

Timber Trade Flows and Actors in Myanmar

The Political Economy of Myanmar's Timber Trade

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List of Acronyms

AAC	Annual Allowable Cut
CoC	Chain of Custody
CFI	Community Forestry Instructions
EC	European Commission
EFI	European Forestry Institute
EUTR	European Union Timber Regulations
FLEGT	Forest Law Enforcement, Governance and Trade
ITTO	International Tropical Timber Organization
MOAI	Ministry of Agriculture and Irrigation
MOECF	Ministry of Environmental Conservation and Forestry
MSS	Myanmar Selection System
MTE	Myanmar Timber Enterprise
MTMA	Myanmar Timber Merchants' Association
UMFCCI	Union of Myanmar Federation of Chamber of Commerce and Industry
VLO	Verification of Legal Origin
VPA	Voluntary Partnership Agreement

Executive Summary

Myanmar timber can be generally categorized as coming from five possible sources, each with their own associated geographies and actors. Each of these five categories is deserving of their own careful attention in terms of legality, sustainability, and local land rights. To date, much of the dialogue on the sourcing of Myanmar timber – particularly the world-famous Burmese teak – has focused on just one of these streams: the government-managed teak forests located in the central plains. Myanmar's newly branded Ministry of Environmental Conservation and Forestry (MOECAF) and the state-backed Myanmar Timber Merchants Association (MTMA) have been reaching out to western governments and importing timber companies that this timber is, or could be with relatively small implementation improvements, legal and backed by satisfactory due diligence processes.

This report provides detail on the greater complexity of Myanmar's timber trade in the face of a more simple and inaccurate narrative that is currently gaining traction. The dynamics of all five timber sources and associated actors needs to be better understood – their legality, sustainability, and ethics – as the timber that is being exported is usually an amalgamation of all possible wood sources. Western governments, development agencies and international buyers seeking to ensure compliance with import regulations or retailer purchasing policies need to better understand these complexities.

This report describes geographic origin of timber, the movement of the timber within the country and across borders, actors involved in the harvesting, processing and trade, and the politics that together determine Myanmar wood's legality, sustainability and ethical sourcing. The overall findings of the report tracing the political economy of timber trade in Myanmar are as follows:

1. **Origin of Harvest:** Five different potential timber sources exist in the country, each with their own degrees of legality, sustainability, land rights regimes, and ethical sourcing.
 - a. State-managed (Myanmar Timber Enterprise, or MTE) forests, largely consisting of teak;
 - b. Logging concessions in natural forests, mostly in ethnic conflict areas;
 - c. Land conversion in natural forests, predominately driven by agribusiness concessions, mostly (but not exclusively) in ethnic areas, and also known as “conversion timber”;
 - d. Tree plantations, which is very limited in extent so far due to a host of political and economic factors; and
 - e. Community forests, which so far are not allowed to conduct commercial harvesting.
2. **Natural forest areas:** Despite official government claims of sourcing exclusively from state-managed forests and, to a lesser extent, tree plantations, it is highly likely that a significant percentage of Myanmar's wood exports are sourced from natural forests - from land conversion as well as logging concessions. As the natural forest frontier recedes, the northern Sagaing Region between Northeast India and Kachin State and areas of southern Kachin State have become the last logging frontiers in government-controlled areas. Most natural forests are situated in ethnic borderlands within existing post-war conflict zones, particularly along the Thai border (Kayah / Karen State and Tanintharyi Region) and China border (Kachin State). The type and degree of conflict may change as the country's non-state armed groups operating in the border areas have signed new ceasefire deals with the current government. However these ceasefires are tentative, little political dialogue has yet ensued, and in some post-war areas a new wave of land conflicts and increased Burmese militarization are sparking renewed local grievances.
3. **Mixing of timber:** The timber sourced from these different streams is typically mixed into the same timber pool for export from Yangon. The government does not differentiate these varied sources of commercial wood destined for export (natural, plantation, managed forests). This presents a major obstacle for Myanmar wood to enter legal timber markets in Europe and North America, and must be addressed.

4. **Actors:** Different actors are involved in each particular timber trade flow, each with their own political connections and financial backing.
 - a. Myanmar Timber Merchants Association (MTMA), a state-backed private timber business association
 - b. Large, influential domestic conglomerates (i.e., “crony companies”)
 - c. Global timber traders exporting via Yangon, typically based in Asian financial hubs
 - d. Cross-border timber traders, from Myanmar, China and Thailand
 - e. Yangon-based domestic timber traders / processors
5. **Legality and Point of Export:** All wood is considered legal if it has the stamps of the state-owned Myanmar Timber Enterprise (MTE) under the Ministry of Environmental Conservation and Forests (MOECAF) and is exported via Yangon’s seaports. In recent years, the Myanmar government has made significant attempts to ensure that timber is transported to and exported out of Yangon’s ports, a policy designed to deprive timber revenues away from non-state ethnic armed groups in the border regions. Despite the progress the government has made in capturing timber revenues in this way, timber is still being smuggled across the Chinese and Thai borders, especially from logging concessions in natural forests in ethnic areas, which is illegal according to the laws of both Myanmar as well as importing border countries such as Thailand¹ and China² who have made respective declarations against overland wood trade from Myanmar. Several non-state armed groups in Myanmar’s borderlands have also declared a ban on logging in their territories of influence, although this is rarely followed in practice. However, loopholes allow for high-level Myanmar officials to make legal exceptions for some overland log exports.
6. **Legality and Sustainability:** Legality of Myanmar forest products is not correlated to sustainability or environmental impact. Community forests which have the highest potential to be sustainable cannot yet legally export timber, and very little timber from tree plantations is on the market yet. The highest volumes of timber are being sourced from the least sustainable harvesting practices. This raises serious concern for the exclusive use of legality as a measure of good forest governance and timber regulations.
7. **Land Rights:** For four of the five forest categories examined in this report (tree plantations, state-managed forests, logging concessions and agro-forest conversions), local communities have no land or resource use rights according to Myanmar national laws and policies. Forest estates, and especially logging concessions, have been demarcated on land originally under the customary control and authority of local communities. Land conflicts have become one of the central issues currently confronting the Myanmar reform government and will be a topic of forthcoming Forest Trends reports.

It has long been published that the military and government allocate logging concessions to Burmese “crony” companies in the disappearing frontier forests of the country. During the current reform period, however, more attention has been strategically diverted to the state-managed Myanmar Timber Enterprise (MTE) teak forests to convince western importers of the sound legal status of exported Burmese timber. It is imperative, especially at this crucial time when new timber trade regimes are established in Myanmar, to highlight the different sources, actors, geographies and politics involved in the country’s timber trade - and the concerns this raises for focusing on only one state-sanctioned timber flow as well as a simple legalistic approach. A political economy approach, in contrast, allows going beyond a narrower rendering of timber trade defined by only legality to broaden considered factors such as politics, sustainability, local rights and ethical sourcing. A more comprehensive understanding of the political economy of timber trade in Myanmar, as well as international market demand for only verified legal and/or sustainable wood products, could help facilitate a restructuring of the forestry sector by promoting greater transparency, accountability and good land governance.

¹ Under current Thai regulations relating to the import and domestic transport of timber, in order for Thailand to *legally* import Myanmar timber, wood must be shipped by sea via Yangon with proper Myanmar government permits. The Thai government can apparently give special exemptions for Myanmar log imports across the shared land border, but this has occurred infrequently in the past decade. Processed wood, especially teak furniture, can be legally imported across the Thailand border with the correct paperwork to verify it has been sourced and processed in Myanmar. In practice, however, smaller quantities of unprocessed logs cross overland without Thai governmental approval (Woods, K. and K. Canby, 2011).

