



Study on China-Myanmar Cross Border timber trade

Primary outcomes on China-Myanmar Cross Border Timber Trade Study

Background

In order to understand and discuss on the status of China-Myanmar timber trade, with the support of EFI EU FLEGT Facility, Southwest Forestry University led researchers from both China and Myanmar to carry out “A China-Myanmar Joint Study on Timber Trade” during November 2014 and April 2015, and a “Workshop on China-Myanmar Timber Trade” on April 22-23 2015 was held in Kunming, Yunnan when participants shared and discussed on trends of timber trade and future cooperation between China and Myanmar.

The joint study was conducted mainly through literature review and analysis, and field research including interviewing timber traders, wood processing factories, industry associations, and staff of customs, commerce, and forestry departments involved in timber importation management. The contents of the joint study include discussions on challenges and key issues in bilateral timber trade and suggestions on a variety of dimensions. Aiming to set a foundation for further regulating China-Myanmar timber trade, the outputs of this research project was shared with organizations and stakeholders involved in bilateral timber trade from China and Myanmar on the international workshop.

1. General introduction of China-Myanmar overland timber trade

The bilateral timber trade began in the 1980s following China’s opening-up policy. Before 1993, state-owned companies worked as agencies in timber trade between Yunnan and neighboring countries. Since 1993, private companies began to get involved in timber import and export, and replaced state-owned companies completely in 1995. China-Myanmar overland timber trade includes normal trade, small-scale overland trade, and border market, with the latter two as main channels. The majority of timber is sourced in Northern Myanmar.

By mode of transport, China-Myanmar timber trade is divided into seaport trade and overland trade. During 1995 and 2003, China was the biggest importer of Myanmar timber, and the volume of importation in 1995 was 700,000 m³, and reduced to about

300,000 m³ per year in 1997 and 1998 due to increasing domestic supply and imports from Russia, Africa, and Southeast Asia. After 1998, driven by rapid economic development and domestic logging ban in natural forest, China's imports of timber from Myanmar expanded substantially, reaching 1.3 million m³ in 2003.

Yunnan province shares a border of 1,997 km with Myanmar, and has 10 border ports. The Endangered Species Import and Export Management Office of the People's Republic of China-Kunming office was set up in 1997, monitoring overland timber trade and issuing import permit for species not listed in CITES Annex I, Annex II, and Annex III.

1.1 Border timber trade

Since 1995, China has been the largest importer of Myanmar timber. In 1995, timber imports amounted to 700,000 m³, doubling the importation of Thailand, Myanmar's second largest timber trade partner. Between 1995 and 1998, China's importation of timber from Myanmar decreased yet still remained extensive: around 300,000 m³ per year. After 1998, due to the increasing demands for wood products and national log ban in natural forests, timber price in the expanding Chinese market began to rise, and imports of Myanmar timber rose rapidly. By 2003, the total volume reached 1.3 million m³, counting almost 60% of Myanmar's timber exports. Until early 2006, most of the imported timber was shipped from Yangon to Shanghai and Guangdong, and a small part entered China through overland ports.

Since 2006, Chinese government began to forbid Chinese traders to log in Myanmar, and closed border checkpoints to timber import from Myanmar. It was also beginning to be difficult to obtain permit from the department of commerce to import timber. As a result, many Chinese traders could not transport timber harvested or bought in Myanmar and suffered great financial losses. Following these policies, border timber trade corporations and wood processing factories decreased rapidly, many timber traders shifted to other business, and from 2006 to 2014, timber entering border ports in China has undergone a continuous decrease. The volume of imported logs remained 300,000 to 400,000 m³ per year, yet that of roots and stumps was much larger, around 1 million m³.

