



ORGANISED CHAOS

The illicit overland timber trade
between Myanmar and China



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COVER IMAGE:

Log trucks in Kachin waiting to cross the border into China, April 2015

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INTRODUCTION

In January 2015, the Myanmar army raided an illegal logging operation in a remote mountainous region in the country's Kachin State.

The sweep led to the arrest of 155 Chinese nationals who had been recruited from neighbouring Yunnan Province to cross the border to cut trees and transport timber. The case caused diplomatic tensions between Myanmar and China when the Chinese labourers were given life sentences in July. Just a few days later, all were freed under a general presidential pardon.

The saga has shone a light on the murky and clandestine trade in illicit timber occurring across the common border between Myanmar and China. For at least two decades, timber extracted from Myanmar's precious frontier forests in highly destructive logging operations has been flowing into China unhindered. It is an illicit business worth hundreds of millions of dollars a year, making it one of the single largest bilateral flows of illegal timber in the world.

From the outside looking in, the cross-border trade appears chaotic and complex. Most of the timber entering Yunnan is either cut or transported through Kachin State, a zone of conflict between ethnic political groups and the Myanmar Government and its military. Here, all sides to varying degrees profit from the logging and timber trade, from the award of rights to Chinese businesses to log whole mountains, often paid in gold bars, to levying fees at multiple checkpoints to allow trucks carrying logs to pass. While Kachin and Yunnan lie at the heart of trade, it reaches far wider. Logs shipped across the border are increasingly sourced from further inside Myanmar, such as Sagaing Division, and end up supplying factories in south and east China.

Yet field research conducted by the Environmental Investigation Agency (EIA) reveals that beneath the

apparent chaos lies an intricate and structured supply chain within which different players have a defined function and collude to ensure the logs keep flowing. Key nodes in the chain involve well-connected intermediaries who secure logging rights for resale, cooperative groups of business people who monopolise the trade at certain crossing points, and logistics companies on the China side of the border which effectively legalise the timber by clearing it through customs and paying tax.

The peak year for the illicit trade was 2005, when one million cubic metres (m³) of logs crossed the border. A brief hiatus occurred for a few years afterwards when Chinese authorities clamped down on the trade. But it proved to be short-lived and the scale of the business is once again approaching the peak levels. This trade is illegal under Myanmar law, which mandates that all wood should exit the country via Yangon port, and contravenes the country's log export ban. It also goes against the stated policy of the Chinese Government to respect the forestry laws of other countries and oppose illegal logging.

It is time for both countries to take urgent effective action against the massive illicit timber trade across their joint border. The 155 Chinese loggers have now returned home, but without action to end the trade others will take their place and further conflict, violence and forest destruction will occur.

**Environmental Investigation Agency
September 2015**





STATE OF MYANMAR'S FORESTS

ABOVE:
Myanmar Timber Enterprise log depot, Sagaing Division.

The Greater Mekong Sub-region (Myanmar, Laos, Vietnam, Thailand, Cambodia and south China) has some of the largest expanses of natural forest in the world and is widely recognised as a global priority for environmental conservation.¹ Yet the region is in the midst of an environmental crisis. Projected forest loss by 2030 is predicted to reach 30 million hectares, with the region labelled as one of 10 global “deforestation fronts”.² Major causes of forest loss are the expansion of agribusinesses, illegal logging and unregulated infrastructure development. In many cases these threats are being driven by weak governance, absence of rule of law and corruption within government agencies mandated to protect the forests.³

Myanmar has some of the most ecologically intact forest remaining in the region. Large globally significant tracts of forest exist in Tanintharyi in the south and in the northern states of Kachin, Shan and Sagaing Division. Approximately 50 per cent of the country is covered in natural forest, with 10 per cent of this being primary forest.⁴

Myanmar’s forests are in the midst of rapid decline and are increasingly degraded, with natural forest cover declining by two per cent every year.⁵ The country lost a total of 1.7 million hectares of forest cover from 2001 to 2013. Forest loss has accelerated in recent years, doubling from 97,000 hectares a year pre-2009 to an average of 185,000 hectares a year since.⁶ Myanmar’s deforestation rates are among some of the highest in the entire region.

The rapid expansion of agri-business plantations for various commercial

crops, including rubber, sugarcane and oil palm in the south, is the main threat to existing forests.⁷ Illegal logging is also a significant driver of deforestation and Myanmar’s forests have been heavily impacted by commercial logging.⁸

This wave of deforestation is being largely driven by demand from the wood processing industries and plantation sectors in China, Vietnam and Thailand. All three of these countries have strict logging controls in natural forests and have turned to forest-rich countries in the region, especially Myanmar and Laos, for raw material supplies. Myanmar is one of the main targets due to its stock of valuable species, notably its prized teak (*Tectona grandis*) and rosewoods (*Dalbergia spp.*). It also shares a long land border of 2,129km with China, the biggest importer of illegal timber in the world.⁹

On April 1, 2014 Myanmar enacted a log export ban in an effort to slow the rate of forest loss. Yet EIA investigations reveal that the cross-border trade continues, providing raw materials to China’s huge wood processing industry.

Aside from blatant illegality symbolised by logs flowing across its land border to China, the Myanmar Government’s forest management system has led to systematic over-exploitation with the official annual allowable quota regularly exceeded. This was especially pronounced in the lead up to the log export ban. For example, in the Katha Forest Management Unit in Sagaing Division during the 2013-14 logging season, 60,000 teak trees were felled although the annual allowable cut was just 12,000.¹⁰

As all land in Myanmar is state owned, regardless of classification – reserved forest, protected public forests and protected area systems – all forests are deemed to be state property.¹¹ Management of forests in Myanmar falls under the authority of the Ministry of Environmental Conservation and Forestry (MOECAF) and its two subsidiary bodies, the Forests Department (FD) and Myanmar Timber Enterprise (MTE).

The Forests Department's role is to implement the country's Forests Law and it is responsible for conserving and managing the forests. Under the law, the MTE is the only authority permitted to extract and trade timber, and it is a more powerful institution than the FD. MTE functions as a monopoly with the main purpose of maximising revenue from forest exploitation. Methods of over-harvesting include felling a greater number of logs of a particular tree species and extracting logs smaller in diameter than recommended. As such, the legal forest sector practices in Myanmar are a significant contributor to deforestation and forest degradation. Although MTE holds the rights to harvesting, logging is usually subcontracted to approximately 100 enterprises, many of which have close connections to the Government. These conduct felling operations that act as service providers, typically performing activities related to timber felling and haulage.¹²

MTE is also in charge of a detailed hammer marking stamp system applied to both logs and stems of trees. In theory, this system provides traceability in the supply chain. Yet as MTE does not differentiate logs at depots between the types of forests from which they are derived, there is the significant risk that timber from various supply streams can be mixed together.¹³ With relative ease, timber can be inserted into a supply chain with all the official documentation yet without the required steps to demonstrate a legitimate, traceable system.¹⁴

While in theory both the legal framework and traceability system seem robust, in practice widespread infringement occurs due to the political context in Myanmar. MTE's priority is to generate revenue for the Government and the logging contractors allied to it. Corruption in the forest sector is also widespread. In 2014, Transparency International ranked Myanmar 156th out of 175 countries surveyed in terms of corruption.¹⁵ In May 2014, the FD announced that 700 of its employees were facing charges of corruption.¹⁶

Due to Myanmar's complex history and ethnic diversity, large swathes of the

country lie outside the direct control of the Government. These areas, such as Chin State and Kachin State, often contain significant tracts of forest and lie in strategically important border areas. In some ceasefire areas, such as Karen State on the border with Thailand, a system known as "modified procedures" occurs, where MTE-authorized logging takes place with a low level of legal compliance. But generally, logging in areas of ethnic conflict is deemed illegal under Myanmar's forestry laws, with the timber from those areas effectively criminalised.