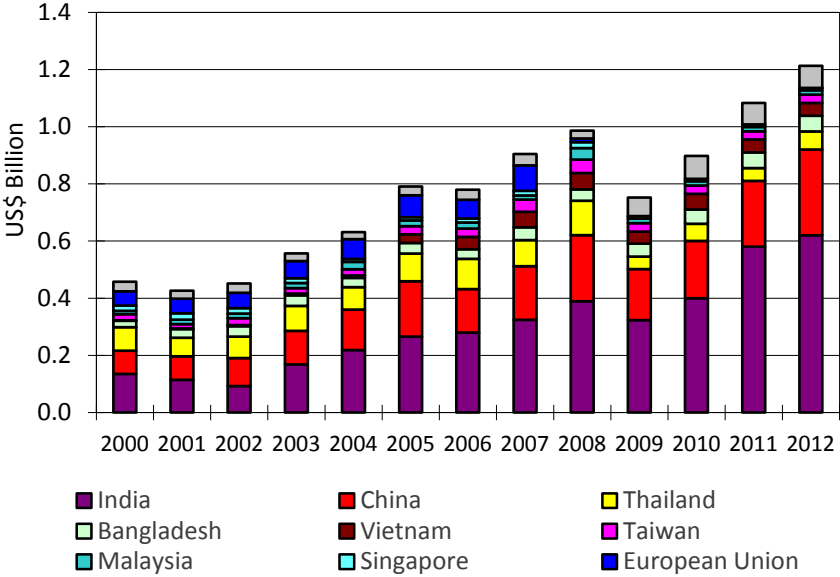
² “Interim measures to manage timber and mineral cooperation between Myanmar and Yunnan Province.” Issued by Office of Yunnan Provincial People’s Government on 11 May 2006. Policy reference number: Policy Office, Yunnan [2006] 91. See also Xinhua, 2006.

Timber Trade Exports

Official Timber Trade

According to official trade statistics from recipient countries, India now represents the largest market for Myanmar timber by volume and value (see Figure 1). The International Tropical Timber Organization (ITTO) Monthly Information Services (MIS) reports that 80 percent of all teak and hardwood ocean shipments from Myanmar go to India. Thailand and especially China now import declining volumes of Myanmar timber by sea, according to official statistics. This does not take into account, however, unofficial timber trade across Myanmar's national borders with China, Thailand and India.

Figure 1: Myanmar Timber Products Exports by Country, 2000-2012 (Billion US\$)



Source: European Forestry Institute, as compiled by James Hewitt, 2013.³

Although the official trade data does not show any significant exports of Myanmar timber to Malaysia, numerous interviews with Myanmar and Thai traders as well as ex-officials report that Malaysia serves as a major hub for the trade of Myanmar timber.⁴ A substantial amount of Myanmar natural timber, especially teak, is being imported by Thailand and perhaps other countries, particularly via Malaysia and may even be relabeled as Malaysian-sourced. The Myanmar-Malaysia timber trade has not been studied in any detail and remains a large gap in understanding of regional timber trade.

The United States (US) and European Union (EU) are not significant *direct* importers of Myanmar forest products, reflecting the impacts of past EU and US timber sanctions. However, it is highly likely that Myanmar wood is being re-exported to US and EU markets after being processed from China, Malaysia, Thailand and Vietnam, although it is difficult to track this information systematically.

Since the US and EU temporarily suspended Myanmar sanctions in 2012, timber trade flows to these markets are expected to correspondingly shift. However, it is too early and difficult to tell how the Myanmar government, timber traders and the market will exactly respond to these new market opportunities. The United States, European Commission (EC) and Australia all have new legislation requiring the demonstration of the legality of

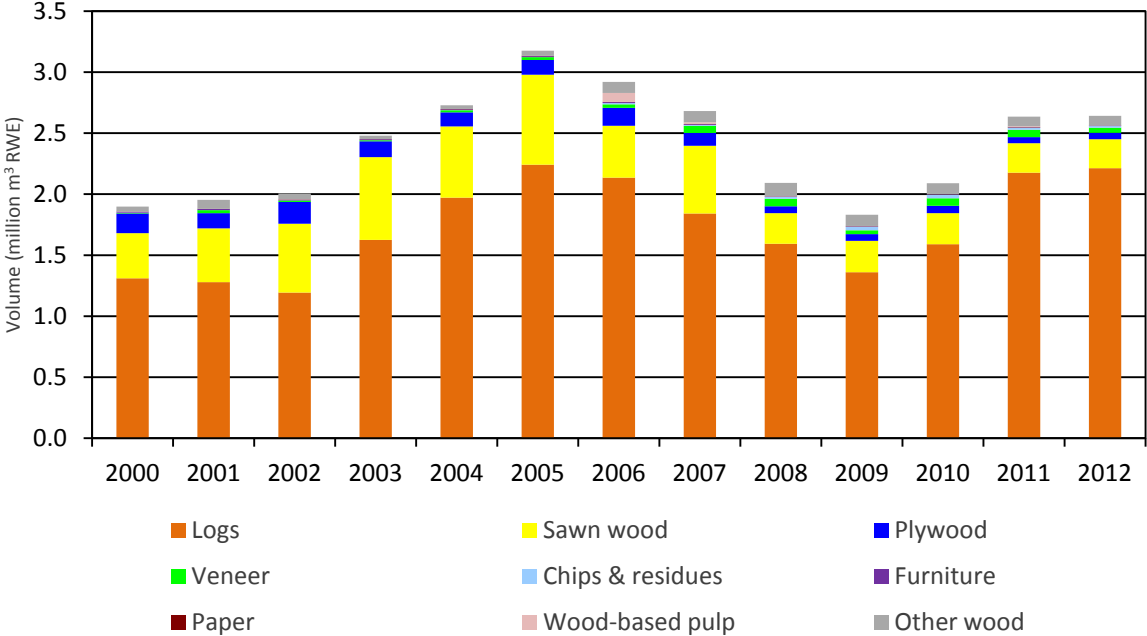
³ All trade statistics compiled by James Hewitt for the European Forestry Institute (EFI), unless otherwise noted. The government of Myanmar does not publish bilateral trade statistics. Consequently, importing country statistics have been used to assess Myanmar's exports. The sources of the trade statistics used include: General Administration of Customs of the People's Republic of China (for China), Eurostat (for imports by EU member states), Japan Customs (for Japan), Korea Customs Service (for South Korea), Tradeline Philippines (for the Philippines), Directorate General of Customs (for Taiwan), Customs Department of the Kingdom of Thailand (for Thailand), United States International Trade Commission Dataweb (for the USA) and UN Comtrade. Vietnam chooses not to publish bilateral trade statistics other than in units of import and export value. Volumes and weights have consequently been estimated herein. Laos chooses not to publish trade statistics. Its trade in wood-based products with Myanmar is assumed herein to be zero. Source data for the imports of some countries during some years (e.g. Bangladesh 2008-2012 and Vietnam 2012) have not yet been published but are assumed here.

⁴ Woods, K. and K. Canby, 2011.

the wood entering these markets. Within Myanmar’s forest institutions, there has been a focus on demonstrating that Myanmar timber can be in compliance with the new 2013 EU Timber Regulation (EUTR) due to the outreach provided by the European Commission (EC) and European Forestry Institute (EFI), as well as dialogue about a potential Forest Law Enforcement, Governance and Trade Voluntary Partnership Agreement (FLEGT VPA) between the EC and Myanmar. There is considerable political will among top Myanmar forestry officials and timber traders to review the efforts needed for Myanmar wood to legally access EU markets.