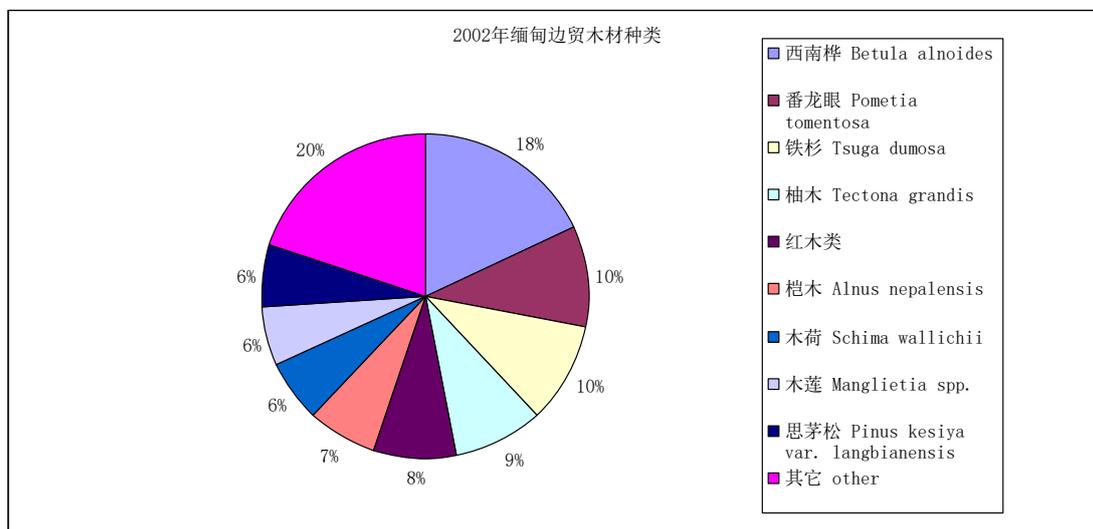
Since 2012, driven by slower economic development and the downturn of global economy, overall timber consumption in China began to decrease. In 2012, imported timber decreased by 8%, and the stock also shrank; in 2013, importation increased driven by shrinking stock, yet sales remained moderate, and exportation of processed wood products dropped. As a result, a large proportion of imported logs and sawnwood from Myanmar in 2013 and 2014 has remained in stock.

1.2 Traded species

Myanmar is rich in forest resources, mainly being tropical forests, and a few mountain rainforests and mountain coniferous in the north. Timber exported to Yunnan by land

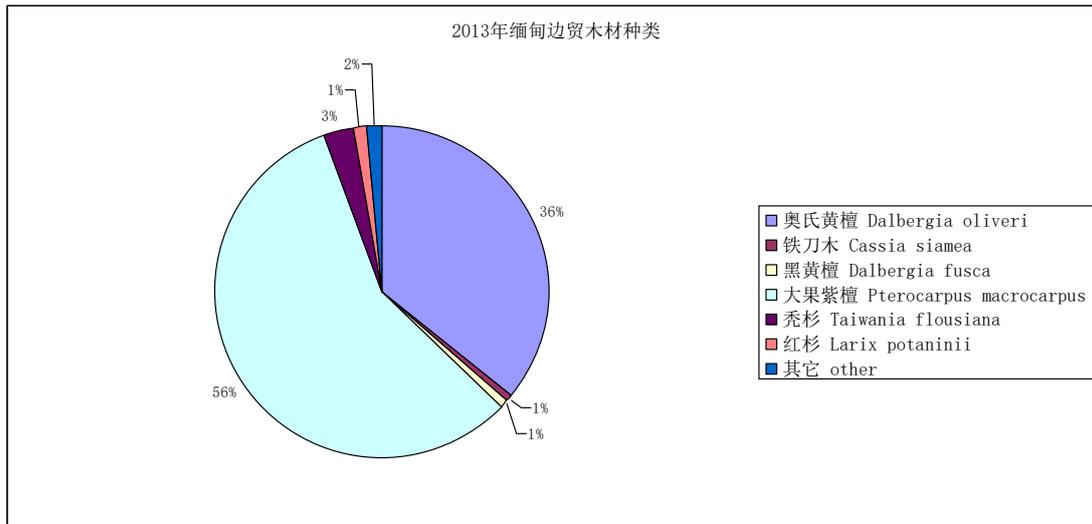
is mainly sourced in mountain rainforest and mountain coniferous in Kachin state in northern Myanmar.