As well as overseeing the logging operations, MTE also controls the timber trade. To be deemed legal, all timber must bear the hammer mark of MTE and be shipped via Myanmar's main port in Yangon.¹⁷ The bulk of logs cut under the MTE system are sold through non-transparent auctions.

According to official trade data prior to the log export ban, India was the largest importer of timber from Myanmar, followed by China. Prior to the beginning of political reform in Myanmar in 2010, both the United States and European Union imposed sanctions on direct imports of wood from the country. These measures have now been lifted, with teak especially sought after in those markets. In August 2014, the US Treasury Department granted a temporary waiver on sanctions against the MTE, allowing US companies to trade directly with it.¹⁸ Myanmar has embarked on discussions with the EU over a Voluntary Partnership Agreement on timber trade between the two sides.

Against a backdrop of weak forest governance, large quantities of timber are being seized by the Myanmar authorities, especially the high value species of teak and tamalan. Most of the seized wood is passed on to MTE to be sold at auction. Between April and December 2013, the Government seized 35,000 tonnes of illegal timber, including 5,000 tonnes of teak.¹⁹ In the three months after the log export ban came into force on April 1, 2014 more than 20,000 tonnes of timber was seized in the country, including 5,000 tonnes of tamalan. Commenting on the figures, an unnamed forestry official said: "The smuggling of timber in this year is worse than last year. Smuggling to China is more than any other countries".²⁰ A major seizure in Kachin State in January 2014 caused a diplomatic incident when 155 Chinese labourers were arrested at the logging site, subsequently sentenced to life imprisonment but then pardoned by the president of Myanmar.²¹

BELOW:

Tamalan tree, Sagaing Division.





BRIEF HISTORY OF THE MYANMAR-CHINA OVERLAND TIMBER TRADE

ABOVE:
Timber traders inspecting logs from Myanmar, Pianma, Yunnan, 2012.

The illicit cross-border timber trade from Myanmar to China has persisted for more than 25 years. It has proven to be resilient in the face of conflict, ceasefires, recessions, Government policy changes, temporary clampdowns and nascent political reform in Myanmar. After steady growth throughout the 1990s, the scale of the trade peaked in 2005. The upward trend was disturbed for a few years after adverse publicity led to policy changes in 2006 but by 2013 it had returned to peak levels.

The geographical nexus of the trade is Kachin State in Myanmar and the three prefectures in China's Yunnan province abutting the border; Nujiang, Baoshan and Dehong. Timber, overwhelmingly in the form of raw logs, flows through scores of crossing points along the 1,000km border, ranging from formal international channels to clandestine dirt roads.

In Nujiang, the main crossing point is Pianma, classified as a provincial level open port, where wood species logged in the mountainous region of northern Kachin, such as Chinese hemlock, birch and maple, enter China. In Baoshan, lower value species termed *zamu*, such as kanyin, logged in Kachin are imported via several crossing such as Houqiao, designated as a border economic cooperation zone by China's State Council. In Dehong, the bulk of the timber moves via the Jiegao special export processing zone in Ruili city. The trade here is dominated by higher value species, notably tamalan, padauk and teak which are logged in Myanmar's Sagaing Division, northern Shan State, and southern Kachin. Once over the border, the illicit timber is sold onto traders, either as unprocessed logs or semi-

processed sawn timber, with the more valuable species transported to China's main wood processing centres such as Guangzhou, a three-day drive away.

On the Myanmar side of the border, territorial control is complex and fluid. The Myanmar Government and its military controls about 60 per cent of Kachin state, with the remainder divided between ethnic political groups and militias, principally the Kachin Independence Organisation (KIO) and its militia the Kachin Independence Army, and the New Democratic Army Kachin (NADK). From the logging site, illicit timber en route to China via Kachin often passes through territory controlled by different groups and the Government, with each levying informal 'taxes' at a series of checkpoints.

An entangled array of operatives collude and compete to secure logging sites and transportation routes to the border in a *modus vivendi* arrangement driven by profit. These include local government and military officials in Kachin, ethnic political groups, Kachin and Chinese businessmen, and intermediaries who play a vital role as a link between the other parties. A common example is the practice of buying a 'mountain' in areas of Kachin State. Local ethnic groups such as the NDAK grant logging rights to a specified area for a defined period, generally a year. The rights are usually bought by a group of Chinese businessmen in Yunnan through an intermediary who has connections to the various factions on the ground, both at the logging site and also along the route to the border. Once the deal is agreed, the Chinese businessmen sub-contract the logging and transportation to smaller companies which employ local labour in Yunnan to

cross into Myanmar to cut the trees and transport the timber across the border.

The illicit cross-border timber trade is entirely driven by demand for comparatively low-cost raw materials in China, and abetted by local and national trade policies in China and corruption, conflict and weak rule of law in Kachin. This blend of demand for raw materials in a country adjoining a zone of instability rich in natural resources with a porous border is disastrous for the forests of Kachin, Shan and Sagaing, and for the local communities reliant on them for livelihoods and ecological security.

The chronology of events leading to the current massive illegal wood trade can be broken down into three phases. The first phase began in the late 1980s when a series of bilateral trade agreements between the governments of China and Myanmar and ceasefire deals with ethnic resistance groups led to the gradual opening up of an area which was formerly a closed hinterland. In 1988, the two governments signed a cross-border trade agreement, followed by a series of deals between Myanmar and the Yunnan provincial government in 1989, including one on forestry. The same year the NDAK signed a ceasefire, opening up a large area of northern Kachin to intensive logging. At the start of this period, logging and trade was small-scale, using mules to transport relatively small quantities of wood for local use. A decade later, intact frontier forest in Kachin was being opened up for exploitation. Satellite analysis shows that forest clearing in Kachin more than tripled between the periods 1978-89 and 1989-96, with logging responsible for half of the deforestation.²³

During the second phase, cross-border timber smuggling escalated rapidly from the late 1990s to 2005. In 1997, the total volume of forest products trade between Myanmar and China was 300,000 m³; by 2005 it had reached 1.6 million m³.²⁴ Out of this total, one million m³ of illegal logs were transported across the border into Yunnan.²⁵ A major contributory factor was the imposition of a logging ban in Yunnan in 1996, followed by a national ban in China in 1998. Overnight, the wood industry in Yunnan faced collapse and turned increasingly to Kachin for raw material supplies. A ceasefire deal between the KIO and Myanmar military government in 1994 also opened up large swathes of forests to logging.