Currently, round wood – especially teak – and to a much less extent sawnwood, are the main timber product exports. Although both overall forest exports and round log exports reached a peak in 2005 in terms of volume, the value of total exports in 2007 was much higher than in 2005 due to the government setting higher prices for Myanmar wood, especially teak.⁶ Very few value-added timber products are exported, reflecting a domestic processing industry that has languished due to a lack of proper business environment (lack of continual electricity, difficulty in obtaining necessary permits, etc.) and the relative profitability of raw log export sales. With a log export ban scheduled to take effect in April 2014,⁷ many are wondering how the domestic industry will be able to respond to demands for even rudimentarily processed sawn logs.

Figure 2: Myanmar Timber Product Exports by Volume (million m³ RWE)



Source: European Forestry Institute, as compiled by James Hewitt, 2013 (see Footnote 3).

Points of Export and Legality of Exports

During the 1990s, following Thailand’s “turning battlefields into market places,” the Myanmar-Thailand border (predominately Kayin / Karen State) was a hotbed of illegal (“non-state”) timber extraction and cross-border trade with Thai business involvement. In the late 1990s until the mid-2000s, following a ceasefire with the main non-state Kachin armed group, the center of non-state logging and cross-border trade shifted north to the Myanmar-China border in Kachin State.⁸ Since the mid-2000s, however, timber extraction has been increasingly directed through military-state channels and their preferred private businessmen (known as “crony companies” by Burmese) and then legally exported on ships out of Yangon ports.⁹

⁶ Woods, K. and K. Canby, 2011.

⁷ Eleven News, 2012; interview with forestry officials, Yangon and Naypyitaw, October 2012 and July 2013.

⁸ Global Witness, 2005; Woods, 2011.

⁹ Millieu Defensie, 2009.

All wood is considered legal if it has the stamps of the state-owned Myanmar Timber Enterprise (MTE) under the Ministry of Environmental Conservation and Forests (MOECAF) and is exported via Yangon's seaports. The state's requirement to channel timber trade flows down to Yangon was in part designed to deprive timber revenue away from non-state ethnic armed groups based in border regions where the state had little or no control. This has had the effect of increasing the volumes of timber exported via Yangon and state capture of timber rents, although a considerable amount of timber is still exported by land illegally across national borders by both military-state and non-state armed groups. Over the past five years, the government has made considerable progress on capturing timber revenue that had previously been lost due to smuggling across the Thailand and China borders.

Over the years, there has been much speculation about the extent of illegal exports of Myanmar timber, especially over the Chinese border. Official government recognition of the problem of illegal logging and its associated trade typically refers to smuggling operations that occur in overland border areas, such as with China and Thailand.

In mid-2006, the Chinese and Myanmar national governments made a bilateral agreement to clamp down on cross-border timber trade – estimated at 1 million cubic meters at that time¹⁰ – after much international embarrassment and domestic pressure.¹¹ Although the illegal cross-border trade considerably decreased after the crackdown, the trade has dramatically picked up again, although probably below previous high levels. Since the time of the selective cross-border timber ban, China has continued to record lower volumes of Myanmar timber, while exports to India have been steadily increasing.

India has since replaced China as the major legal importer of Myanmar wood according to official importing country statistics, although this does not take into account leakage across the China (and indeed India) border. A Forest Trends field visit to the China-Burma border in April 2013 witnessed hundreds of Chinese timber trucks crossing the Burma border with very large old-growth hardwood logs from Burma. Forest Trends believes that this uptick in activity may be due to harvesters and traders taking advantage of a window of opportunity of reduced fighting between the Kachin Independence Army (or KIA, the main non-state armed group in the area) and the Burma Army, prior to the seasonal monsoon rains, and in advance of the expected April 2014 log export ban.

Sustainability, Local Land Rights, and Ethical Sourcing

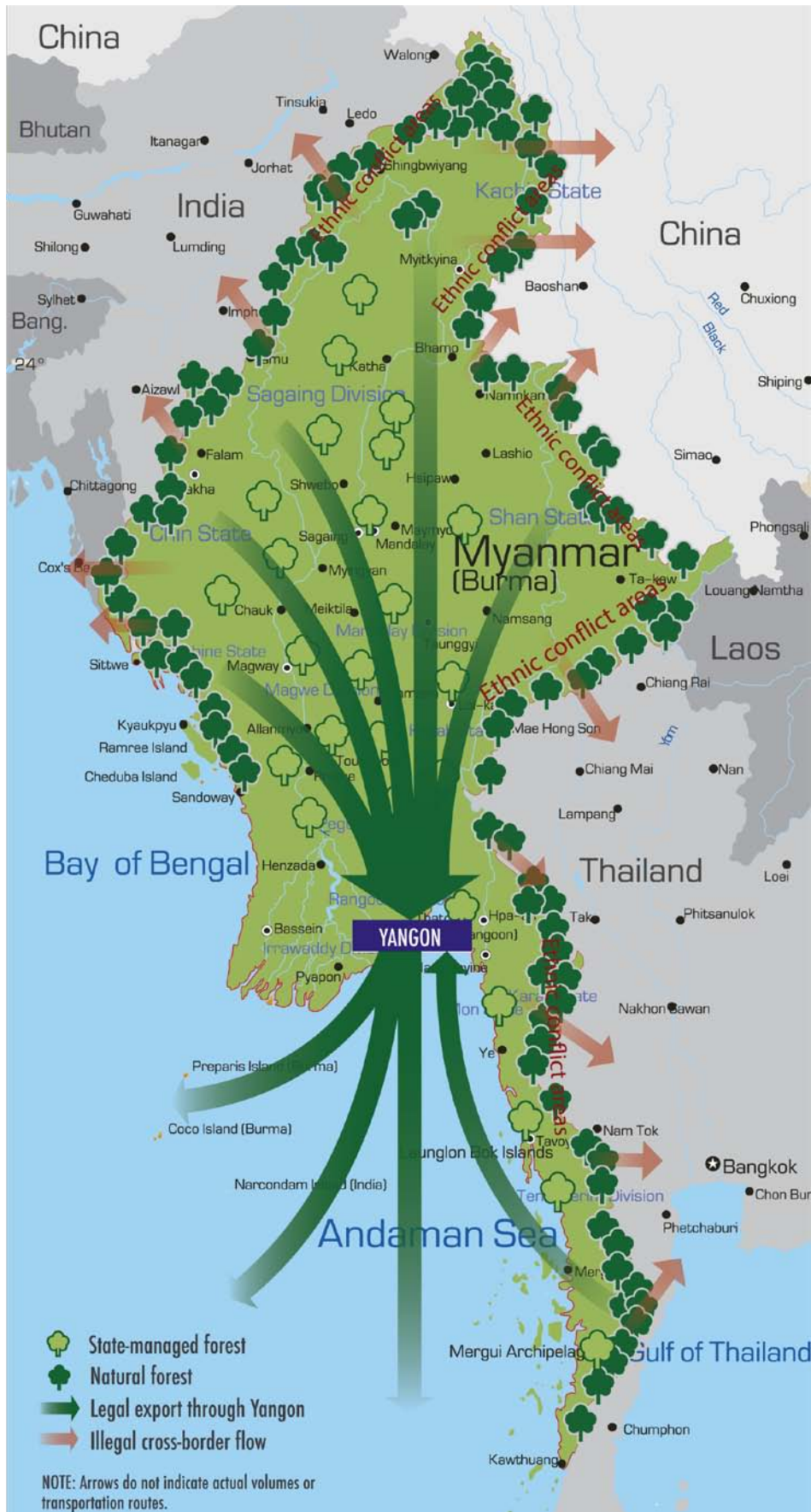
Other approaches and criteria can be used to ascertain important aspects of sourcing timber from Myanmar, in particular sustainability and local land rights regimes. Different timber sources have quite different sustainability measures, for example. Community forests and tree plantations have potentially very high sustainability measures. State-managed forests, if implemented properly according to the well-regarded Myanmar Selective System (MSS), could also be quite high. However, logging concessions in natural forests, due to poor practice and management standards, are likely low in sustainability. Forest conversion can be considered unsustainable for forest ecosystem services and products due to the conversion of land to a non-forest use. These different sustainability measures - from high to none - can be legal or illegal, pending MTE permits. For example, community forests which have the highest potential to be sustainable cannot yet legally export timber, and very little timber from tree plantations is on the market yet. The highest volumes of timber are being sourced from the least sustainable harvesting practices. This raises serious concern for the exclusive use of legality as a measure of good forest governance and timber regulations.