In 2002, Yunnan imported a large variety of wood species from Myanmar by land, totaling 47 species which belong to 24 families and 38 genus. 63% of the importation volume that year was constituted by ordinary timber at medium price, including *Betula alnoides*, *Alnus nepalensis*, *Manglietia spp*, *Tsuga dumosa*, *Pometia tomentosa*, *Schima wallichii*, and *Pinus kesiya var. langbianensis*, which are usually processed into indoor decorations such as wood floor, doors, and windows at domestic factories. Teak accounted 9% of the imports and other valuable timber such as rosewood (*Pterocarpus macrocarpus*、*Dalbergia hupeana Hance* 黄檀、*Dalbergia melanaoxylon Guill&perr.* 缅甸乌木) 8%. All the other timber (*Dipterocarpaceae*, *Acer spp*, *Larix potaninii*, *Meliaceae*, *Lagerstroemia spp*, *Sapindaceae etc.*), though diverse in varieties, was small in amount and altogether accounted 20% of the imports.

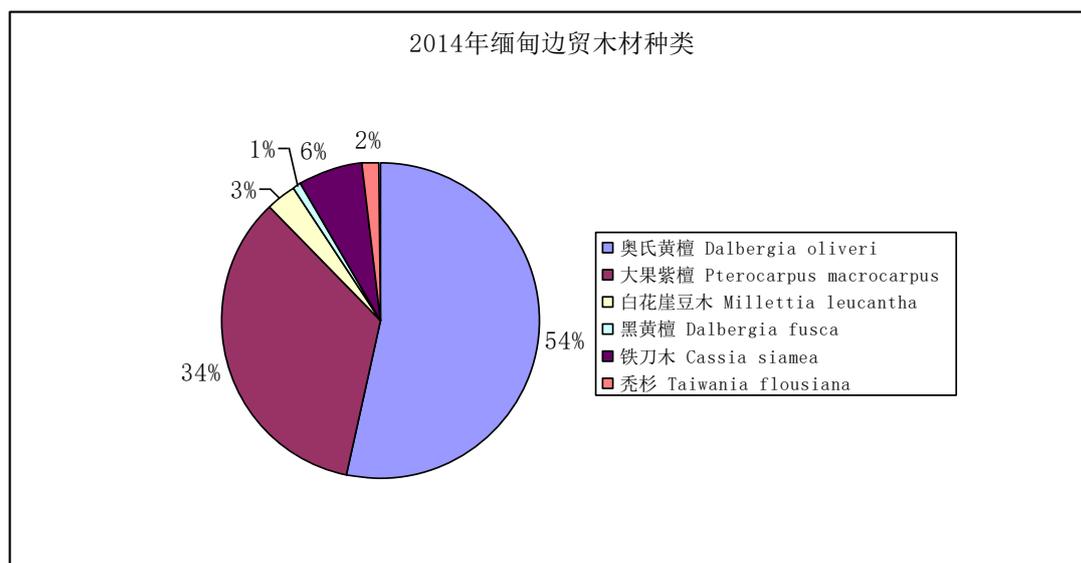


Southeast Asia is China’s main supplier of rosewood. After 2006, driven by popularity of rosewood furniture in China, imports of rosewood species produced in Myanmar—including *Pterocarpus macrocarpus*, *Dalbergia oliveri*, *Dalbergia fusca*, *Millettia leucantha*, and *Cassia siamea*— have been increasing. On the other hand, imports of *Betula alnoides*, *Tsuga dumosa*, *Pometia tomentosa*, *Schima wallichii* which were used as floor materials gradually dropped due to the downturn in domestic market. After 2000, teak was rarely imported from Myanmar due to Myanmar’s export ban on teak.

In 2013, Yunnan’s overland imports of timber from Myanmar are mainly constituted by six species: *Pterocarpus macrocarpus*, *Dalbergia oliveri*, *Taiwania flousiana*, *Dalbergia fusca*, *Cassia siamea*, and *Larix potaninii*. *Pterocarpus macrocarpus* and *Dalbergia oliveri* accounted 56% and 36% of the total imports respectively, and *Taiwania flousiana* which ranked the third, only accounted for 4%.



Before April 1st 2014, rosewood constituted the majority of Yunnan's overland imports of timber from Myanmar. Main species were *Dalbergia oliveri*, *Pterocarpus macrocarpus*, *Millettia leucantha*, *Taiwania flousiana*, *Dalbergia fusca* and *Cassia siamea*. Top three species in terms of volume were *Dalbergia oliveri*, *Pterocarpus macrocarpus* and *Cassia siamea*, accounting 54%, 34%, and 6% respectively.

