marine ecosystems to recover.

However, it must be emphasised that the extent of the damage to Timor-Leste's marine ecosystems following IUU in Timorese waters has yet to be determined, and may in fact take generations to recover. The example of the VDS scheme has been used to illustrate the comparative lack of economic benefits Timor-Leste has gained from its license with HLF/PME, whilst illustrating the potential economic and ecological benefits Timor-Leste could gain from a implementing a similar arrangement.

Furthermore, PME's business model is indicative of why HLF/PME has failed to implement Phases 2 and 3 of the US \$110 million investment plan it proposed to MAFF⁴¹, with PME statements indicating that PME's strategy is to develop a whole of business chain, excluding other parties from participation and profit⁴².

Potential Directions and Mechanisms to Protect Timor-Leste's Marine Resources

For Timor-Leste to develop the sovereign capacity to protect its maritime resources and ensure its own maritime security a number of steps must be taken. Due to current capacity shortfalls in both fisheries management and maritime security, Timor-Leste is best advised to seek integration into existing regional fisheries management organisations (RFMOs) to leverage regional capacity, whilst developing and implementing a long-term strategy to develop a sovereign capacity for fisheries management and maritime security. The joint Australian-Indonesian initiative signed in 2007, known as the Regional Plan of Action (RPOA) to Promote Responsible Fishing Practices Including Combating Illegal, Unreported

³⁷ Edyvane, Karen, *Shifting the Problem: Illegal Fishing in Arafura and Timor Seas*, Presentation at the National University of Timor-Leste, 4 October, 2017.

³⁸ PNA Member states include the Federated States of Micronesia, Kiribati, Marshall Islands, Nauru, Palau, Papua New Guinea, Solomon Islands and Tuvalu.

³⁹ Republic of Kiribati, *Fishing License Revenues in Kiribati, 2015 Report*, Ministry of Finance and Economic Development and Ministry of Fisheries and Marine Resource, Development, 2015. P.9

⁴⁰ Ibid, p.13

⁴¹ Op cit. MAFF, February 2017.

⁴² *Pintang Ocean in the Ocean: Ocean Deep Sea Aquatic Products Market Growth: The Future Space is Very Large*, Chinese Shark Product Cooperatives. 2017

and Unregulated (IUU) Fishing in South East Asia (RPOA-IUU) and of which Timor-Leste is a member, provides a framework with which to combat IUU.

The Arafura Timor Sea (ATS) sub-forum within RPOA-IUU provides Timor-Leste an opportunity to learn from the successes of Australia and Indonesia in combatting IUU, and leverage monitoring and surveillance support and training in vessel inspections, monitoring and control, from its neighbours. Under the RPOA-IAA, Australia and Indonesia have already progressed an Australia-Indonesia civil maritime security partnership under the Civil Maritime Enforcement and Security Partnership (CMESP) (29 signed in September 2015). This partnership includes training and development assistance; information and intelligence sharing; and also, operational cooperation. It has also resulted in the first, successful joint Australia-Indonesia illegal fishing patrols, conducted in August 2016.

As it stands Timor-Leste has very limited capacity to patrol and protect its waters due a lack of a sustainable offshore patrol boat capability. It also lacks the necessary expertise in fisheries management to regulate and control commercial fishing (domestic and international). Therefore, Timor-Leste must be prepared to accept the assistance of its neighbours in the interim to do so, whilst developing sovereign capacity over the long-term. To this end, FM strongly urges Timor-Leste to developing a maritime security and enforcement cooperation with Australia and/or Indonesia, using the successful CMESP model.

In addition, with the clear links between illegal fishing (particularly shark fishing and shark fin trade) and other major transnational crime, such as human trafficking, forced labour, poaching and trade in marine protected species, international agencies, such as Interpol and CITES can provide Timor-Leste with much-needed, specialised support and training in tackling international fisheries crime (i.e. licensing, inspections, intelligence gathering, investigations).

