

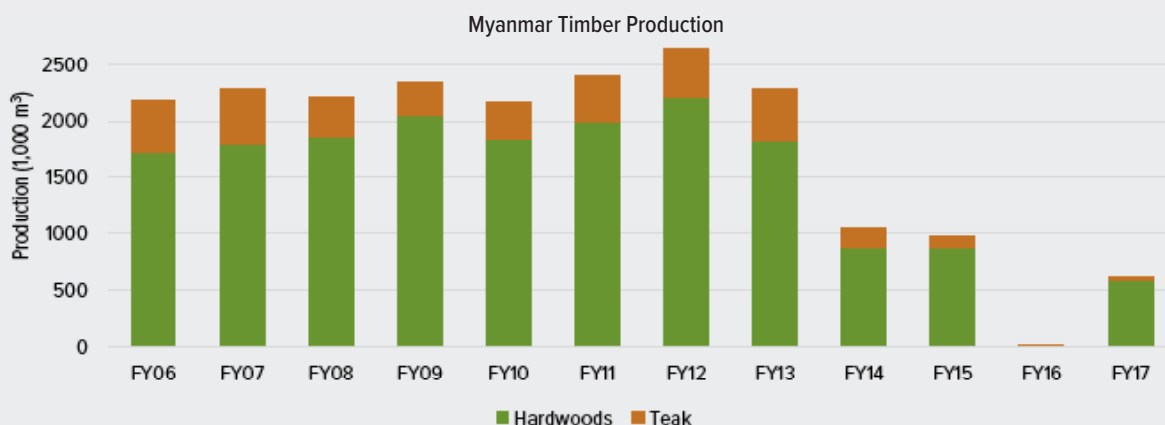


# WHAT IS IN MYANMAR'S EITI FORESTRY REPORTS FOR 2016-2018?<sup>1</sup>

The Extractive Industries Transparency Initiative (EITI) requires countries to disclose financial information on their natural resource sector. The first two forestry reports by the Myanmar EITI (MEITI) covered fiscal years (FY) 2014 and 2015.<sup>2</sup> The most recent reports cover FY16 & 17 and coincide with the first two years of the new National League for Democracy government (NLD), which launched a series of initiatives to step up the “battle on deforestation,” including a one-year logging moratorium starting April 2016.<sup>3</sup> This briefing highlights some of the findings, and follows an earlier briefing on the previous MEITI forestry reports.<sup>4</sup>

## 1 Over the past 12 years, the Union Government of Myanmar (UGoM) reported the production of more than 17.6 million cubic meters (m<sup>3</sup>) of hardwood and 3.5 million m<sup>3</sup> of teak.<sup>5</sup>

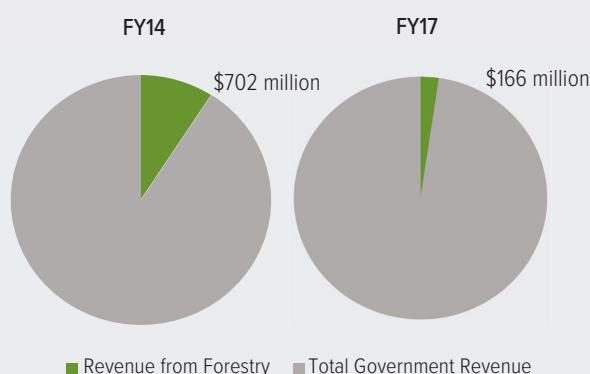
The impact of the 2016 logging ban is reflected in the drop in production reported during FY16.



## 2 The drop in production resulted in a substantial drop in forestry revenue during the first two years of the NLD government to less than \$170 million per year.