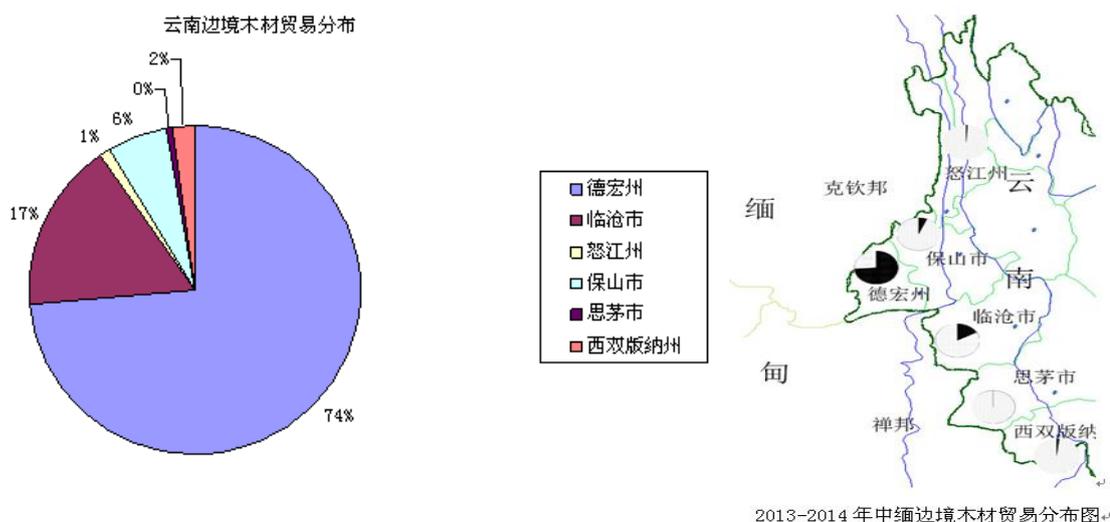


In recent years, the majority of Yunnan's timber imports from Myanmar by land are *Dalbergia oliveri* and *Pterocarpus macrocarpus*, altogether accounting about 90% of annual imports.

1.3 Areas involved in China-Myanmar overland timber trade

Yunnan province shares a border of 1,997 km with Myanmar, and there are 10 border ports in six areas including Nujiang prefecture, Baoshan city, Dehong prefecture, Lincang city, Simao city, and Xishuangbanna prefecture which are next to Myanmar. Timber enters China through these border ports.

Between 2013 and 2014, 74% of imported timber entered China through Ruili, Wanding, Zhangfeng, and Yingjiang in Dehong prefecture, which shares a border with Kachin state in Myanmar. 17% of timber imports passed Mengding, Nansan, Cangyuan in Lincang city, which is next to Kokang and Wa State in Myanmar. Another 6% of timber imports entered Tengchong in Baoshan city, and 1% ports in Nujiang prefecture. There was also a small amount of timber entering ports in Xishuangbanna prefecture, but it is difficult to clarify the sourcing regions as Xishuangbanna is also bordering Laos.



The border ports for timber trade in Yunnan Province

2. The characteristics of China-Myanmar overland timber trade

Most of the timber exported to China is sourced in the north of Myanmar, a neighbouring area of Yunnan province. This is the most resource-rich area in Myanmar, yet in the meantime is home to many ethnic regional armed groups. Each group sells timber as one of the quickest and most convenient income sources. The central government of Myanmar is unable to control the logging and timber trade in this area. Therefore, after the log export ban in April 2014, timber harvesting and log smuggling still occurs.

2.1 Timber harvest and transportation in Myanmar

In Myanmar, certified companies need to obtain at least local government's logging concessions in an agreed area as primary contractors, and then sell the concessions to other companies as secondary contractors. These companies then take charge in building roads in the forest and employing workers, and then transport timber to border ports. Sometimes, logging concessions undergo several transactions among various companies.

Driven by financial incentives accompanied by lack of monitoring, clear cutting is

usually the case in timber harvest in the north of Myanmar. Besides charcoal and logs, roots are also harvested. This logging method is highly destructive to forest ecosystem.