The third phase began in 2006 when reports by non-governmental organisations and media turned a spotlight on the booming illegal logging and trade taking place in northern Myanmar. The central Government realised substantial amounts of income were evading its

preferred channels via the MTE-system and its business allies. In January 2006, the country's forest minister publicly admitted that huge volumes of timber were being traded unofficially across its border. A few months later, the Chinese authorities responded to its then allies' concerns and took action to stem the flow of wood. In March, the Yunnan government announced a suspension of timber imports across the border and banned Chinese nationals from crossing the border to conduct logging.²⁶

In May 2006, the Yunnan government issued a new regulation aimed at managing the timber trade between Myanmar and Yunnan.²⁷ This sought to formalise the trade by requiring advance approval for timber "cooperation projects", registration requirements for timber importers with a target of five per prefecture, and endorsement from the central Government of Myanmar. By late 2006, it was reported that some parts of the border trade had reopened for timber trade under a quota system for chosen companies.²⁸ Chinese customs data indicated that the measures suppressed the trade for a few years, with only 270,000m³ of logs crossing the border in 2008.

Yet this reduction was not to last. By 2013, trade in timber products between Myanmar and China reached a record level of 1.7 million m³ (of which 938,000 m³ were logs), worth \$621 million. Of this total, 94 per cent was registered entering China via the Kunming customs office in Yunnan.²⁹ The wood had been transported overland across the border in contravention of Myanmar's forest regulations and against the intent of the policy changes announced by the Yunnan government in 2006. The illegal cross-border timber trade has rebounded and is now back in full flow.³⁰

"The illicit cross-border timber trade is entirely driven by demand for comparatively low-cost raw materials in China"

MYANMAR ROSEWOOD UNDER THREAT

Extremely rapid growth in Chinese imports of 'redwood', 'rosewoods' or 'Hongmu' timbers from Myanmar in the past two years is directly driving increased illegal and unsustainable logging.

EIA research shows that, based on current trends, the two most targeted Hongmu species in Myanmar - tamalan (*Dalbergia oliveri / bariensis*) and padauk (*Pterocarpus macrocarpus*) - could be logged to commercial extinction in as little as three years.

Listed as a "reserved" species, only MOECAP has the legal right to harvest and trade in tamalan yet, through a vast illegal trade, it has become one of the most traded timber species over the China-Myanmar border. Data shows that \$52 million worth of rosewood logs were transported across the border in the month after Myanmar's log export ban came into effect.²²

EIA INVESTIGATIONS



Since 2012, EIA has conducted a series of investigations into the illegal cross-border timber trade between Myanmar and China, covering areas of Kachin State and Sagaing Division, the prefectures of Nujiang, Baoshan and Dehong in Yunnan, as well as the wood trade hubs of Kunming and Guangzhou in southern Guangdong Province.

EIA's findings confirm a resurgent trade after the temporary clampdown in 2006, the scale of which is approaching the peak years leading up to 2005 when the volume of logs flowing across the border reached one million m³ a year. The only evidence of lingering impacts of the 2006 measures is a requirement for official papers on the China side of the border. These include proof that the timber has been designated as legal by the central Government of Myanmar. Given Myanmar's forest product regulations stating that only wood under the control of the Myanmar Timber Enterprise and shipped via Yangon is deemed to be legal, and the imposition of a log export ban from April 2014, such documents cannot be genuine. Many traders EIA met stated that so long as the required taxes are paid on the China side of the border, the shipments are deemed legal, irrespective of whether the wood came from illegal logging operations.

Along the Kachin-Yunnan border, EIA found shifting trade routes with different crossing points being used according to local circumstances such as conflict flaring up and proximity to active logging areas. In June 2011, hostilities resumed between the Myanmar military and KIO, impacting smuggling routes and crossing points but not the scale of the trade.

During undercover meetings with EIA investigators, Chinese traders revealed how logging operations now take place further inside Kachin as commercial timber supplies near the border are exhausted by intensive logging operations. Also, increasing amounts of illicit timber originate outside Kachin, especially high value species such as tamalan from Sagaing Division and teak from north Shan State. A huge surge in smuggling of rosewood logs across the border occurred in 2013, reaching 220,000 m³ worth about \$300 million.³¹

Through its investigations, EIA has built up a unique picture of the cross-border trade, identifying the key components of the illicit supply chain and the main culprits. While the state of logging on the Myanmar side of the border and the timber flows into China appears chaotic and complex at first sight, it is in fact highly structured and well-orchestrated, with different factions colluding to profit at the expense of Myanmar's precious forests.

2012 INVESTIGATIONS:

NUJIANG AND BAOSHAN

In April 2012, EIA investigators visited the main crossing points for timber entering Yunnan's Nujiang and Baoshan prefectures, and tracked down wood traders and processing companies based in Kunming and Guangzhou reliant on overland imports from Myanmar for raw material supplies.

In Pianma, Nujiang, EIA witnessed large stocks of raw logs held in storage areas along the main road. Pianma has historically been the main entry point for logs entering Nujiang due to its status as a provincial level open port. In 2002, Nujiang imported 308,000 m³ of logs from Myanmar, compared with just 36,000m³ in 1997, with 95 per cent entering via Pianma.³² The Kachin side of the border is under the control of the NDAK, as are concessions to log the adjacent mountainous terrain in north Kachin.

Traders said that most of the timber stored in Pianma was owned by the Yuandong company, which was carrying out logging in neighbouring Kachin under a hydropower dam development scheme. Sporadic conflict had disrupted the trade, with reports of an important bridge being blown up temporarily affecting supplies. One logger encountered by EIA told how he and 29 colleagues were recruited for RMB1000 (\$15) a day to hike over 100km into Kachin to log. After cutting down trees for a week the group was attacked by soldiers and fled. He was the only one to make it back to Pianma.³³

In Baoshan prefecture the busiest crossing point was Zizhi, where EIA observed trucks using a shallow river to ferry timber to a succession of well-stocked log storage areas. Buyers were seen visiting some of the yards to source timber species such as hemlock and laurel. The trade through Zizhi appeared to have



grown due to the construction of roads built by Chinese mining companies in neighbouring Kachin. The nearby Diantan crossing, which used to be the busiest in the area, was deserted due to higher charges being levied by the NDAK on the Kachin side of the border and the severe depletion of forest close to the border.

From the border area, EIA investigators travelled to Kunming, the provincial capital of Yunnan and an important hub for timber brought overland from Myanmar en route to wood processing hubs in southern China. At the Xinan wholesale timber market, EIA observed a decline in the amount of Myanmar timber on sale. Sellers said it was due to logging operations having to go deeper into Kachin to find commercial logging areas and the impact of renewed conflict. One trader described the logging situation in Kachin: "It's all stolen and logged illegally. Over there, the environmental destruction is very bad. The mountains are completely mined out. It's actually quite horrific."