Local populations have very little to no land rights to forested habitat. Only in community forests do local communities have any land use rights afforded to them, in conjunction with the local forest department. For all the other forest categories examined here - tree plantations, state-managed forests, logging concessions and agro-forest conversions, local communities have no land or resource use rights according to Myanmar national laws and policies.

¹⁰ Global Witness, 2005.

¹¹ "Interim measures to manage timber and mineral cooperation between Myanmar and Yunnan Province." Issued by Office of Yunnan Provincial People's Government on 11 May 2006. Policy reference number: Policy Office, Yunnan [2006] 91. See also Xinhua, 2006.

Map 1. Logging Areas and Timber Flow in Myanmar



This map indicates the general areas for logging in natural forest areas in ethnic conflict border areas versus predominately state-managed teak forests in central Myanmar, as well as illegal overland timber trade versus the legal export point via Yangon.

Forested estates, and especially logging concessions, were demarcated on land originally under the customary control and authority of local communities. Both past and present land conflicts have become one of the central issues currently confronting the Myanmar reform government.¹⁴ Forest Trends will explore this issue of local land rights for different forest land categories in a future policy briefing in order to better explain the importance of local land rights regimes in promoting good governance.

Relying upon sustainability indices and local land rights regimes highlights the problem with over-relying upon a legalistic approach alone if the goal is to achieve good forest governance and practices. International forest regulatory bodies and treaties must respect Myanmar's national sovereignty and therefore follow Myanmar's national forest laws and policies to gauge timber legality, but this raises issues given the state of the country's current laws and lack of a strong rule of law.

Sourcing of Wood

Conversion timber from natural forest areas is likely the largest single source of timber in Myanmar, especially for non-teak high value timber. High-quality teak logs for which Myanmar is famous are probably mostly harvested in government-managed forests, although supply, size and quality have been dwindling over the years due to severe over-harvesting. The relative importance of each timber source is unclear due to inadequate or conflicting government data. The government does not differentiate these varied sources of commercial wood destined for export (natural, plantation, managed forests). This presents a major obstacle for Myanmar wood to enter legal timber markets in Europe and North America, and must be addressed.¹⁵

Myanmar timber could be sourced from any of five different commodity streams outlined below:

1. **State-managed (Myanmar Timber Enterprise) forests:** Government-managed forests under the Myanmar Timber Enterprise (MTE) that are targeted for systematic timber extraction are predominately located in Burma-dominated lowland areas.¹⁶ The central government (and the previous colonial regime) has long held control over these areas. These forests are supposedly managed under the relatively well-respected Myanmar Selective System (MSS) with its calculated Annual Allowable Cut (AAC), but the government acknowledges that the MSS has not been followed in practice for the past several decades due to political and financial pressures. These state-managed forests are likely to be the first which will be brought to the attention of those seeking to certify Myanmar timber under an internationally or nationally recognized standard that could demonstrate compliance with the EUTR or US Lacey Act.

These managed forests include areas north of Yangon Region up to the northern stretches of the Central Dry Zone, parts of Rakhine and Kayin States under government control, and north of the Central Dry Zone, mainly in Sagaing Region.

2. **Natural forests - Logging concessions (mainly in ethnic conflict areas):** The Myanmar government (the MTE) largely does not administer most logging concessions in the natural forests in non-state areas (e.g., ethnic border areas), and therefore the timber harvested in these areas is not MTE-approved (i.e., "illegal"). These areas which are not under central government control instead fall under the territorial zone of influence of non-state armed groups who manage the forestlands both for logging revenue and in some cases for conservation purposes.¹⁷ Logging concessions in both government and non-government controlled ethnic areas are predominately allocated by and to local elites, which includes local Burmese military and state officials as well as local ethnic leaders (usually with strong ties to non-

¹⁴ See, for example, TNI, 2013. *Access Denied: Land rights and ethnic conflict in Burma*. Policy Briefing No. 11. May.

¹⁵ Woods, K. and K. Canby, 2011.

¹⁶ Burman refers to the country's ethnic majority, which is the ethnicity that dominates government and military positions. The country's ethnic nationalities comprise of the Kachin, Shan, Karen (Kayin), Karenni (Kayah), Mon, Rakhine and Chin, plus well over one hundred other less dominate (sub-) ethnicities that reside in Myanmar.

¹⁷ See, for example, KESAN, 2008.

state armed groups). Most of this timber is then illegally transported directly across the national border, in this case China or Thailand.

Increasingly the Myanmar central government and/or military are allocating logging concessions in natural forests in ethnic territories to their preferred “crony” companies, especially those involved in infrastructure development projects (e.g., dams, roads, etc.) in those areas (see below). This timber could be exported across the border (possibly legally if permits are obtained from top officials) or down to Yangon for legal export by sea.

Table 1. Logging in Myanmar’s Natural Forests: Differences between Logging Concessions and Land Conversion

	Logging Concessions	Land Conversion (“Conversion Timber”)
Geography	<ul style="list-style-type: none"> • Predominately in ethnic conflict areas 	<ul style="list-style-type: none"> • Predominately in ethnic conflict areas, but also in non-ethnic states (e.g., Sagaing Region and Tanintharyi Region).
Permit: (Granted from, taxed by)	<ul style="list-style-type: none"> • National and regional Myanmar military • MTE • Para-militaries • Non-state armed groups 	<ul style="list-style-type: none"> • National and regional Myanmar military • Ministry of Agriculture & Irrigation • MTE • National Burmese Military • Para-militaries • Non-State armed groups
Harvesting + Trading	<ul style="list-style-type: none"> • “Crony” companies • Local political-economic elites • Para-militaries • Non-state armed groups • Cross border companies (in ethnic border areas) 	<ul style="list-style-type: none"> • “Crony” companies • Local political-economic elites • Para-militaries • Non-state armed groups
Legality	<ul style="list-style-type: none"> • Legal with MTE permits • Wood transported across the border is illegal (unless special exemptions given) 	<ul style="list-style-type: none"> • Legal with MTE permits • Wood transported across the border is illegal (unless special exemptions given)
Sustainability	<ul style="list-style-type: none"> • Clear-cut or selective logging for valuable hardwoods. • No management plan or replanting. 	<ul style="list-style-type: none"> • Clear-cut and/or burn
Local Land Rights	<ul style="list-style-type: none"> • Customary land rights not acknowledged • State-sanctioned community forestry rights oftentimes not recognized 	<ul style="list-style-type: none"> • Customary and sometimes statutory land rights not acknowledged • State-sanctioned community forestry rights oftentimes not recognized

