

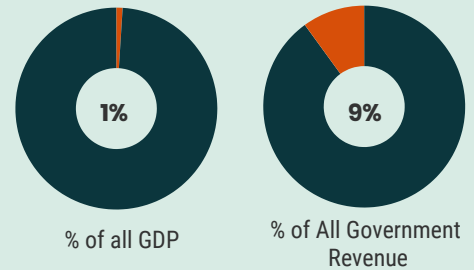


What is in Myanmar's First EITI Forestry Reports?

The Extractive Industries Transparency Initiative (EITI) requires countries to disclose information on their natural resource sector. In 2016, the Myanmar EITI (referred to as the MEITI) published its first report on the oil & gas and mining sectors. In January 2019, the MEITI finalized its first reports on forestry. This brief summarizes key findings and gaps in the MEITI forestry reports, covering the fiscal years 2014 and 2015.

The MEITI reported US\$1.3 billion (MMK 1.4 trillion) in forestry-related revenues collected by the central government during fiscal years 2014 and 2015. This accounts for 9% of total government revenue reported, but only 1% of gross domestic product (GDP).

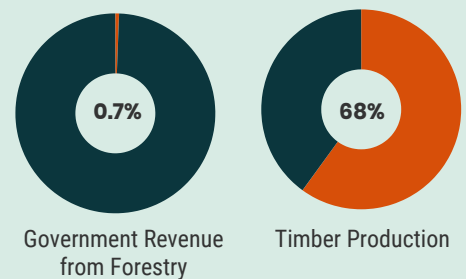
Central Government Revenue Reported From Myanmar's Forestry Sector



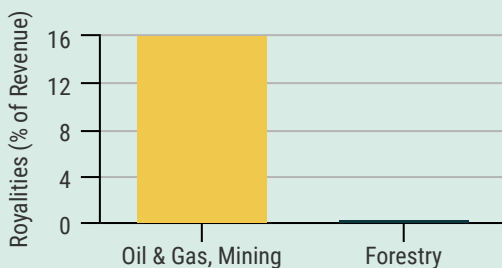
The state-owned Myanma Timber Enterprise (MTE) has the exclusive right to harvest, process, and sell timber. However, the MTE reports that it subcontracted two-thirds of harvesting to the private sector.

Yet, the MTE was the source of almost all forestry-related revenue reported by the government. The private sector was the source of only 0.7% of the total government forestry-related revenue – an indication of low profit margins and/or tax evasion.

Private Sector Contributions



Percentage of Government Revenue from Royalties

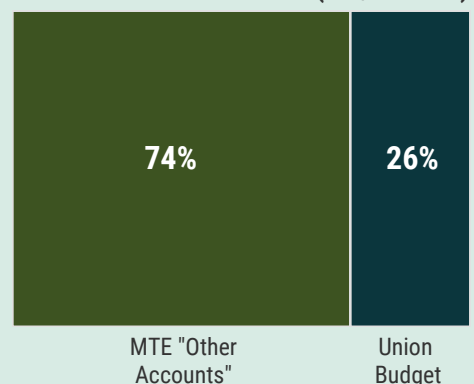


Unlike the oil & gas and mining sectors, almost all reported government forestry-related revenues came from taxes and MTE profits. Royalties accounted for only 0.4% of revenue.

There is no publicly available government documentation to indicate the share of state-owned enterprise profits that can be kept from the Union Budget. The MEITI reports that the share of MTE profits that may be retained is 55%. Despite this, the MEITI forestry reports indicate that 74% of MTE's \$1 billion profit was kept in its "other accounts".

According to the Ministry of Planning and Finance, funds from the MTE's other accounts were used for "budget deficit financing" and "non-revenue generating ministries" such as "Education, Health and Sport, Social Welfare, Relief, and Resettlement." Specific amounts allocated for these purposes were not reported.

Distribution of MTE Profits (US\$1 billion)



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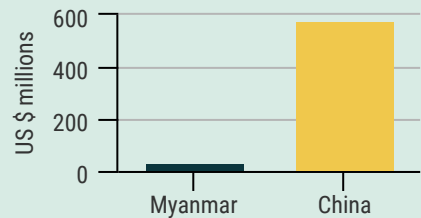
NICFI Norway's International Climate and Forest Initiative

...And what is missing?

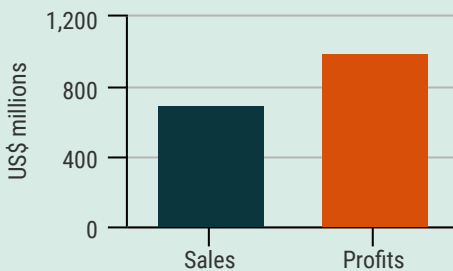
The publication of Myanmar's first EITI forestry reports represents a major step forward for transparency. But some data is incomplete or conflicting. Clarification will be needed to comply with the EITI's global standards.

Government data in the MEITI reports include only a fraction of the forestry sector. For example, Myanmar reported \$29 million in timber exports to China over the two fiscal years of 2014 and 2015. In contrast, China reported more than \$550 million in imports from Myanmar. The majority (>80%) were logs imported across the border into Kunming, despite a ban on trading across land borders, as well as a ban on log exports.

Value of Exports Reported by Myanmar vs. Value of Imports Reported by China



MTE Reported Sales and Profits

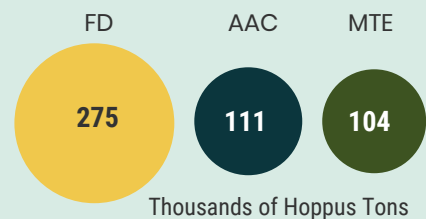


During the fiscal years of 2014 and 2015, the MTE reported \$295 million more in profits than in sales. Note, however, that the amount of commercial sales tax that MTE claims to have paid implies gross sales of more than \$5.4 billion.

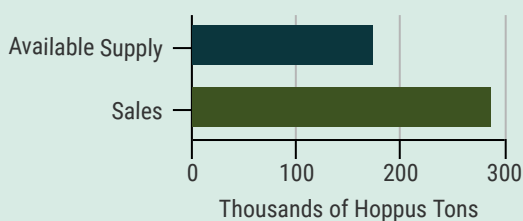
Myanmar's Forestry Department (FD) reported confiscating illegal timber equivalent to 32% of the MTE's reported teak production and 6% of hardwood production. Despite the substantial seizures, no fines were reportedly collected. The FD did, however, report \$2.3 million in income from the sale of the confiscated timber.

The MTE and FD also reported widely divergent production statistics. Over the two fiscal years, the MTE reported 104,412 hoppus tons in teak log production. For the same time period, the FD reported 274,685 hoppus tons of teak production, which was more than twice the annual allowable cut (AAC), thus indicating unsustainable levels of harvesting.

Teak Log Production



Sales of Teak Logs vs. Available Supply



The MTE reported a greater volume of teak logs sold than its reported supply from harvesting, confiscation, and stockpiles. The source of the additional volume of teak logs sold is unexplained.



While production is reported on a project-by-project basis, revenues are not. This can obscure the origin of revenue, making it difficult to evaluate company performance or detect tax evasion.



Information on legal ownership is included in the MEITI reports. However, beneficial ownership is not—although it will be required under the EITI's global standard in 2020.



Permitting procedures are not clearly described in the MEITI forestry reports, although this is a requirement of the EITI's global standard. This information is key to improving transparency and producing a level playing field.



The process by which the MTE compensates sub-contractors is not clear, nor is the process the MTE uses to decide whether to sell timber directly to buyers rather than at auction. This makes it difficult to determine if compensation levels were appropriate and whether sales were at fair market prices.