In Guangzhou, EIA undercover investigators met with officials from the Munian Wood Company. The family-run company was formed in 1987 to trade logs from Myanmar and had grown to become one of the biggest processors of Burmese teak in China, mostly for flooring. All of its supplies of teak from Mongmit, in north Shan State, are imported via Ruili, where the company has large factory, and it is purchased outside of the Myanmar Government system. As the owner of the company, Wen Shuonian, said: "We don't care what channels the materials come from, so long as they bring it over to China and declare the taxes."

Meetings with other companies dealing in wood from Myanmar, in both Kunming and Guangzhou, confirmed key aspects of the trade; logging operations going further into Myanmar as accessible forests are depleted, the importance of paying tax on the China side of the border to 'legalise' the timber and the intricate relationships along the supply chain. Even major buyers do not have direct access to the wood source in Myanmar, with most deals being done once the material has moved near to the border. The trade is only made possible by the involvement of well-connected intermediaries.



OPPOSITE PAGE:

Log stockpile in Zizhi, Yunnan, on the Myanmar-China border, 2012.

ABOVE LEFT:

Truck carrying logs across the river border, Zizhi, Yunnan, 2012.

ABOVE RIGHT:

Pianma town, the main entry point for logs from Myanmar into Nujiang Prefecture, Yunnan.

EIA INVESTIGATIONS

2015 INVESTIGATIONS:

DEHONG

In June 2015, EIA investigators posing as timber buyers travelled to Yunnan's Dehong Prefecture to assess the level of illicit timber entering from neighbouring Myanmar and the methods used to move the material into China. Dehong has historically been the largest entry point for timber out of the three border prefectures.

In 2005, out of a total volume of one million m³ of illegal logs entering Yunnan from Myanmar, 600,000 m³ were recorded in Dehong.³⁴ Dehong's prominence is due to the presence of the international border crossing at Muse-Ruili, including the Jiegao Special Export Processing Zone, and proximity to better quality roads on the Myanmar side of the border meaning that timber entering the prefecture comes from further afield, such as teak from northern Shan State and rosewood from Sagaing Division.

During the week-long investigation, EIA visited log storage areas and wood factories in Ruili and nearby Nongdao, as well as significant border crossings, including the Nbapa-Ban Ling crossing. Detailed discussions with timber traders and customs clearance agencies provided insights into a well-organised network dedicated to sourcing illicit logs and sawn timber from Myanmar, and how such imports are 'normalised' on the China side of the border through taxation.

NONGDAO

Across from the Nanwan River, the sprawling town of Nongdao exists mainly as a storage and trade hub for timber from Myanmar. In April 2014, control of the main route leading to

Nongdao on the Kachin side of the border fell into the hands of the Myanmar military after clashes with the KIO.³⁵

The town is dominated by log yards of varying sizes, some of which contain over 20,000 m³ of logs. Many of these are storage areas used by multiple wood traders awaiting buyers. At the time of EIA's visit, the main species in stock were teak, tamalan and padauk. Most of the tamalan and padauk were flitches (square logs) relatively small in dimensions, with large quantities remaining from the 2013-14 logging season. In contrast, teak logs and flitches were freshly cut, with one yard receiving several thousand tonnes of teak logs during EIA's visit.

At Yifu Trading, one of the biggest importers in Nongdao, a company representative told EIA investigators that most of her tamalan and padauk were imported in 2013 but remained unsold. She said the market had been in decline since early 2014 and that many traders in Nongdao and Ruili were sitting on stocks of rosewood worth tens of millions of dollars while waiting for the price to increase again. She explained that the market for tamalan and padauk was at its height in 2013 when surging demand for Hongmu furniture peaked. At that time, traders from Fujian, Guangdong and Zhejiang provinces flocked there to buy raw materials for their factories. The prices then were also sky high – large-sized tamalan flitches (above 30cm diameter) could fetch between RMB50,000-80,000 (\$7,700-12,500) per tonne.

From early 2014, the market for tamalan and padauk began deflating after speculation led to a classic bubble market. The price of the same tamalan had almost halved by mid-2015, with traders stockpiling rather than sell at a loss. Companies such as Yifu were reducing tamalan and padauk imports to about 25 per cent each of their total, with the remaining 50 per cent composed of teak, the price of which was steadily increasing. A major trend observed by EIA in Nongdao and Ruili was



escalating trade in Burmese teak and declining demand for rosewood.

Aside from the fall in price, another reason for the drop in demand for tamalan and padauk is the impact of the Chinese Government's anti-corruption drive on the sale of luxury items such as Hongmu furniture. One driver who used to ferry customers from Dehong's Mangshi Airport to Ruili to buy jade and rosewood said his business had come to standstill. One trader told EIA investigators: "So there's no movement (in the market). Only the Government officials buy these things... in one year, they make [RMB]50,000-60,000, how can they buy these? Only by being corrupt, how else can you buy these?"

RUILI

Less than an hour from Nongdao lies the urban centre of Ruili and the adjacent Jiegao border crossing and free trade zone. Numerous log yards and wood processing factories are strewn across the city, which appears to owe its apparent prosperity to trade in raw materials from Myanmar, especially timber and jade.

In Ruili, even though tamalan and padauk imports have declined, trade in large-sized materials (over 30cm diameter) has continued unabated. At log yards in Jiegao Free Trade Zone, EIA investigators observed trucks unloading large-sized tamalan and padauk flitches daily. EIA saw groups of visiting buyers in Jiegao and Ruili purchasing such materials. While demand for smaller rosewood flitches used for Hongmu furniture has fallen, the larger pieces are still sought after for investments. Traders revealed that these large-sized materials were only available in Ruili and virtually non-existent in Nongdao, probably due to the source of the timber and transport logistics.

OPPOSITE PAGE LEFT:

Buyers inspecting illegal tamalan flitches, Nongdao, June.

OPPOSITE PAGE RIGHT:

Fresh teak logs, Nongdao, June 2015.

BELOW:

Log trucks in Kachin waiting to cross the border into China, April 2015.



EIA INVESTIGATIONS

BORDER CROSSINGS

Although several crossing points used for timber transport lie within 50km of Ruili, EIA learnt that several of these were largely inactive during the 2014-15 logging season, with the major exception of the Nbapa-Ban Ling crossing. In early 2015, EIA observed long lines of timber trucks queueing up on the Myanmar side of the border to make the crossing. When EIA visited Ban Ling in late June 2015, the large log storage area had been virtually cleared of logs, with the exception of a small pile of fresh teak. The Chinese owner told investigators that the materials had arrived only a few weeks earlier and he had about 100 tonnes stockpiled on the Myanmar side of the border. He also revealed that the teak logs were bought directly from the Myanmar military at a "red line" area across the border, beyond which he said it is unsafe for Chinese nationals to travel. At Ban Ling village, a sign dated September 2007 posted by the village committee stated that Chinese nationals were prohibited from crossing into Myanmar to carry out logging or timber trading.

Ban Ling is an unofficial crossing without a full-time checkpoint. Local sources said there are at least 10 such crossings in the area through which timber could be brought in to Nongdao. Many of these were described as unpaved mountain roads and are mostly located in KIO-controlled territory on the Myanmar side. In contrast, the geographical location of Ruili allows the city to receive timber from a variety of crossings. Much of the timber is still routed via the same river crossings that supply timber to Nongdao. This is corroborated by Ruili-based company Rongmao Trading, which has a presence in key border crossings in KIO territories to move timber from Myanmar into its log yards in Ruili.