3. **Natural Forests – Land Conversion:** Forest clearing prior to the development of land concessions for agricultural plantations, hydropower, mines and road projects (“conversion timber”) is a very significant source of timber in the country, although there is a significant lack of any official recognition or government statistics.¹⁸ Forestland conversion is predominately in resource-rich ethnic conflict areas - now the country's final forest frontier - which is part of the government's attempt at gaining greater state territorial control and access to natural resources. Many of these forestland conversion projects are promoted to local ethnic communities and elected officials as development projects to bring about peace and spur economic growth. In practice, however, these development projects have more to do with the well-connected Myanmar private company getting access to timber and land than central government and local state development goals. For example, the government's national palm oil

¹⁸ Woods, K., Forthcoming.

development plan has allowed tens of influential Myanmar companies to receive large palm oil concessions in Tanintharyi Region in southern Myanmar along the Thai border, an area that holds the Mekong region's last large expanse of lowland Dipterocarp rainforest. The result so far has been more logging than actual planting of palm oil seedlings.¹⁹

Table 2. Characteristics of Timber from Different Sources

	Community Forests	Tree Plantation	State-Managed Forests	Natural Forest Areas	
				Log Concessions	Land Conversion ("Conversion Timber")
Relative Volumes of Harvest	n/a	low	medium	high	high
Geography	Throughout country; varying degrees used as resistance to land grabs	Predominantly Burmese central low lands	Predominantly Burma central lowlands up to northern and down to southern Myanmar	Predominantly in ethnic conflict areas	Predominantly in ethnic conflict areas but also non-ethnic states (e.g., Sagaing and Tanintharyi Regions)
Permits	Forest Department	Forest Department	MTE	- National and regional Myanmar military - MTE - Para-militaries - Non-state armed groups	- National and regional Myanmar military - Ministry of Agriculture & Irrigation - MTE - National Burmese Military - Para-militaries - Non-state armed groups
Harvesting and Trading	Local community	Domestic company or state	- MTE - "Crony" companies	- Para-militaries - Non-state armed groups - "Crony" companies - Cross-border companies (in ethnic border areas) - Local political-economic elites	- Para-militaries - Non-state armed groups - "Crony" companies - Local political-economic elites
Market	Subsistence allowed only	Mostly domestic	Mostly export via Yangon	Mostly export via Yangon & cross border	Export of valuable timber, less valuable for domestic
Legality	N/A	Strong	Strong	Medium-low	Medium
Sustainability	High	High	Medium-low	Low	None
Local Land Rights	Medium-high	None	None	None	None

If MTE permits for clear-cutting the land are received (mostly by large-scale agribusiness), then the timber is legal as long as it is exported from Yangon. In some cases when the concession is located near a national border, timber may be exported directly across the border, which would render the wood illegal

¹⁹ Woods, K., Forthcoming.

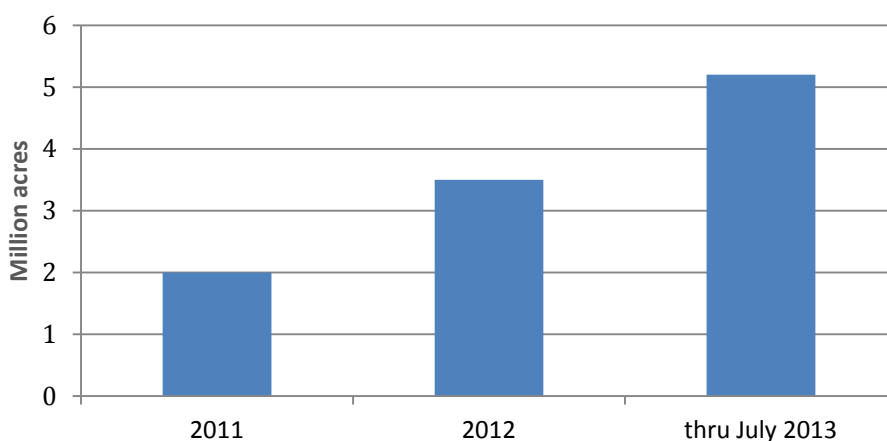
unless exemptions are given. Local residents have no land use rights in the protected forest that the concession is often located in, nor in the concession itself.²²

4. **Tree plantations:** Timber sourced from tree plantations is not a major source yet due to ongoing problems confronting state and private timber plantations. The central government policy for private investment in tree plantations has been inconsistent, leading potential private investors skeptical of their investment security. While the private sector is now encouraged to invest in the tree plantation sector, the state offers no financial incentives and the benefits of teak planting will be in question as long as all teak is legally a state-owned species, and quality seeds and seedlings are difficult to source. Furthermore, land tenure insecurity is of legitimate concern for prospective investors, with increasing nervousness at farmers' resistances to land dispossession to secure land concession sites. The Forest Department has stated goals to rejuvenate tree plantation programs to compensate for the quickly depleting natural forest stock.
5. **Community forests:** The 1992 Forest Law and 1995 Forest Policy enabled the 1995 Community Forestry Instructions (CFI), which gives limited legal backing for rural communities to in principle co-manage forests together with the Forest Department. The government's 30-year national plan for community forests has fallen far short of its target, however, due to a range of limiting factors.²³ The 1995 CFI does not allow for communities to commercially harvest their community forests, however, and it is expected to be the same case for the revised community forestry policy to be inserted into the upcoming new national forest law. So far, no known community forests have begun harvesting hardwood timber species (teak and ironwood) for village use. No government plans have included community forests as providing timber for the country's wood sector. There is also no national certification program targeting community forests.

The Link between Industrial Agricultural Concessions and Timber Sourcing

Land concessions, in particular industrial agriculture estates, are quickly becoming new significant sources of "conversion timber." About 5.2 million acres of agricultural concessions throughout the country had already been awarded to predominantly Myanmar companies by July 2013, up from nearly 3.5 million acres the year before, and 2 million acres the year before that, according to central and regional government data (Figure 2).

Figure 2. Land Area under Agricultural Concessions (2011-2013)



A small percentage of these concessions are joint ventures or wholly owned by foreign companies, although some Myanmar companies are presumed to be financially backed by foreign investors.

²² Oberndorf, R., 2012.

²³ Kyaw Tint, Springate-Baginski, and Mehm Ko Ko Gyi, 2011.

Over 60 percent of the agricultural concessions (mainly biofuel and rubber) are located in just two regions: Tanintharyi Region and Kachin State – two of the most forested regions in the country.²⁴ Data suggests that conversion timber from these agricultural concessions located in forested regions is mostly legal with government approval from both ministries of agriculture and forestry and exported via Yangon. If concessions are located near national borders, conversion timber might illegally cross the border as well.