In investigating the current illegal fishing incident by Hong Long Fisheries in Timor-Leste's waters, FM firmly believes that the issue of granting of the license and any fisheries violations are two separate issues. Instances of corruption by MAFF in the granting of the license to HLF should be investigated and prosecuted to the full extent of the law. As a China-based company, the People's Republic of China (PRC) should be approached for assistance in investigating and prosecuting any fisheries violations against Hong Long Fisheries (and/or its parent company, Pingtan Marine). Importantly, the PRC has shown a strong commitment (and swift action) in tackling IUU fishing in its distant water fleets. Just last year, with support from Sea Shepherd, the PRC investigated and prosecuted a similar, Fuzhou-based trawler (Fu Yuan Yu 076) for illegal shark fishing in the Indian Ocean, under Operation Driftnet.⁴³

A long-term education and training strategy is also vital for effective maritime security and fisheries management in Timor-Leste. To this end, there is an urgent need for tertiary-level education and training in sustainable fisheries management, marine science, maritime law and oceans management.

With Timor-Leste's critical food insecurity and increasing domestic seafood consumption identified as a major development priority, developing Timor-Leste's domestic fisheries (small-scale and industrial) must be a national development priority. FM firmly believes that

⁴³ Operation Driftnet - <http://www.opdriftnet.org/>

Timor-Leste's valuable but limited fisheries resources should, as a priority, be developed to feed the people of Timor-Leste, not to provide cheap seafood to the growing middle-class market of China and the Asia-Pacific region. As such, developing fisheries as an international export industry (through fisheries development cooperation and agreements with foreign operators, such as Hong Long Fisheries) is a major threat to Timor-Leste's food security and should not be a government priority and should be discouraged.

Specific Recommendations by FM:

- 1) Hong Long Fisheries fishing licenses should be cancelled permanently, due to Hong Long Fisheries ongoing dishonesty and its repeated failure to disclose its close relationship with their 'parent company', Pingtan Marine Enterprises (and their affiliate companies) and their previous criminal history. This includes the failure to disclose PME's banning from Indonesian waters, prosecution by the Indonesian Government, history of illegal shark fishing, and other serious international criminal activities (i.e. large-scale investor fraud, human trafficking, forced labour, poaching and trade in protected species).
- 2) The entire HLF fishing fleet (15 vessels) should be seized and forfeited for use by Timor-Leste in the development of Timor-Leste's domestic industrial fishing fleet. Vessels should have their destructive fishing gear (i.e. trammel nets, which destroy benthic habitats) removed and their fisheries gear re-purposed for sustainable offshore fishing. Further, Timor-Leste should seek development and training support to develop its offshore fisheries resources for the domestic market, either under the RPOA-IUU and/or through international bilateral cooperation. Consideration should also be given to re-purposing several of the vessels as interim offshore patrol boats for the Timor-Leste security sector.
- 3) Timor-Leste should seek urgent cooperation and ongoing development and training assistance from Australia and Indonesia, under the RPOA-IUU, to develop a Civil Maritime Enforcement and Security Partnership (CMESP), to improve its maritime enforcement and security capability and maritime assets, and also, as a matter of priority, to build capacity in fisheries licensing, regulations, enforcement and control (domestic, international, IUU fishing).
- 4) In the interim, as a matter of priority, Timor-Leste's security sector should be provided with a suitable and sustainable Offshore Patrol Boat capability and surveillance/enforcement training to allow for sovereign protection of Timorese waters.
- 5) Timor-Leste should seek urgent development and specialised training assistance from Interpol (Singapore) in tackling international fisheries crime (i.e. licensing, inspections, intelligence gathering, investigations). This activity could also be supported and coordinated under the RPOA-IUU and a CMESP.
- 6) Corruption by MAFF in the granting of the license to HLF should be investigated and prosecuted to the full extent of the law. As a China-based company, the People's Republic of China should be approached for assistance in investigating and prosecuting any fisheries violations against Hong Long Fisheries (and/or its parent company, Pingtan Marine).



- 7) Tertiary-level curriculum development and training in sustainable fisheries management, marine science, maritime law and oceans management should be introduced and supported by the Ministry of Education, as a national education priority, to ensure an effective long-term strategy to build Timor-Leste's capacity in fisheries management, marine science, maritime law and ocean management.

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