A large portion of timber in Ruili is also transported from Muse into Jiegao, an official international crossing. Of the two wood importers based in Jiegao, Jinxing Trading, is one of the biggest importers of timber in the whole of Yunnan.

According to a foreman at Jinxing, 98 per cent of timber arriving at its log yard is extracted from around the Mandalay and south Kachin area, including Monywa and Ingyi. Tamalan and padauk can come from further away, with one trader sourcing from Kalay and Tamu, in Sagaing Division, near the India-Myanmar border. Occasionally, seized timber auctioned off by the Myanmar authorities also arrives in Jiegao.

Timber arriving in Nongdao is mainly from or through Kachin areas. This explains the generally poorer quality timber available in Nongdao, largely harvested from degraded forests already intensively logged, compared to the bigger and better quality offered in Jiegao extracted from further inside Myanmar. One trader said loggers now have to venture up to 300km into Myanmar to find large commercially valuable trees.

CROSSING THE LINE

On the Myanmar side of the border, the main crossing points for timber bound for Nongdao and Ruili fall under the control of different forces. The active crossing at Nbapa-Ban Ling is in KIO-territory, while Muse-Jiegao is in Myanmar Government territory. Due to these varying local circumstances, different

systems have evolved at these crossings to ensure the timber flows into China unhindered.

The cartel

All timber moving via the Nbapa crossing falls under the sway of a group of four influential individuals known as BDYA, based on the initials of their local names – Brang Nu, Dung Hpaung Gun, Lee Maw Yung and Ali Jie. BDYA is referred to by local timber traders as "dazu" or big group. Using an intricate network of contacts embracing the KIO, Myanmar Government and military as well as local Chinese officials, the group plays a central role in ensuring that wood logged by smaller Chinese firms or "xiao zu" is transported from the cutting site across the border without problems.

Each year, running from July to June, members of BDYA bid for the exclusive right to tax all timber passing through Nbapa and other smaller crossings nearby. In addition, BDYA also pays off Myanmar military officials, usually in gold bars, to ensure safe passage for timber trucks moving through Government-held areas on the way to the border. Gold has become the currency of choice for larger payment in the cross-border timber trade, due to an influx of counterfeit currency being used for timber deals. To make a profit on its investment, the group imposes a tax on consignments of timber moving through the crossings it controls. In 2014, the price for tamalan and padauk was approximately RMB8,000 (\$1,250) per tonne.

Members of BDYA do not confine their activities to safeguarding timber transport routes but are also involved in logging operations and agricultural plantations in Kachin, as well as timber trading and processing in Yunnan.

The most notorious member of BDYA is Ali Jie (also known as Li Xinli), a Chinese woman in her mid-forties. For years she has used close connections to both the KIO and Myanmar military to build a business empire spanning casino taxation, jade, minerals and agricultural plantations. During the first half of the 2000s, she obtained logging concessions in Kachin State due to her close relationship with the then Northern Commander of the Myanmar military, Maung Maung Swe.³⁶

Another close relationship with a senior figure in the KIO has allowed her to obtain lucrative business opportunities such as tax collection and hotels in the town of Laiza, headquarters of the KIO. Independent of BDYA, she is also controls taxation of various commodities moving between Laiza and Yingjiang, north of Ruili.

The second key figure in BDYA is Li Maw Yung, also known by his Chinese name Li Maorong. Based in Ruili, Li owns several companies including Rongmao Wood Trading and R & M Wood, producing Hongmu furniture and veneers.

Li has been involved in the cross-border timber trade for at least a decade. In 2009, it was reported that his company owned a large log storage area in Ban Ling and a sawmill in Nbapa, and had paid \$1.5 million to ethnic political groups in Kachin during a single logging season. He was said to oversee the operations of several small logging groups cutting trees in Kachin's Bhamo district for a fee of RMB600,000 (\$88,000) after he forged a deal with the then Myanmar military Northern Commander Soe Win.³⁷



In 2015, traders in Ruili and Nongdao told EIA investigators that Li effectively controlled wood supply lines into Nongdao and had secured the contract to tax timber shipments via Nbapa for the 2014-15 logging season. He was said to be the biggest wood trader in the area and was referred to as the “dragon’s head”. At the time of EIA’s visit, Li had a stockpile of 40,000 tonnes in storage areas in Ruili and was actively trading teak since the rosewood price fall. Chinese customs data shows that Rongmao imported 10,263 tonnes of teak logs from Myanmar in 2014, making it the fourth largest importer in China, as well as 12,720 tonnes of rosewood.³⁸

BDYA is reported to have increased its activities since conflict flared up again between the KIA and Myanmar military in 2011. By 2015, a schism had appeared in the group after Ali Jie made a large payment to the KIA to secure logging and timber trading rights and excluded other BDYA members from the deal.³⁹

Yet BDYA does not have a total monopoly in the area. There are five smaller groups in the Nongdao which avoid BDYA taxes by using less-travelled dirt roads through territory controlled by the Myanmar military, which charges up to RMB30,000 (\$4,700) per truck for logs transported through its territory. A member of one of these groups told EIA investigators his business had increased since the conflict across the border resumed.

Customs agents

Regardless of its origins or the crossings used, once timber from Myanmar enters China it is considered legal for trade and distribution so long as the import duties are paid. Also, as Jiegao has national level free trade zone status and Nongdao has provincial level free trade status, import dues are not payable on timber stored there until it is sold and moved on. This is a useful incentive for Chinese importers, who can store the material in secure locations rather than in volatile areas across the border in Myanmar.



TOP:

Myanmar logs owned by Rongmao company, Ruili, June 2015.

ABOVE:

Local government sign in Ban Ling dated 2007, prohibiting Chinese nationals from crossing the border to do logging, wood transport and gambling.

LEFT:

Ali Jie, leading member of the BDYA group.

EIA INVESTIGATIONS

A key element of the cross-border trade is the system used to pay import taxes to Chinese authorities and customs clearance procedures involving submission of documents to show compliance with the 2006 Yunnan interim measures. This function is performed by specialist trade companies registered with the Yunnan Provincial Department of Commerce.

In Jiegao, EIA investigators met with staff from Yunnan Ruili Jinxing Trade Group, the largest customs clearance agent for timber from Myanmar in the area. Jinxing provides an integrated service for firms seeking to bring wood across the border by carrying out the clearance procedures each time a truckload of timber arrives at the Muse-Jiegao crossing and providing storage facilities for logs in the free trade zone.

EIA investigators spoke at length about the import process with Jinxing's foreman and were shown copies of sample documents needed to clear consignments. According to the foreman, no export documents from Myanmar are required to arrange the import documents in China. He added: "Over there, it's smuggled, so long as you pay enough money, they let you transport across." The import requirements include documents for quarantine, industries and commerce, state forestry administration and customs.