Table 3. Agribusiness Concessions in Myanmar by State/Region, 2010/11-2012/13

State/Region	Allocated (acres)				Planted (acres)	
	2010/11	2011/12	2012/13	% of concessions	By July 2013	% planted
Tanintharyi*	671,594	993,887	1,896,970	36.4%	359,455	19%
Kachin	596,180	1,396,575	1,381,165	26.5%	172,348	12.5%
Sagaing	100,057	259,273	533,406	10.2%	19,543	3.7%
Ayeyarwady	193,353	285,844	335,331	6.4%	212,969	63.5%
Shan	117,096	160,626	323,833	6.2%	120,403	37.2%
Magwe	202,492	211,292	219,578	4.2%	95,949	43.7%
Bago	19,772	52,238	200,150	3.8%	91,074	45.5%
Rakhine	-	7,826	131,667	2.5%	13,176	10.0%
Yangon	30,978	30,980	80,208	1.5%	76,243	95.1%
Mandalay	10,300	6,262	56,046	1.1%	14,497	25.9%
Kayin	2,161	4,011	34,946	0.7%	15,867	45.4%
Naypyitaw	-	7,408	17,554	0.3%	5,217	29.7%
Chin	-	1,542	1,743	0.0%	118	6.8%
Kayah	-	-	-	-	-	-
Mon	-	-	-	-	-	-
TOTAL	1,943,983	3,417,762	5,212,597		1,196,859	23%

Source: Department of Agricultural Planning (DAP), MOAI, Naypyitaw.

*: Data for Tanintharyi Region (2012/13) is from the regional office.

Main Actors in Myanmar's Timber Trade

In general, Myanmar's timber trade is controlled by five major types of actors, each with their own niche in terms of ways to obtain access to forestlands and timber, geographic foci, points of export, and degrees of legality, sustainability and ethical sourcing. The timber trade in practice can be broken down into the following key timber actors and trade flows:

1. **Myanmar Timber Merchants Association (MTMA):** MTMA is a state-backed private timber business association which obtains timber from the MTE in order to distribute to their members mostly for export. MTMA courts foreign timber buyers on behalf of the government as well as is often the go-to agency for foreign timber traders to procure Myanmar wood. Small and medium-sized companies do not obtain wood from MTMA as they are not members;
2. **Large, influential domestic conglomerates (i.e., "crony" companies):** Large well-known Yangon-based Myanmar companies close to top military officials ("crony" companies) obtain MTE-approved logging concessions (increasingly located in ethnic conflict areas) and land conversion projects in natural forest areas. The wood they obtain from their logging concessions and land conversion development projects (agriculture, hydropower, mining, road building, etc.) is mostly legally exported via Yangon, but in some cases if the timber is procured close to a national border it may also be illegally (and in some cases even

²⁴ Woods, K. 2013.

with legal permit) traded across the national border. This is the main actor for procuring conversion timber;

3. **Global timber traders exporting via Yangon:** Global players, predominately based in Asian financial hubs such as Singapore, Bangkok, Mumbai and Hong Kong, primarily bid for orders to obtain MTE-approved wood from government-controlled areas - both from state-managed forests in Burman areas as well as natural forests in ethnic conflict areas - that is then legally exported via Yangon port;
4. **Cross-border timber traders:** This includes traders from both sides of the national border - in this case small and medium-sized ethnic nationality companies, traders, and ethnic political leaders from the Myanmar side, and regional timber traders from the importing country (e.g., China, Thailand). They source from ethnic conflict zones near the border with remaining old-growth natural forests, which are beginning to open up after decades of war due to ceasefire agreements with the new government. Timber is not MTE-approved, and is illegally exported across national borders;
5. **Yangon-based domestic timber traders/processors:** Medium-sized Yangon-based Myanmar companies may bid for MTE-approved wood from managed and natural forest areas at auction, but most do not have the political connection to receive a quota. Most purchase on the black market (purchased at much higher prices) to mostly serve domestic consumer markets. These companies do not receive logging concessions allowing them to source directly from forests, and have a difficult time competing with companies with better military-state connections as well as with state-owned wood processing centers who receive wood directly from the MTE.

Global Timber Traders Exporting Via Yangon

The global timber traders exporting via Yangon in general are comprised of medium to large companies with significant capital and based in Asian financial centers, who deliver Myanmar tropical timber to regional and global markets. The global Asian companies bid for orders through the MTE via Singapore bank account payments. The timber is mostly high-grade teak logs predominately sourced in government-controlled managed teak forests. Wood from other sources, such as conversion timber, can also mix in. The MTE-approved wood is shipped out of Yangon to Asian port cities such as in India, Malaysia, China, Singapore and Thailand. After initial value-added processing by the importing company or a secondary buyer, Myanmar sawn wood and wood products are often marked as originating from the processing country before being shipped throughout the world or used on their own domestic market. This pathway operates as the dominate driver and source of exported wood from Myanmar for global tropical timber markets.

Cross-Border Timber Traders

Regional cross-border timber traders (mostly mainland Chinese and Thai, but also includes NE India and Bangladesh) are usually small to medium-sized companies whose niche is cross-border timber trade with Myanmar. Wood sources are old-growth forests located in the ethnic borderlands (sometimes from areas not controlled by the government), are usually but not always transported through non-government controlled territories, and are oftentimes located in areas embroiled in post-war conflict and violence. The traders work through local intermediary authorities, who in this case can include Burmese military and non-state armed groups and, to a lesser extent, local government officials. Local ethnic timber traders and ethnic political leaders from the Myanmar side, who are usually closely connected to non-state armed groups, facilitate such logging deals.

This non-MTE wood is directly traded across the border in vehicles ranging from big trucks to small motorbikes, either through government-sanctioned gates or smuggled via dirt paths. The teak and non-teak hardwood products are usually logs, but also limited volumes of sawn wood and even furniture, especially for the case of Thailand. The cross-border timber trade is largely illegal according to Myanmar national law, although loopholes allow for high-level Myanmar officials to make legal exceptions for overland log exports.²⁵ Myanmar's restrictive legal environment for cross-border timber trade is further supported by the central governments of Thailand²⁶

²⁵ Ye Lwin, 2006; Xinhua, 2006; KNG, 2007. Although documentation declaring overland timber trade to be illegal is thin (see preceding references in this footnote), the Forestry Department routinely refers to cross-border overland timber exports as illegal.

²⁶ Under current Thai regulations relating to the import and domestic transport of timber, in order for Thailand to *legally* import Myanmar timber, wood must be shipped by sea via Yangon with proper Myanmar government permits. The Thai government can apparently give special exemptions for Myanmar log imports across the shared land border, but this has occurred infrequently in the past decade. Processed wood, especially teak furniture, can be legally imported across the Thailand border with the correct paperwork to verify it has been sourced and processed in Myanmar. In practice, however, smaller quantities of unprocessed logs cross overland without Thai governmental approval (Woods, K. and K. Canby, 2011).

and China²⁷ who have made respective declarations against overland wood trade from Myanmar. Several non-state armed groups in Myanmar's borderlands have also declared a ban on logging in their territories of influence, although this is rarely followed in practice, much like for the central Myanmar government.²⁸

Box 1: China – Myanmar Cross-Border Timber Trade

A well-publicized example of cross-border illegal timber trade is the Myanmar-China trade route, long publicized and of serious concern. In the early 2000s, the majority of China's imports of Myanmar timber entered across the shared Yunnan border in northern Myanmar.²⁹ This trade was reported to be fueling illegal logging, land dispossession, loss of forest-based livelihoods, and ethnic conflict, with little benefits to local communities.³⁰ Domestic and international attention to China's role in logging northern Myanmar's forests led to a Myanmar-China bilateral government agreement in mid-2006 to curtail cross-border timber trade along their shared border.³¹ Since then, the Sino-Myanmar timber trade began to shift more towards Yangon's sea ports, where timber is legally exported to China's eastern seaboard but at much higher costs to Chinese timber traders. However, high-level Myanmar government officials appear to have the legal authority to "legally" allow select timber exports overland, much like how the legal environment operates for other resource extraction sectors in the country.³²