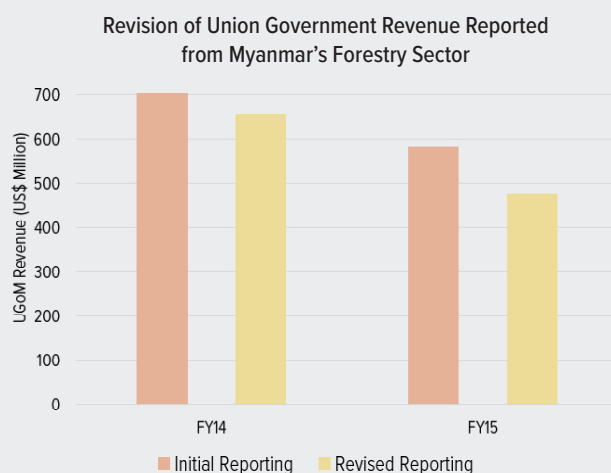
Between FY14 and FY17, the contribution of forestry-related revenue to the overall government budget dropped from more than 10% of UGoM revenue to less than 2.5%. The forest sector has become less important in terms of revenue generation.

Union Government Revenue Reported from Myanmar's Forestry Sector (US\$)



## 3 The new MEITI reports revised previously reported income for FY14 & 15, dropping revenue by more than \$150 million (10%) to \$1.1 billion over the two years.

The UGoM does not explain the basis for this reduction in the MEITI reports.



<sup>1</sup> Fiscal Year (FY) in Myanmar began April 1. All \$ figures refer to US\$, unadjusted for inflation. The MEITI reports note that for FY16: US\$1:1261 MMK & FY17: US\$1:1,356 MMK.

<sup>2</sup> Forest Trends reviewed the FY14 & FY15 MEITI Forestry Reports <https://www.forest-trends.org/wp-content/uploads/2019/02/MEITI-Handout-Final-A4.pdf>

<sup>3</sup> The moratorium extends for 10 years in the Bago Yoma region; [www.reuters.com/article/us-myanmar-economy-logging/myanmar-bans-lucrative-logging-in-bid-to-preserve-forests-idUSKCN0XPJ1T](http://www.reuters.com/article/us-myanmar-economy-logging/myanmar-bans-lucrative-logging-in-bid-to-preserve-forests-idUSKCN0XPJ1T)

<sup>4</sup> A full explanation of methodologies used for these analyses can be found in the Forest Trends report: [https://www.forest-trends.org/wp-content/uploads/2020/06/MEITI\\_Analysis\\_Explainer.pdf](https://www.forest-trends.org/wp-content/uploads/2020/06/MEITI_Analysis_Explainer.pdf)

<sup>5</sup> Converted from hoppus tons, which is 1.8 m<sup>3</sup>

**4 The state-owned Myanma Timber Enterprise (MTE) has the exclusive right to harvest and sell timber, and comprised the majority (97%) of revenue reported by the UGoM from the forestry sector. The MTE's treatment of revenues and net profit remains opaque.**

For FY16 & 17, the MTE reported 'net profits' (after taxes and a state contribution) of \$130 million. This represents 55% of reported profits, which complies with the percentage of profit that the MEITI reports that SOEs may retain.<sup>6</sup>

However, in FY16 & 17, the MTE reported retaining \$168 million in their "Other Accounts" (71% of reported profits). As reported in Forest Trends' analysis of the earlier MEITI forestry reports, this is similar to FY14 and 15, where the MTE reportedly kept 74% of its profits.

**5 There is no reporting on the use of the funds in the MTE's "Other Accounts."**

At the end of March 2018, the MTE reported a closing balance in their OAs of more than \$1.3 billion. Yet, in November 2018, the Deputy Planning and Finance Minister admitted that the SOE OAs are "accounts in name and there is no actual money deposited in them."<sup>7</sup> The MTE does not report to where this OA balance was transferred or for what purpose.

**6 While the MTE reports having paid \$38 million in income taxes in FY17,<sup>8</sup> they claim \$28 million (74%) was paid for arrears owed from FY15 and \$10 million for their FY17 income taxes.**

In fact, the MTE should have paid \$30 million in income taxes for FY17 given their stated profit of \$121 million.