Usually in transporting timber in Myanmar, secondary contractors will pay primary contractors to clear all the required procedures, which vary according to the species, size, and volume of the timber. In the meantime, secondary contractors need to pay other fees to pass domestic checkpoints.

2.2 Procedure of overland timber trade

Overland timber trade is usually conducted between secondary contractors in Myanmar and Chinese corporations. After timber reaches border ports, Chinese corporations holding overland timber import permit granted by department of commerce clear import procedures which involve legal documentation from Myanmar, and pay taxes and other fees. After passing the inspection, the logs are either distributed to local wood processing companies, or transported to wood markets or industrial clusters in other cities in Yunnan or other provinces.

3. Key issues in China-Myanmar overland timber trade

3.1 Legality

Ministry of Environmental Conservation and Forests (MOCAF) in Myanmar claims that all of the 800,000 m³ (or 62% of total timber export to China) timber transported to China by land every year is illegal, and all of the teak exportation is illegal. However, in the point of view of Chinese traders, overland timber trade follows official procedures of cross-border bilateral trade and fulfills legal requirement, and hence is legal, and there is no smuggling.

Unsustainable logging practices in Myanmar especially in the north have caused difficulties in overland timber trade between China and Myanmar. In order to monitor timber flow from Myanmar to China, Chinese government has warned traders and border residents not to log in Myanmar and closed border checkpoints several times. Since Myanmar's log export ban, member corporations of Chinese rosewood associations have not participated in timber harvest in Myanmar. However, due to market demands and economic benefits brought by timber trade, timber harvest in Myanmar has continued, same as timber trade in Chinese border ports.

Unsustainable logging in northern Myanmar since decades ago has caused environmental costs, and will threaten conservation of its abundant biodiversity and utilization of forest ecosystem services.

3.2 Chinese loggers

According to the report of a long-term Chinese timber trader, the risk of timber

business in north Myanmar under the control of regional ethnic armed groups is high, and only a tiny fraction of stakeholders (such as local political leaders, military elites, ethnic leaders, and primary contractors) benefit from it. Local residents and Chinese loggers hired by contractors only get moderate payment for labor in logging and transportation.

Due to the intensive labor and technique requirement in timber harvest, contractors hire both local and Chinese workers from the borderlands. Though these Chinese workers enter Myanmar with legal working permit, in the north they are often arrested by the army of the central government, and interrogated by various ethnic armed groups. They not only suffer from insecurity, but also easily lose equipment and vehicles used in logging and transportation which are bought through mortgage, leading to great economic losses. Therefore, Chinese timber traders prefer timber from state-controlled areas.

3.3 The role of Chinese forestry department and flow of imported timber

A portion of timber imported from Myanmar is distributed to local wood processing factories in the border ports with customs declaration and tax receipt. When the products are transported elsewhere, the corporations are required to apply for a transportation permit at the local forestry department (no fee is involved) with customs declaration, tax receipt, quarantine certificate, and approval certificate granted by department of commerce.

In transporting imported timber to other areas within Yunnan province, traders need to apply for a provincial transportation permit with customs declaration, tax receipt, quarantine certificate, and approval certificate from department of commerce. If the imported timber is to be sold to markets outside Yunnan, besides provincial transportation permit and quarantine certificate, traders also need to apply for a national timber transportation permit at the local forestry department to transfer timber from Kunming to other provinces. In addition, the forestry department does not charge any fee on these procedures.

Notably, Chinese forestry department does not participate or monitor customs declaration when Myanmar timber enters a Chinese port. The transportation permit is issued as long as aforementioned documents granted by Chinese customs and department of commerce are provided.

4. Three most traded valuable timber species during 2012 and 2014

After 2006, Chinese government set strict restrictions on the flow of Chinese timber traders and loggers to Myanmar, and only timber which meets the requirement of the aforementioned approval certificate can enter the border ports. On top of that, conflicts in North Myanmar in 2012 and 2013 and the downturn of Chinese timber market also contribute to the recent decrease of overland timber import from Myanmar.