EIA investigators accompanied the foreman to the Jiegao checkpoint where the procedure was observed. At the crossing, the truck driver gave his passport, documents and money to the Jinxing employee, who then entered the office and handed the paperwork and money to a customs officer. Once processed, the customs officer gave a sign to the military personnel outside in charge of inspecting trucks and the timber truck was waved through without inspection. There is clearly a close relationship between trading companies such as Jinxing and the customs officers.

Documents seen by EIA revealed that Jinxing received a quota from the Yunnan commerce department to import 50,000 m³ of logs from Myanmar, issued on March 4, 2014, just before the log export ban in Myanmar came into force. The document was still being used to clear shipments of logs in June 2015.

The 2015 import duties payable to customs for tamalan and padauk are about RMB2,200-2,300 per tonne. The duty for teak logs is about RMB800 per tonne. The amount for tamalan and padauk in 2014 was said to be RMB1,000 per tonne.

Chinese customs data shows that Jinxing was the biggest importer of rosewood logs from Myanmar in 2014, with a total volume of 24,274 tonnes.⁴⁰



Tamalan timber being unloaded at Jinxing company warehouse, Jiegao, June 2015.



Jiegao border gate.

HOW THE CROSS-BORDER TIMBER TRADE WORKS

TIMBER SOURCE

1a. Consortium of traders pool together investment capital to lease logging access in mountains from the local military. Often, contracts are not abided and cancellations or suspensions can happen at any time. This type of operation was prevalent in the KIO areas.

For the lease of a mountain, the cost is several million RMB per mountain, depending on its size. Additional payments needed to build roads and hire labour. Wage paid to loggers is on average RMB300 a day.

1b. Buyers source from villagers who head for the mountains to log the timber
Smaller traders generally opt to source this way, as it is less risky compared to the heavy initial investment of leasing mountains. Increased attention on illegal logging has also made this a more viable option.

Prices were for 2014-15 roughly as follows:
RMB6,000-7,000 (tamalan)
RMB4,000 (padauk)
RMB2,500 / 3,600-3,800 (teak log/flitch)

TRANSPORTATION

2a Transportation from forests to border
Prices differ according to area and route. Transportation takes anywhere from four days to over a week, depending on location and routes.

RMB80,000 per 40-tonne truck or RMB2,000 per tonne (Nongdao estimates)
There is also a 'Truck Entrance Fee' of RMB10,000 per truck

2b Extra payments paid during transportation from forest to border
Often these payments are referred to as 'tax' but in reality they are mostly bribes for personal benefits. The payments are made at checkpoints run by different authorities, i.e. forestry, police, military, KIO etc.

Average RMB200,000 per 40-tonne truck, or RMB5,000 per tonne (over six checkpoints - Nongdao estimates)
Average RMB380,000 per truck (number of checkpoints unknown - Jiegao estimates)

EXPORT TARIFFS

3a Payment of Dazui Export Tax
Through the KIO crossings, payments have to be made to Dazui before timber can exit Burma.

Based on 2015:
RMB5,000-6,300 (tamalan / padauk)
RMB4000 (teak)

3b Payment of Myanmar Government Export Tax
Though this remains unconfirmed, the export tax imposed by the Myanmar Government is said to be per truck rather than on a per tonne basis.

Based on 30-40 tonne trucks:
RMB20,000-30,000 per truck

IMPORT TARIFF

4 China Import Fees
Collectively referred to by traders as import tax, the amount paid to the Government is said to include fees for quarantine and inspection, country and local tax bureau, national tax etc. The tax is calculated based on species imported and its weight.

Prices for 2015:
RMB2,200-2,400 (tamalan / padauk)
(2014: RMB1,000 average)
RMB7,000 (teak)

MARKET PRICE

Raw material in Ruili / Nongdao
Prices vary depending on dimensions

RMB30,000+ (>30cm dia tamalan)
RMB15,000 (<30cm dia tamalan)
RMB10,000+ -20,000 (teak)

FINISHED PRODUCTS PRICE IN CHINA

Tamalan three-piece bed set
Padauk writing table
Standard teak flooring

RMB68,000
RMB26,500
RMB450-500 per m²

Note: All figures derived from EIA field investigations in June 2015 and are in Chinese renminbi.

CASE STUDY

THE ARREST OF 155 CHINESE IN MYANMAR

Tengchong, the main town in Yunnan's Baoshan Prefecture, came under the spotlight when the news broke in January 2015 that 155 Chinese citizens had been arrested in neighbouring Kachin State after the Myanmar military raided a huge logging operation in the Waingmaw area, about 100km from the state capital of Myitkyina. Most of the arrested labourers came from the border town of Houqiao and were recruited by Tengchong-based companies.

Few locals had expected these arrests to later turn into a diplomatic incident. Arrests and sporadic violence are a fact of life for Chinese workers employed to log or transport timber in Kachin, described by one Chinese wood trader as "blood and sweat business". But in remote border areas where work is hard to come by, many labourers are willing to take a chance. In 2014, at least 1,600 Chinese nationals were sent to work logging the mountains where the arrest took place.⁴¹

Tengchong has long been an important centre for the trading of natural resources from neighbouring Myanmar, mainly jade and timber. Many of the traders EIA encountered in Ruili and Nongdao came from Tengchong. Ali Jie of the BDYA group has a house there. In the past, the Tengchong county government has funded road-building in Kachin to speed the import of raw materials and by 2005 it was receiving RMB78 million (\$10 million) in six months from taxing the border trade, most of which was derived from timber.⁴² Situated just over 200km from Myitkyina, Tengchong's strategic importance in the Yunnan-Kachin trade was recognised when the Tengchong Houqiao crossing was promoted as one of the state-level ports.⁴³

While the January 2015 incident in Waingmaw at first appears a chaotic occurrence with hundreds of Chinese workers caught between different factions on the ground in Kachin, detailed research by EIA shows that the logging operation was highly organised and overseen by influential intermediaries and Chinese companies.

The military operation occurred in an area of Kachin under the control of a breakaway ethnic political group named Lasang Awng Wa, after its leader. He split from the KIO in 2005 where he was the security intelligence chief and agreed peace terms with the Myanmar Government, in return receiving territory and lucrative logging and gold mining rights.⁴⁴ His group is allied to the NDAK, with both operating as a Border Guard Force in conjunction with the Myanmar Government.

In a petition letter obtained by EIA, bosses who had employed the arrested labourers claimed they had purchased the rights to log two mountains in Lasang Awng Wa territory – named as "Guitou" or turtle head and "Wutai" or five platforms – from the group for the 2014/15 logging season. A key intermediary in the deal was Guo Yungang, who arranged the deal with Lasang Awng Wa on behalf of Tengchong-based timber companies. Guo is a Burmese national of Chinese descent originally from Guyong near Tengchong. He has a military background and is said to be commander of the 1003 Battalion of the Border Guard Force. He is also said to be the adopted son of Zakhung Ting Ying, head of the NDAK and a member of parliament in Myanmar.