In the FY15 MEITI forestry report, the MTE reported that they had already paid \$92 million income tax for that fiscal year. There is no explanation in the MEITI forestry reports whether the payments made in FY17 for FY15 were additional to this \$92 million.

**And What Else is Missing?**

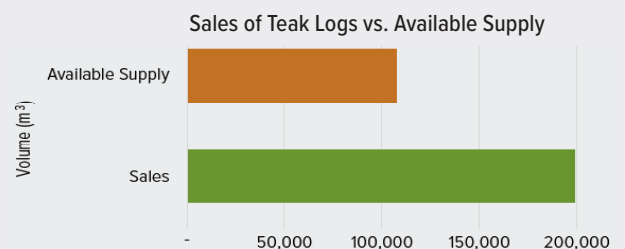
The continued publication of forestry reports by the MEITI represents a major step towards greater transparency. But data remains incomplete or conflicting. Clarification will be needed to comply with the EITI's global standards and ultimately satisfy demands for accountability.

**1** As in the first MEITI forestry reports, UGoM reporting includes only a fraction of the forestry sector. For example, the Government of China reported more than \$267 million in imports from Myanmar for FY16 & 17, whereas the UGoM reported exports to China of only \$27 million. Moreover, Chinese Customs reported that 71% of the imports were logs, despite a ban on raw log exports at that time. 73% of these logs were exported overland through China's Yunnan province, despite a ban on exports other than through Yangon.



**2** During the moratorium, the UGoM's Forestry Department (FD) reported seizing more than 90,000 m<sup>3</sup> of timber. In FY17, confiscations of illegal timber were reportedly equivalent to 8% of production. Despite these seizures, no fines were reportedly collected, and the FD reported less than \$3.4 million in income from the sale of the seized timber.

**3** The MTE reported teak sales that exceeded supply by 85%, that is, a greater volume of teak logs was sold than available from reported production and stockpiles. The source of the additional volume of teak logs is unexplained.



**4** The government is subsidizing the MTE to mill teak logs. For example, the MTE would likely collect more money if it sold teak logs to the private sector rather than processing the logs themselves. That is, the MTE reported that their mills sold teak conversions<sup>9</sup> for less than \$822 per m<sup>3</sup>. Assuming their mills have a recovery rate of 35%,<sup>10</sup> then they effectively received less than \$309 per m<sup>3</sup> for the teak logs used in their mills. In contrast, the average price of teak logs sold by MTE to the private sector was reportedly \$662 per m<sup>3</sup>. Thus, over the four years of MEITI reporting, the UGoM could have made at least \$54 million more if they simply required the MTE to sell the logs to the private sector rather than processing them in their own MTE mills.



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<sup>6</sup> The MEITI does not provide any legal rationale for the 55% rate, nor has the author been able to find any legal rationale; it appears, however, to be accepted practice.  
<sup>7</sup> Chau, Thompson and Mya Htwe, Chan. 2018. "Parliament, public in the dark over state bank's lending." Myanmar Times. <https://www.mmtimes.com/news/parliament-public-dark-over-state-banks-lending.html>  
<sup>8</sup> The two tables in the MEITI forestry reports are inconsistent: Table 41 MTE Income Statement reports \$30.4 million in income tax payments by MTE, while Table 3 reports \$37.99 million.  
<sup>9</sup> Lightly processed  
<sup>10</sup> Castren, Tuukka. 1999. "Timber Trade and Wood Flow Study Myanmar." Regional Environmental Technical Assistance 5771 Poverty Reduction & Environmental Management in Remote Greater Mekong Subregion (GMS) Watersheds Project (Phase I). [mekonginfo.org/assets/midocs/0002331-environment-timber-trade-and-wood-flow-study-myanmar.pdf](http://mekonginfo.org/assets/midocs/0002331-environment-timber-trade-and-wood-flow-study-myanmar.pdf)