Today, a lesser but still significant volume of timber crosses the Yunnan border mostly illegally and on to Kunming (and then China's eastern seaboard), as illustrated by Figure 3. Kunming, the provincial capital of Yunnan, has been the largest destination for Myanmar timber exports to China.³³ Several years after the mid-2006 bilateral clampdown on cross-border timber trade between Myanmar and China, volumes and value of timber have been increasing again, quite significantly in the past few years. This is due to a host of factors, such as much less international attention, capitalizing on extracting "conflict timber" in Kachin areas, and the approaching log export ban expected in April, 2014. All imports to and through Kunming are from timber imported overland from Myanmar across their shared long national border by ground transportation. In April 2013, likely in expectation of Myanmar's pending log export ban and taking advantage of the lack of government on-the-ground oversight in renewed conflict Kachin areas earlier this year, massive volumes of large logs was witnessed crossing overland into Yunnan through an official Chinese customs checkpoint at the Chinese border town of Nangdao. Timber was being cut in government-controlled areas in northwestern Shan State and south-eastern Kachin State, and then transported through territories controlled by both the Myanmar government and non-state armed groups to pass into Yunnan, with non-state armed groups taxing the timber along the route.³⁴ More research and advocacy is needed to better understand and influence these new trends.

²⁷ "Interim measures to manage timber and mineral cooperation between Myanmar and Yunnan Province." Issued by Office of Yunnan Provincial People's Government on 11 May 2006. Policy reference number: Policy Office, Yunnan [2006] 91. See also Xinhua, 2006.

²⁸ For example, the Kachin Independence Organization and Army (KIO/A) operating from Kachin State and northern Shan State along the Yunnan border declared logging illegal in their territories in 2002 (KIO statement on file with author) and again in 2011 (KNG, 2011).

²⁹ Global Witness, 2005; Woods, 2011.

³⁰ Kahrl, Weyerhaeuser and Yufang, 2004; Woods, 2011.

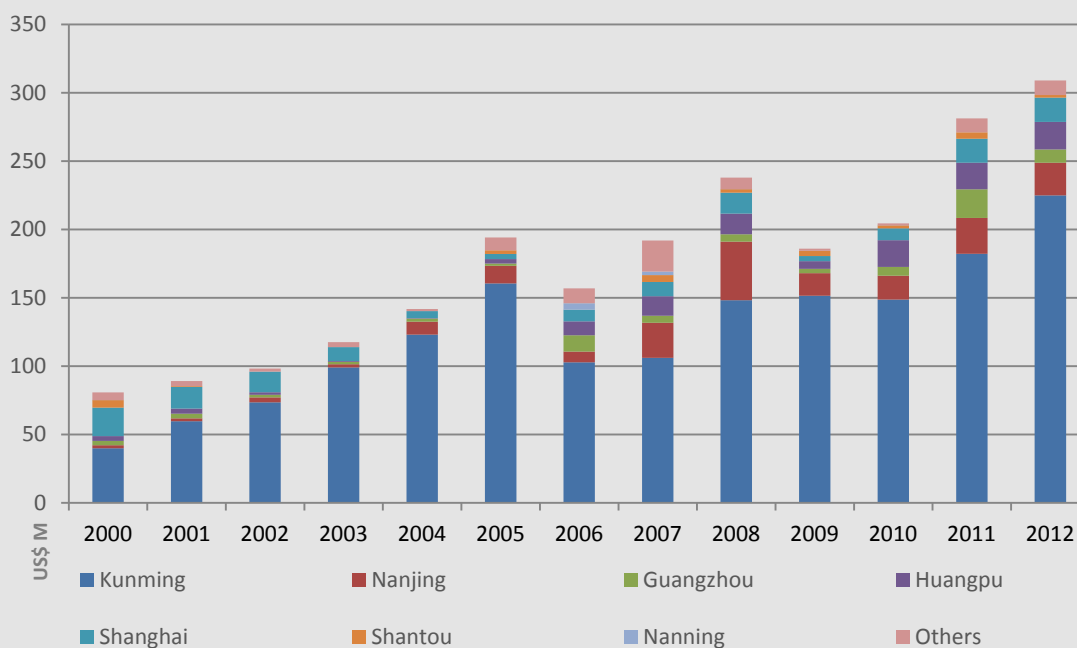
³¹ "Interim measures to manage timber and mineral cooperation between Myanmar and Yunnan Province." Issued by Office of Yunnan Provincial People's Government on 11 May 2006. Policy reference number: Policy Office, Yunnan [2006] 91. See also Xinhua, 2006.

³² Top state and military officials in the country still largely operate above the rule of law, including during the current reform period where legal clauses are being inserted into the country's new laws that give supra-legal power to ministers and their superiors.

³³ Forest Trends, Forthcoming

³⁴ Forest Trends researcher, April 2013.

Figure 3. China's Imports of Timber Products from Myanmar by District



Source: Chinese customs statistics, as compiled by Forest Trends

Large Influential Domestic Conglomerates (“Crony Companies”)

This category plays a crucial role in Myanmar’s overall economy, not just the timber sector. Commonly referred to within Myanmar as “crony” companies, these large, influential, well-connected and well-known Myanmar companies based in Yangon are involved in virtually all aspects of the Myanmar economy. The company owners’ close business relationships with the country’s top military and even under the new government are well positioned to run most of the country’s most promising revenue-generating enterprises, assisting the military government in construction, hotel and tourism, mining, timber and most recently agribusiness.³⁵ Several military officials and CEOs of these companies are newly elected members of parliament (MPs) and high-level government officials in the new government.

This group receives the majority of the country’s large-scale logging concessions and timber trade rights from the MTE, including for agribusiness concessions in forest reserves. In some cases, the companies are paid for their contribution to public construction projects with logging concessions. In this way, the logging concessions act as a currency of exchange between the top military leaders and the companies, thus operating as the private arm of the military-state. Their close association with the military and government facilitates their access to permits and contracts for logging, transport, and therefore export of timber with the proper MTE permits. Some have their own ports and container ships. While this was certainly the case before the current reform period, it is unknown how the national political-economic reforms, and specifically for the forestry sector, will affect their dominant position in the country’s economy, especially in resource extraction.

Some of the logging concessions allocated to these companies are located in the traditional government-managed forested areas of the country (Central Myanmar), but a significant percentage of their wood source is from logging concessions located in non-managed forests in Burman areas and increasingly in ethnic border conflict areas. These large Burmese conglomerates also receive a very significant (but unknown volume) of timber sourced from converted forestlands, such as for industrial agricultural plantations, hydropower and road projects. The land is cleared for the development projects that they themselves are constructing, with permission from

³⁵ Some of these companies are also thought to be involved, either directly or indirectly, and to varying extents, in the illicit economy, which includes narcotics production and trafficking.

MTE to cut the logs in the vicinity of the project (“conversion timber”) and export from Yangon with MTE approval.

Wood cut, transported and traded by these companies fill all wood supply chains for domestic use and export, with no mechanism in place to decipher which timber trade actors were involved in the different supply chains.