On the China side, EIA was told that most of the arrested Chinese loggers and truck drivers were hired on short-term agreements under the auspices of a Tengchong-based dazhu group of four major timber traders Guo Wei, Li Zibo, Zhang Qijin and Liu Kuanzhuang. EIA's analysis shows that the cross-border



wood trade via the Houqiao border crossing is structured in a similar way to that of Ruili; a main dazu group using connections with powerful intermediaries to secure forest concessions in Kachin from ethnic armed groups, with logging rights then sold on to a host of smaller players which pay fees to the dazu for the logging rights and using its roads. One receipt obtained by EIA from a truck driver caught up in the raid shows a payment of RMB1,250 (\$200) to the four bosses paid on arrival at the cutting site.

Further payments or 'tolls' have to be made by the Chinese drivers inside Kachin at six checkpoints controlled by the BGF, KIO and Government, totalling about RMB2000 (\$315) per truck. Chinese traders also claim they paved the way for the logging operation and timber transport by paying off local Myanmar military officers in gold bars.⁴⁵

As in Ruili, several trading firms based in the Tengchong area facilitate the import of timber into China via the Kambaiti-Houqiao crossing. As a truck laden with timber approaches the Chinese side of the border, representatives of the trading company are on hand to submit the relevant documents and clear the cargo. These companies are registered with the Yunnan government to import timber from Myanmar and operate on behalf of the many small trader who own the wood.

Following the arrests in January, a timber boss appealed to the local government in Tengchong to help secure the release of his workers on the grounds that he had paid tax on imports of timber from the logging site into China in late December 2015. Receipts for these payments to the Chinese Government covered the import of 339 tonnes of logs, with the customs clearance carried out by Tengchong Hongyu

OPPOSITE PAGE:

Arrested Chinese labourers, Myitkyina, Kachin, July 2015.

LEFT:

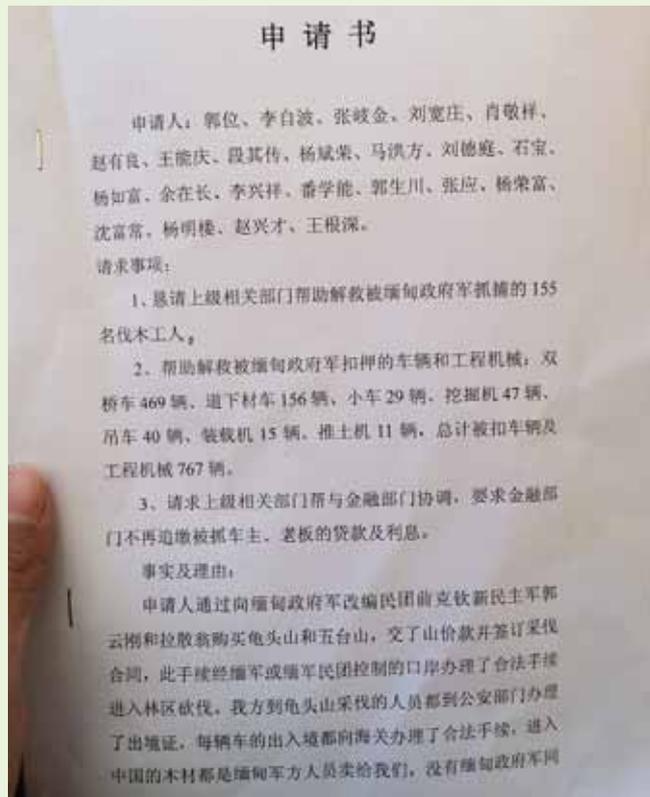
Lasang Awng Wa.

BELOW LEFT:

Receipt for taxes paid by log truck driver to *dazu* members.

BELOW RIGHT:

Petition letter sent by timber companies to local government in Tengchong appealing for assistance in obtaining release of the 155 loggers.



CASE STUDY

Trade company. Chinese customs data shows that Hongyu and another logistics company called Tengchong Xinghua Trade between them imported 17,916 tonnes of rosewood Hongmu logs from Myanmar in 2014.

The mass arrest and subsequent trial process in Myanmar has served to bring the murky business of logging and timber trade along the Myanmar-China border into the spotlight after decades in the shadows.

Some of those who evaded arrest by fleeing told local media they believed they had been operating legally in Kachin, based on stamps by Chinese officials in their border pass document as well as receipts at numerous checkpoints. Yet the ill-fated logging operation clearly contravened the Myanmar Government's forestry regulations and log export ban, and as such was not compliant with Yunnan's 2006 interim measures. Although the Chinese Government officially recognised that its citizens were arrested for illegal logging, the media portrayed the arrested labourers as victims of an ongoing power struggle between the Myanmar Government and ethnic political groups over rights to resources. On April 22, the arrested Chinese were sentenced to six months in prison under immigration laws, but higher sentencing was imminent.⁴⁶

On July 22, after several postponements, 153 of the Chinese workers were given "the highest penalty" under the Public Property Protection Act and anti-drug laws of life imprisonment (usually 20 years) while two adolescents received 10-year jail terms.⁴⁷

But the climax was yet to come. Days later, following the Chinese Government's request "to conclude the case properly and return those people to China as soon as possible", the case took another twist as all 155 labourers were freed under a presidential pardon granted to 6,996 prisoners.⁴⁸ While the families of the Chinese workers celebrated, many in Myanmar publically criticised the decision.⁴⁹ On their return to the Tengchong area, the freed loggers were told by local government officials not to talk to the media nor return to Myanmar for the rest of the year.

BELOW:

Border town of Houqiao, where many of the arrested loggers come from.

BOTTOM:

After being sentenced to life imprisonment the Chinese loggers were released under presidential pardon.





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EXPENDABLES IN A DIRTY BUSINESS

Loggers and truck drivers who evaded capture during the raid gave harrowing accounts of their escape to the media once they made it back across the border.

They described trekking for days across mountainous terrain, hiding during the day, and severe financial hardship as the trucks for which they had borrowed money to purchase were seized by the Myanmar military. Some also spoke of being released after their bosses paid off the military.

One villager from Houqiao said: "It was my first time in Myanmar, I was there to fix the roads but I will never go there again. I would have been there for two months and get RMB300 (\$47 per day). When I was arrested on the road, a soldier of the Government military took my wallet, mobile phone, belt and shoes. They did the same to all other Chinese and we never got them back. I had the border pass and my truck also had a permit from Chinese authorities, so I don't understand why it was illegal to work there."

Another driver from Tengchong said: "We walked days and nights by foot, later joining other groups of the escaped. It took us four days to reach China. We had no food or anything else. Our trucks bought with loans, we had to abandon them. We ended up with only debts."

Another logger who was arrested managed to pay for his escape: "After the arrest started, I hid in the forest for two days. I was so hungry that I took the risk to return to my truck for some food. All of the sudden, there were rifles pointing at my head. After 10 more days, I got hold of a note of the Burmese money, with which I discreetly proposed payment for a release. The army officer understood and left immediately. When he came back with a local villager who spoke Chinese, the guy said that I can go back home if I pay the equivalent of RMB20,000 (\$3,180), he would report that I had ran away. He kept his word."