According to our interviewees, in 2012-13, among the overland imported timber of approximately 300,000 m³ each year, the majority is broadleaf species including *Phoebe puwenensis* W. C. Cheng, *M.fordiana* (hensl) oliv. and other species, and teak and rosewood which account for about 40% of the total volume. Normal-quality *Phoebe puwenensis* W. C. Cheng is sold at 2,500-3,000 yuan per m³, high-quality 5,000-6,000 yuan per m³; normal-quality *M.fordiana* (hensl) oliv. is sold at 2,500-3,000 yuan per m³, high-quality 5,000-6,000 yuan per m³; and the price of normal-quality other hardwood species is 800-900 yuan per m³, rosewood 6,000 yuan per m³, and teak 6,000 yuan per m³.

In 2014, China's imports of timber from Myanmar increased to around 400,000 m³ (with 75% being teak and rosewood). Main drivers of this increase include lowering stock, Myanmar's log export ban, growing domestic demands for rosewood and teak, and rising timber prices. In some ports, three most traded valuable tree species are *Dalbergia odorifera* Burman, *Dalbergia cochinchinensis* Pier and teak; while in others, *Phoebe puwenensis* W. C. Cheng and *M.fordiana* (hensl) oliv are the most traded species. The recorded volume of *Dalbergia odorifera* Burman was around 150,000 m³, *Dalbergia cochinchinensis* Pier about 50,000 m³, teak 100,000 m³, and *Phoebe puwenensis* W. C. Cheng and *M.fordiana* (hensl) oliv 100,000 m³. Regarding prices, *Dalbergia odorifera* Burman was 20,000-30,000 yuan/ton, *Dalbergia cochinchinensis* Pier 30,000-40,000 yuan/ton, teak 10,000-15,000 yuan/m³, *Phoebe puwenensis* W. C. Cheng 5,000 yuan/m³, and *M.fordiana* (hensl) oliv 3,000-4,000 yuan/m³.

In the later half of 2014, the price of wood products decreased by half. This fluctuation is accompanied by the downturn of the domestic market, hoarding timber stock, and limited financial resources. Therefore in 2015, overland timber trade has decreased.

Chinese border and trade ports are under strict management including inspection of police and customs. All timber imported by land from Myanmar enters China through border ports and has legal import and export documentation granted by Chinese and Myanmar authorities, and hence is legally traded. It is almost impossible to transport Myanmar timber through unofficial channels into China.

5. Impacts of Myanmar log export ban on bilateral timber trade

Since the implementation of Myanmar log export ban, overland timber trade along the border has decreased. There are other factors which have contributed to the drop of trade: prices of timber in the sourcing areas have risen (rosewood is sold at 2,000-3,000 yuan/ton), same as taxes and other fees in Myanmar (from 3,000 yuan/ton to 7,000-7,500 yuan/ton) and transportation costs (20,000 yuan per truck for about 20 tons of wood); while timber prices in China have dropped (rosewood is sold at 8,000-16,000 yuan/ton), along with sales; furthermore, the expected Chinese policy of cutting VAT of imported timber by half is not yet implemented; and timber trade is not profitable at the current stage. According to an interview, in February 2015, approximately 15,000 m³ of timber was imported by land, including 1,000 m³ of

rosewood, 4,000 m³ of teak, and 10,000 m³ of *Phoebe puwenensis* W. C. Cheng and *M. fordiana* (Hensl) Oliv. But this does not affect furniture manufacturing. According to a well-known rosewood furniture corporation in a border port, rosewood imported in 2013-14 to Ruili and stocked in a port in Myanmar will take five to six years to be consumed. The interviewee further states that the tighter Myanmar's log export ban goes, the more profits rosewood furniture corporations can make. Another timber trader in Ruili reveals that Myanmar's log export ban may affect bilateral trade by sea, but its impacts on overland trade are temporary. Moreover, Myanmar government is unable to control logging in ethnic conflict areas, therefore, if Chinese government loosens restrictions on overland timber trade, massive amount of timber could flow into Chinese ports through areas controlled by regional ethnic armed groups as their main income source.

Myanmar's log export ban has not yet affected the model of bilateral overland trade. Chinese private border trade companies are still running their business with Myanmar partners in the old way. There is also argument that in order to govern forest resources effectively and reduce unsustainable logging, Myanmar government need to solve the ethnic conflicts and unite national and regional political powers.

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