Some of the influential companies include, among several others, Htoo Trading, Max Myanmar, Yuzana, Dagon, and Asia World. Yuzana Company operates a 200,000 acre biofuel concession in Hukawng Valley in western Kachin State, which is located in and along the world’s largest tiger reserve that contains some of the country’s largest intact lowland forest habitat. Yuzana Company and Htoo Trading, the latter of which is one of the country’s most dominant private timber companies, are the two biggest companies operating in the palm oil sector based in Tanintharyi Region in southern Myanmar, which is home to Southeast Asia’s largest intact lowland Dipterocarp forests. Asia World has been contracted out by the military to construct large-scale dams and road building in conflict forest areas in Kachin State. All these renowned companies were granted associated rights over timber extraction in their project area.³⁸

Myanmar Timber Merchants Association

The Myanmar Timber Merchants Association (MTMA), established in 1993, is comprised of about 250 individual Myanmar timber businessmen and over 900 Myanmar timber companies under the government-sanctioned Union of Myanmar Federation of Chamber of Commerce and Industry (UMFCCI). UMFCCI is currently headed by a person considered by the Myanmar business community as a “crony” with good connections with the previous military regime and is currently embattled by an internal struggle within UMFCCI to relinquish control and allow for more democratic governance so that non-crony capitalists can gain a stronger foothold within UMFCCI.³⁹ Within the private sector, the MTMA is the sole commercial association for wood production, marketing, distribution and export. MTMA plays an important facilitating role between the MTE and the private sector. MTMA courts foreign timber buyers on behalf of the government as well as is often the go-to agency for foreign timber traders to procure Myanmar wood. In addition, MTMA helps distribute MTE-approved logs and sawn wood for the public and private domestic wood-based industries. Larger and more influential companies with good relations with the military and/or government are prioritized for receiving monthly wood quotas at below market prices, while smaller domestic companies (see above) are often forced to purchase raw materials on the black market at much higher prices than provided by MTE/MTMA.

Conclusion: Implications for FLEGT and EUTR

Myanmar exported wood includes not only MTE wood from managed government forests, but also logging concessions in natural forests and converted forestlands for national development projects, such as for agricultural plantations, hydropower, mineral extraction and road projects (“conversion timber”). Timber from tree plantations is not considered a major factor yet due to lack of sound investment and land tenure security, but is beginning to receive more serious attention by MOECF. As economic land concessions continue to gain prominence in the country with Myanmar’s economic reforms, especially for industrial agricultural development, forestland conversion will likely be the largest single source of natural timber in Myanmar. The relative importance of each timber source is unclear due to lack of government data on different sourcing.

The Myanmar government considers timber legal if the company has MTE permits and the timber is shipped out of Yangon, regardless of source and sustainability. Official government recognition of the problem of illegal logging and associated trade typically refers only to smuggling operations without MTE permit that occur in overland ethnic border areas, such as with China and Thailand.

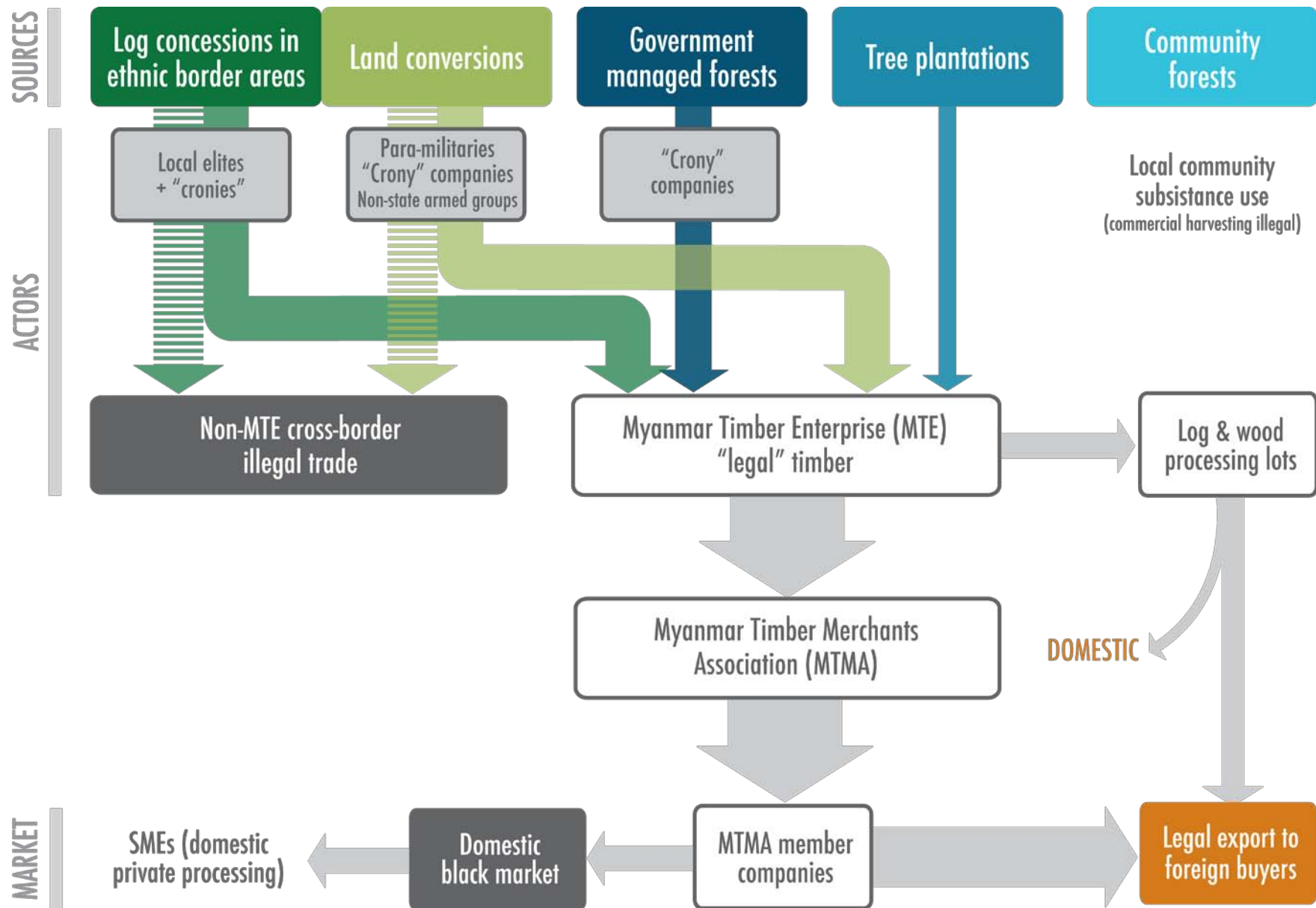
Differentiating between the types of timber trade flows and actors in the procurement and export of Myanmar wood raises many important questions as to the legality, sustainability and ethics of consuming wood from Myanmar. The varied actors are implicated in different wood supply chains, which often crisscross to further

³⁸ Woods, K. Forthcoming.

³⁹ Su Phyo Win, 2013.

complicate the origin – and therefore legality, sustainability and ethics – of wood sourced in Myanmar. It is therefore crucial to disentangle the various chains of custody (CoC) in order to better gauge the degree to which Myanmar wood can be considered legal, sustainable and ethical, and the land rights regimes operating from sourced areas. The first step to tackle this paramount issue on the future for Myanmar’s forestry sector is for the government, private sector, and donor community to frankly discuss the complexity of the verification of legal origin (VLO) specific to the situation of Myanmar. The role of natural forests in ethnic conflict areas (“conflict timber”) cannot be ignored in dialogue about the future of Myanmar’s forestry sector.

Figure 4: Timber Flows and Actors in Myanmar Timber Trade



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