These testimonies back up information gathered by EIA in the course of its investigations, revealing the widespread exploitation of Chinese labourers tempted into Kachin by a lack of work opportunities. For payment below \$50 a day, these workers are at the sharp end of the illegal logging business, unlike the bosses in China who recruit them and make significant profits without having to enter the forest.

Drivers are usually hired for specific jobs and sign contracts giving minimal compensation in the event of injury or death. There have been incidences of drivers being killed or maimed by land mines. One driver recounted to EIA investigators that he was in a company of Hunan loggers who stepped on land mines and were "blown up into pieces".

If arrested by soldiers, release is dependent on willingness of the boss to pay the authorities. It was claimed that some of the truck drivers caught in a January 2015 incident were released after bosses paid RMB300,000 (\$46,000) per person. In other cases, payment has been made to corrupt officials in Myanmar only for the recipient of the bribe to renege on the deal.⁵⁰

One driver told how he was arrested and handcuffed by the Myanmar army at gunpoint and his boss had to pay RMB50,000 (\$7,800) to get him released. The same driver added that he "couldn't expect less from the Burmese as the Chinese go over to steal their things, so how can you expect them not to take us in!"

He added: "They won't arrest the boss. The bosses don't go into Burma."



CHINA'S ROLE

ABOVE:
Rosewood timber to feed
China's *hongmu* industry,
Guanlan market, Shenzhen.

In 2012, EIA research revealed that China was the world's biggest consumer of illegal timber, having imported at least 18.5 million m³ of illegal logs and sawn timber in 2011, worth \$3.7 billion, constituting 10 per cent of China's total wood products imports.⁵¹

These findings were confirmed in a 2015 study which found that illegal timber imports into 10 major processing and consuming countries reached 60 million m³ between 2000-13, with half of the total destined for China.⁵² The report found China had less strict controls on timber imports than other major markets, causing global progress in curbing illegal logging to stall.⁵³

China's role as the principle driver of illegal logging worldwide is a consequence of increasing domestic demand for high value tropical timbers, demand for cheap raw material in its export-oriented wood products sector and a lack of regulations to exclude illegal timber imports from supply chains.

Myanmar is a major source of raw logs for the Chinese market, the vast majority of which are illegal. Between 2000-14, China imported over 11 million m³ of logs (HS 4403) from Myanmar, worth \$2.7 billion. Of this total, 40 per cent

comprised rosewood logs and 20 per cent teak logs.⁵⁴ Half of China's log imports from Myanmar by value since 2000 were recorded in the three-year period from 2012-14, indicating the rapid rise in trade of high value rosewood logs.

In 2014, the year Myanmar implemented a log export ban, the country was the fifth biggest supplier of logs to China by volume.⁵⁵ The dramatic rise of the rosewood, or *hongmu*, furniture sector in China in recent years is a key driver of this demand. By early 2014, Myanmar had become the largest supplier of *hongmu* logs to China, shipping 210,000m³ worth \$350 million.

CHINA'S INADEQUATE POLICY RESPONSE

Unlike other major timber consuming markets, China has failed to take appropriate regulatory measures to curb imports of illegally logged timber. While both the United States and European Union have put in place measures to prohibit imports of illegal timber, China has opted for ineffective voluntary guidelines. These guidelines are aimed at Chinese companies

operating overseas rather than importers and as such fit the Chinese Government's narrative that the problem of illegal logging is mainly the responsibility of timber producing countries.

Three sets of guidelines for Chinese firms operating abroad in the forestry sector have been produced by the Chinese Government since 2007; none have staunchly the flow of illegal timber entering the country. For example, in May 2013 a training event for Chinese enterprises operating in Pemba, northern Mozambique, focused on the application of the 2009 guidelines (on sustainable overseas forest management and utilisation by Chinese enterprises) in the country. Just one month later, a Chinese company that had attended the training was caught trying to export illegal logs.

Most recently, since 2013 China's State Forestry Administration (SFA) and Ministry of Commerce have been developing "Guidelines for Overseas Sustainable Forest Products Trade and Investment by Chinese Enterprises" which would be theoretically mandatory for Chinese forestry companies and, importantly, timber traders working abroad. Yet the proposed guidelines effectively remain voluntary, incorporate no consequences for non-compliance and do not apply to domestic importers or traders in China itself.

China's SFA has also been working since 2009 to draft a Chinese Timber Legality Verification System (CTLVS). Two options are being considered; bilateral agreements with individual supplier country governments and a voluntary scheme under which timber companies follow guidance on sourcing from wood trade associations.

As a consequence a series of bilateral meetings between forestry officials from China and Myanmar have taken place as a precursor to a possible joint timber verification scheme between the two countries. While such dialogue is welcome in bringing together the two sides to exchange views and information, tangible outcomes such as China agreeing to observe Myanmar's log export ban remain elusive. In reality, a fundamental difference of opinion appears to exist between the two countries, with Myanmar seeking its neighbour's help to stop the flow of illegal timber across the border while China seeks to legalise the trade. For instance, at one such meeting in Myitkyina, Kachin State, in June 2015 the Kachin Forest Department wanted to call the event "Prevention of Illegal Trade in Forest Resources" but this was changed to "Promotion of Legal Trade in Forest Resources".⁵⁶



Luxury *hongmu* furniture on sale in China.



Valuable rosewood timber in Guanlan market, Shenzhen.

Senior forestry officials in Myanmar have publicly expressed their exasperation over the lack of assistance from China in combating the illegal cross-border trade. In November 2014, a MOECF official said: "I have requested the minister of the State Forestry Administration and the regional government of Yunnan Province to ban the illegal import of Myanmar's timber. Although the central Government of China does not seem to support the illicit trade, the Yunnan administration prioritises its peoples' employment and the supply of raw materials."⁵⁷ In May 2015, the deputy director-general of the Forest Department told the media: "Every time I visit China they pledge to do what they can. But we've seen no effective action."⁵⁸

"Unlike other major timber consuming markets, China has failed to take appropriate regulatory measures to curb imports of illegally logged timber"

RECOMMENDATIONS

The massive overland trade in illicit timber between Myanmar and China is destroying vital areas of forests, threatening the livelihoods of local communities, provoking conflict and violence, and fostering corruption. Urgent action by both governments is needed to stem the flow.

China should:

- observe Myanmar's log export ban by putting in place reciprocal measures;
- institute a clear legal prohibition on all imports of illegally logged timber;
- reform the Hongmu industry to ensure it stops stimulating demand for endangered species, and trading in illicit timber;
- investigate the activities of the well-connected and influential culprits behind the cross-border timber trade, such as the BDYA group.

Myanmar should:

- clarify all forestry and timber trade laws to all export markets, particularly China;
- reduce logging operations countrywide pending a full assessment of current forest conditions;
- develop a mechanism for dialogue in conflict areas that includes natural resources;
- continue to develop a multi-stakeholder process including representatives from ethnic states as part of the Forest Law Enforcement Governance and Trade discussions with the European Union;
- abolish the current role of the Myanmar Timber Enterprise in the oversight of logging operations and work towards greater transparency of information to all stakeholders;
- list rosewood species (tamalan and padauk) on Appendix III of the UN Convention on International Trade in Endangered Species.

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